STATE OF STATE FINANCES 2026-27

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November 2026

Revenue expenditure of states has grown faster than revenue receipts since 2022-23, mainly owing to increasing subsidies and transfers.

In 2025-26, SGST revenue growth slowed down relative to GDP for the first time in four years. SGST revenue to GSDP ratio declined in 23 states.

16th Finance Commission changed the devolution criteria to include GDP contribution. Southern and western states to gain from criteria change.

If VB-G RAM G had been in place in 2025-26, states would have spent about six times the amount they actually spent under MGNREGA.

States are increasingly spending more on cash transfer schemes. Cash transfers grew at 24% annually in the five years upto 2023-24.

States together plan to spend 62% more than the centre in 2026-27. Their combined fiscal deficit is 2.9% of GDP and revenue deficit is 0.2% of GDP. The revenue deficit has been widening over the last few years, despite a target of achieving revenue balance. States have estimated to spend 52% of revenue receipts on committed expenditure, i.e., interest, salaries, and pensions, which cannot be reduced in the short term. Subsidies and transfers have also been increasing, from 16% of revenue receipts in 2018-19 to 21% in 2023-24 (latest year for which actuals data is available). Slowing GST receipts, increased spending as VB-G RAM G replaces MGNREGA, and impending pay commissions could all place further stress on state finances. The 16th Finance Commission has retained the states' share of divisible pool at 41% but the change in criteria for determining share among states would benefit southern and western states.

In this backdrop, this report analyses the finances of all states and the union territories of Delhi, Jammu and Kashmir, and Puducherry, based on their budget documents and CAG accounts. Actuals (audited) are used up to 2024-25, Revised Estimates (RE) or unaudited Provisional Actuals (PA) for 2025-26, and Budget Estimates (BE) for 2026-27. The following abbreviations have been used for states in charts throughout the report.

State	Abbreviation	State	Abbreviation	State	Abbreviation
Andhra Pradesh	AP	Jammu and Kashmir	JK	Puducherry	PY
Arunachal Pradesh	AR	Karnataka	KA	Rajasthan	RJ
Assam	AS	Keralam	KL	Sikkim	SK
Bihar	BR	Meghalaya	MG	Telangana	TG
Chhattisgarh	CG	Maharashtra	MH	Tamil Nadu	TN
Delhi	DL	Manipur	MN	Tripura	TR
Goa	GA	Madhya Pradesh	MP	Uttarakhand	UK
Gujarat	GJ	Mizoram	MZ	Uttar Pradesh	UP
Himachal Pradesh	HP	Nagaland	NL	West Bengal	WB
Haryana	HR	Odisha	OD		
Jharkhand	JH	Punjab	PB		

Contents

Section	Page No
Developing Themes in State Finances	
Consolidated finances of states	2
Trends in revenue deficit of states	3
SGST revenue across states	4
Non-GST revenue of states	5
Changes in states' revenue from mining	6
Implications of the 16th Finance Commission	7
Central grants for rural and urban local bodies	8
Impact of VB-G RAM G on state expenditure	9
States' expenditure on subsidies and transfers	10
Composition of unconditional cash transfers across states	11
Trends in State Finances	
Receipts	12
Expenditure	15
Debt and Deficit	18
Credibility of Budget Estimates	22
Sector-wise Outlay across States	24
Annexures	28
Glossary of Key Terms	33

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DEVELOPING THEMES IN STATE FINANCES

Consolidated fiscal deficit of states at 2.9% of GDP, marginally below the 3% limit

The total expenditure of all state governments for 2026-27 is estimated at about Rs 69 lakh crore, which is 62% higher than that of central government. The fiscal deficit is estimated at 3.2% of GDP and revenue deficit at 0.2% of GDP. Excluding SASCI loans, fiscal deficit is 2.9% of GDP but nine states breach the 3% limit recommended by the 16th Finance Commission.

Revenue deficit has been increasing since 2022-23

Revenue expenditure of states has grown faster than revenue receipts since 2022-23, mainly owing to increasing subsidies and transfers. After a sharp increase in 2020-21 (COVID year), states' aggregate revenue deficit had moderated to 0.23% of GDP in 2022-23. The deficit has since widened, slipping to 0.61% in 2024-25, and to 0.71% in 2025-26. The risk of continued revenue deficit remains.

SGST revenue as a proportion of GDP fell in several states in 2025-26

In September 2025, the GST Council revised GST rates. In 2025-26, SGST revenue growth slowed down relative to GDP growth for the first time in four years. GST collection (excluding GST compensation cess) grew at a slower rate of 5% in October-March of 2025-26 compared to 9% in April-September. 23 of 31 states saw a decline in SGST revenue (as % of GSDP) between 2024-25 and 2025-26.

Amendments to MMDR Act reduce states' autonomy in raising revenue from minerals

In August 2026, Parliament amended the Mines and Minerals (Development and Regulation) Act, 1957 to prohibit state governments from imposing mining-related levies, except as prescribed by the central government. States have estimated Rs 26,683 crore from such levies in 2026-27.

Southern and western states gain from change in devolution criteria by 16th FC

The 16th Finance Commission (FC) has recommended that 41% of the divisible pool of central taxes be shared with states, same as the 15th FC. However, the effective divisible pool has remained about 31%-37% of gross tax revenue since 2015-16 because of central cesses and surcharges, which are not shared with states. For deciding the share between states, GDP contribution has been given 10% weightage, benefiting southern and western states.

Local bodies' failure to meet eligibility criteria may limit grant releases

The 16th FC recommended grants worth Rs 7.91 lakh crore for urban local bodies (ULBs) and rural local bodies (RLBs) for 2026-31, 121% higher than the grants recommended by the 15th FC. However, grants have not been fully released in any of the previous FC terms. This may be because grants are tied to certain conditionalities which states and local bodies fail to meet.

States to bear a higher expenditure burden for rural employment guarantee scheme

The VB-G RAM G scheme is being implemented from July 1, 2026. Had VB-G RAM G been in place instead of MGNREGA in 2025-26, states would have spent around six times what they actually spent under MGNREGA. For large states such as Bihar, Madhya Pradesh, Maharashtra, and Uttar Pradesh, VB-G RAM G would have led to additional spending of Rs 2,000-3,000 crore.

States are increasingly spending more on cash transfer schemes

Spending by states (excluding north-eastern states other than Assam) on subsidies and transfers grew from 16% of their revenue receipts in 2018-19 to 21% in 2023-24. Subsidies grew at an annualised rate of 12%, while transfers grew at 24%. Power subsidies and unconditional transfers formed the largest share of total expenditure on subsidies and transfers in several states.

Consolidated fiscal deficit of states at 2.9% of GDP, marginally below the 3% limit

In 2026-27, states are planning to collectively spend Rs 68,78,780 crore, 62% higher than centre (Rs 42,52,801 crore, excluding grants and loans to states). Revenue expenditure (Rs 56,36,260 crore) comprises 82% of the total expenditure. Capital expenditure is estimated to register an annualised increase of 20% over 2024-25, higher than that of revenue expenditure (13%). The total budgeted receipts (excluding borrowings) are Rs 56,07,505 crore, an annualised increase of 15% over 2024-25. To compute growth, we have used annualised change over audited actuals for 2024-25 as some states do not provide credible revised estimates. On average, states have underachieved revenue targets by 8%, and underspent their budget by 9% between 2021-22 and 2024-25 (see page 22).

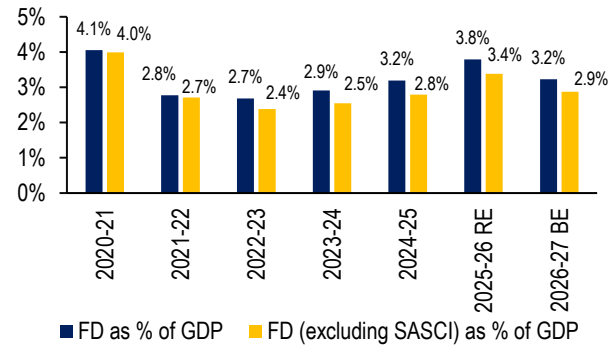
Table 1: Consolidated finances of all states (in Rs crore)

Particular	Actual 2024-25	Revised 2025-26	Budget 2026-27	Annualised change 2026-27 BE over 2024-25 Actuals
Revenue Receipts	41,99,014	49,31,888	55,55,256	15%
Of which:				
Own Tax Revenue	21,08,904	24,16,538	27,62,015	14%
Taxes Devolved from Centre	12,86,983	14,01,532	15,34,482	9%
Own Non-Tax Revenue	3,40,282	4,21,061	4,62,504	17%
Grants from Centre	4,62,845	6,92,756	7,96,255	31%
Capital Receipts	17,275	36,131	52,248	74%
Total Receipts	**42,16,289**	**49,68,019**	**56,07,505**	**15%**
Revenue Expenditure	44,02,369	52,00,839	56,36,260	13%
Of which:				
Interest Payments	5,62,132	6,29,221	6,88,994	11%
Capital Expenditure	8,69,159	11,21,389	12,42,520	20%
Of which Funded by SASCI Loans	1,32,260	1,48,533	1,44,900	-
Total Expenditure	**52,71,528**	**63,22,228**	**68,78,780**	**14%**
Revenue Deficit	2,03,355	2,68,951	81,004	-37%
% of GDP	**0.61%**	**0.75%**	**0.21%**	
Fiscal Deficit	10,55,239	13,54,209	12,71,275	10%
% of GDP	**3.19%**	**3.79%**	**3.23%**	
Fiscal Deficit excluding SASCI Loans	9,22,979	12,05,676	11,26,375	10%
% of GDP	**2.79%**	**3.38%**	**2.87%**	

Note: SASCI data for Uttar Pradesh is not available. In 2026-27, Bihar, Himachal Pradesh, Meghalaya, and Nagaland budgeted zero receipts under SASCI. Meghalaya also indicated zero under SASCI for 2025-26 RE.
Sources: State and Union Budget Documents; PRS.

Consolidated fiscal deficit for 2026-27 is budgeted at 3.2% of GDP. The central government introduced the Scheme for Special Assistance to States for Capital Investment (SASCI) in 2020-21, providing 50-year interest-free loans to states. These loans are excluded to arrive at the borrowing ceiling for the year. Excluding SASCI loans, the fiscal deficit is 2.9%, marginally below the 3% limit recommended by the 16th Finance Commission (Figure 1).

Figure 1: SASCI loans fund over 10% of fiscal deficit

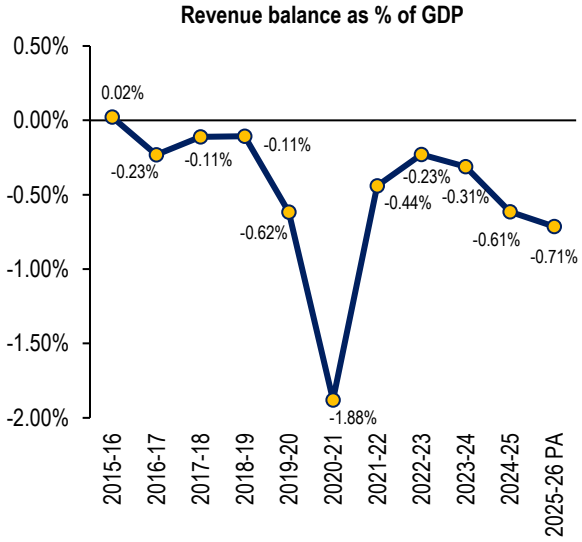


Sources: State Budget Documents; CAG; RBI; PRS.

Revenue deficit has been increasing since 2022-23

A revenue deficit arises when a state's revenue expenditure exceeds revenue receipts. Revenue expenditure includes items such as salaries, interest payments, pensions, and subsidies. Revenue receipts include central grants, taxes, royalties and user fees. Revenue deficit implies that borrowing is needed to fund recurring expenditure. Since borrowing is subject to an annual limit under FRBM laws, revenue deficit reduces space for capital outlay (expenditure on asset creation). FRBM laws of states require them to eliminate revenue deficit. After a sharp increase in 2020-21 (COVID year), states' aggregate revenue deficit had come down to 0.23% of GDP in 2022-23. The deficit has since widened, slipping to 0.61% of GDP in 2024-25, and further to 0.71% of GDP in 2025-26. Ten states have reported a revenue deficit consistently across these years. Five states including Chhattisgarh, Karnataka, and Telangana have moved from a revenue surplus to a revenue deficit (Figure 3 and Table 6 on page 28).

Figure 2: Revenue deficit widened to 0.7% of GDP in 2025-26, the highest in a decade (excluding COVID year)



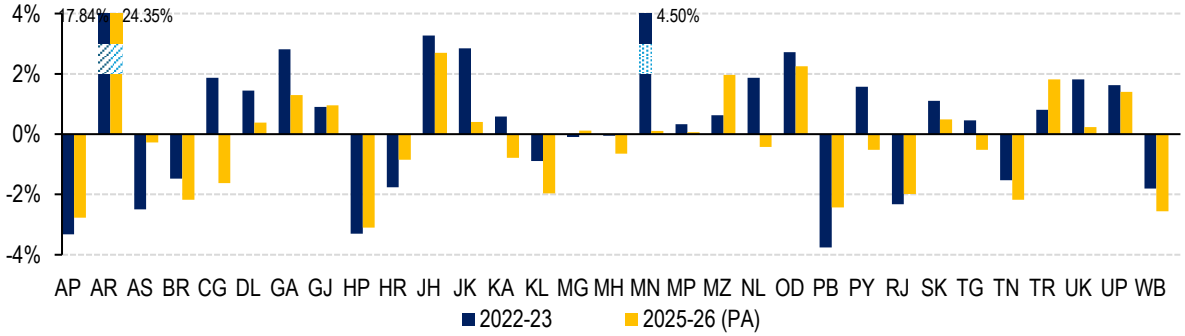
Note: PA is provisional actuals (unaudited full-year accounts). (+) indicates a surplus. (-) indicates a deficit.
Sources: CAG; PRS.

Between 2022-23 and 2025-26, revenue expenditure of states has grown at 8.8%, exceeding the growth in revenue receipts (7.4%). A large part of revenue expenditure is committed in nature (52%), which states may have limited flexibility to reduce in the short-term. These are salaries (52% of committed expenditure in 2025-26), interest payments (25%), and pensions (22%). Salaries and interest payments grew at an annualised rate of 9% and 10% during this period, respectively. Growth in pensions was relatively lower (6%). Another key driver of increase in revenue expenditure has been subsidies and transfers, which grew at an annualised rate of 15% (page 10). These include items such as cash transfer schemes and power subsidies.

States' revenue receipts consist of central transfers (share in central taxes and grants) and revenue raised from own sources (tax and non-tax). A slower growth in revenue receipts (7.4%) relative to GDP (annualised growth of 10%) is mainly due to a reduction in grants from centre. In 2025-26, states' own sources grew at annualised rate of 9%, and share in union taxes grew at 14%, over 2022-23. Grants from the centre were 10% lower. This was driven by a reduction in revenue deficit grants as per the recommendations of the 15th Finance Commission, discontinuation of GST compensation grants, and stagnation in grants for centrally sponsored schemes.

The risk of continued revenue deficit remains. GST rate cuts since September 2025 could lead to reduction in revenue growth (see next page). States may also form pay commissions after the 8th Central Pay Commission, which may increase the outgo of salaries and pensions.

Figure 3: Revenue balance deteriorated in 20 states in 2025-26, compared to 2022-23 (as % of GSDP)

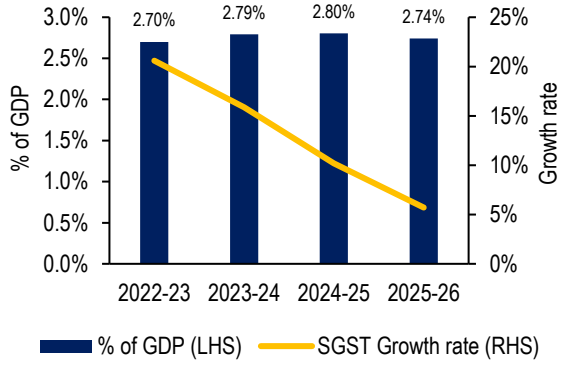


Note: PA is provisional actuals. The bars for Arunachal Pradesh and Manipur are not to scale.
Sources: CAG; PRS.

SGST revenue as a proportion of GSDP fell in many states in 2025-26

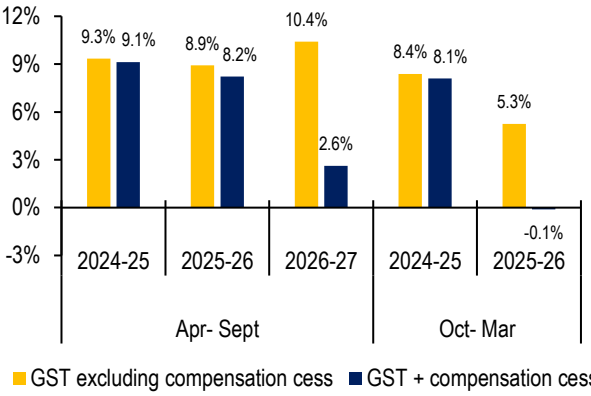
71% of total GST revenue accrues to states. States collect SGST and 41% of CGST is also devolved to them. SGST is the largest source of states' own tax revenue. In 2025-26, SGST revenue growth slowed down relative to GDP growth for the first time in four years (Figure 4). GST collection (excluding GST compensation cess) grew at a slower rate of 5% in October-March of 2025-26 compared to 9% in April-September (Figure 5). In September 2025, GST Council revised GST rates down.[1] It also restructured rates on items subject to cess (Rs 1.5 lakh crore in 2024-25). Cess was discontinued on all items except tobacco and pan masala from September 2025. GST rates on several of these items were raised with an aim to absorb revenue under regular GST (Table 7 on page 28). In February 2026, cess on tobacco and pan masala was also discontinued.[2,3] However, central excise duty on tobacco products was increased and a new cess was introduced on pan masala.[4,5]

Figure 4: SGST revenue as % of GDP declined in 2025-26



Note: 2025-26 data as per provisional actuals. GDP data is based on the 2011-12 series.
Sources: State Budget Documents; Monthly Key Indicators, CAG; State Dashboards and Press Releases; MoSPI; PRS.

Figure 5: GST growth slowed in the second half of 2025-26, but recovered in the first half of 2026-27

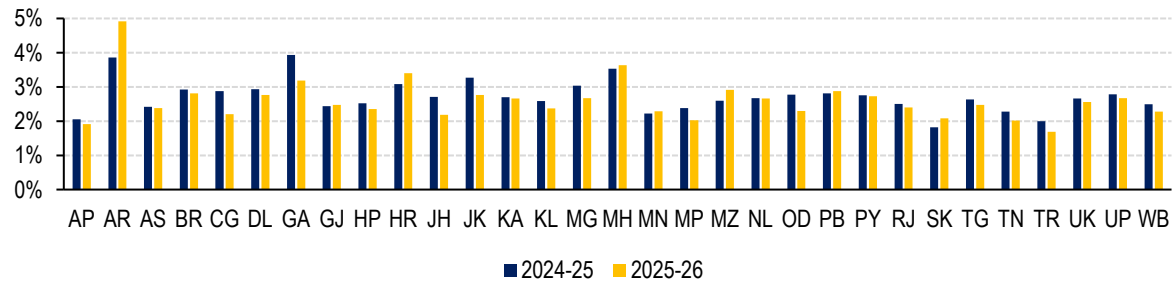


Note: GST collection figures are net of refunds. Collection from GST compensation cess turned negligible from March 2026.
Sources: GST Portal; PRS.

The impact was different across states. It is difficult to determine the causes as sector or item-wise GST details are not published. Haryana's SGST revenue grew by 23%, rising from 3.1% of GSDP in 2024-25 to 3.4% of GSDP in 2025-26. The Haryana government has highlighted tax administration improvements as a factor.[6,7] In the mining states of Chhattisgarh and Odisha, SGST revenue fell by about Rs 2,400 crore each. In Odisha and Jharkhand, IGST settlement for inter-state transactions and imports turned negative for a few months.[8] One factor may be the use of accumulated input tax credits (ITC) by coal companies. ITC were accumulated due to inverted duty structure (inputs taxed at 18% vs coal output at 5%). Increased GST rate on coal (18%) corrected the inverted duty structure.[9]

In 2026-27, states have estimated annualised increase of 14% in SGST revenue over 2024-25. This would result in an SGST to GDP ratio of 3.1%. In comparison, the centre has estimated CGST revenue to grow at an annualised rate of 8% over 2024-25.[10] GST collection has grown at an annualised rate of 10% in the first half of 2026-27. During this period, GST collection from domestic transactions has grown at an annualised rate of 6% whereas that from imports has grown at 22%. Between 2022-23 and 2024-25, states underachieved SGST revenue targets by 6% on average.

Figure 6: 23 of 31 states saw a decline in SGST as % of GSDP in 2025-26



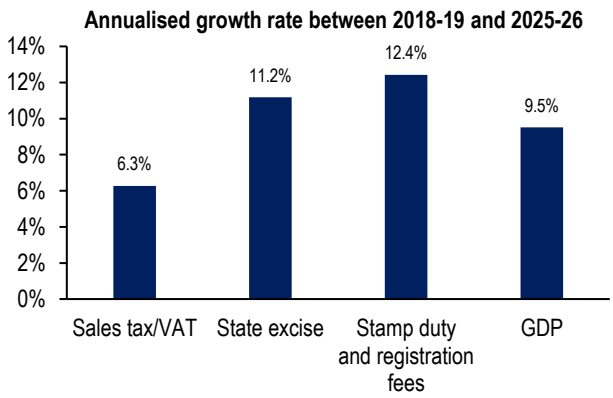
Sources: State Budget Documents; Monthly Key Indicators, CAG; State Dashboards and Press Releases; MoSPI; PRS.

Several states have increased revenue from stamp duty and registration fees

The implementation of GST in 2017 changed the taxation power of states.[11] It subsumed several state-level taxes.[11] State level taxes not subsumed under GST include sales tax (such as on petroleum products and alcohol), state excise (such as on alcohol), and stamp duty and registration fees (such as on property or court-related documents).[11] The 15th Finance Commission recommended that states mobilise revenue from non-GST sources.[12] It noted that stamp duty and registration fees have large untapped potential.[12] To mobilise revenue, a study commissioned by the Ministry of Housing and Urban Affairs in 2020 recommended that states adopt measures such as lowering stamp duty rates on property transactions (from 11-12% to 5% or below).[13] It stated that this would discourage underreporting and stimulate real estate transactions.[13]

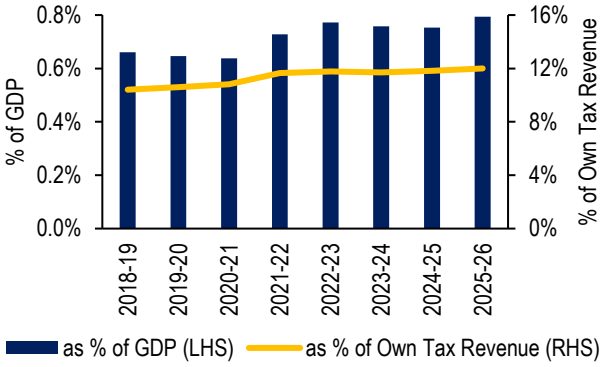
Stamp duty and registration fees recorded the highest annualised growth among states' major own tax revenue sources between 2018-19 and 2025-26 (Figure 7). It grew from 0.66% of GDP in 2018-19 to 0.79% of GDP in 2025-26 (Figure 8). While 26 of the 31 states recorded an increase in their stamp duty and registration fees revenue (as % of GSDP), states such as Bihar and West Bengal recorded a decline (Figure 9). In West Bengal, revenue from stamp duty and registration fees grew at an annualised rate of 8% between 2018-19 and 2025-26, one of the lowest among all states. In Bihar, annualised growth in revenue was 10.6%, slower than GSDP growth (11.6%). These inter-state differences may be due to factors such as the state's economic growth, tax rates, valuation of the taxable property, volume of such transactions, and collection efficiency.[12]

Figure 7: Stamp duty and registration fees recorded highest growth among major own tax sources



Note: 2025-26 data as per provisional actuals.
Sources: State Budget Documents; PRS.

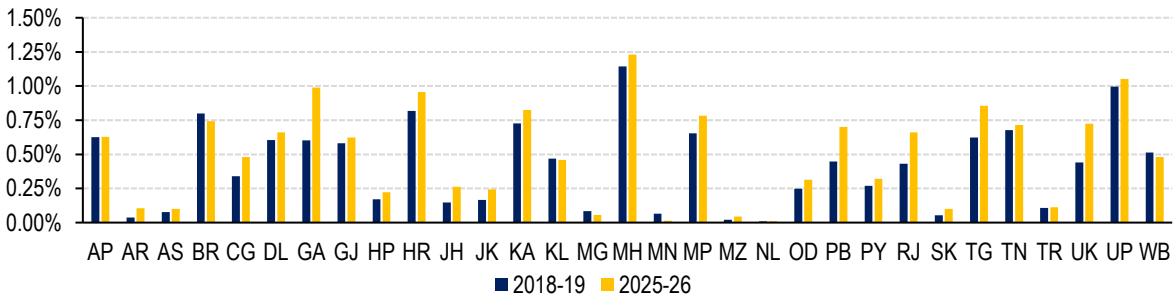
Figure 8: Stamp duty and registration fees grew from 0.66% of GDP in 2018-19 to 0.79% of GDP in 2025-26



Note: The GDP figures are based on 2011-12 series. 2025-26 data as per provisional actuals.
Sources: State Budget Documents; 16th FC; MoSPI; RBI; PRS.

RBI (2026) noted that better performance in some states is partly attributable to measures such as: (i) revision of circle rates (minimum values at which a property must be registered) and micro-zoning of rates (localised rates), and (ii) rationalised duty structures with targeted incentives for real estate transactions.[11] CAG (2026) noted issues such as incorrect levy of stamp duties in better-performing states such as Maharashtra and Haryana, highlighting scope to further improve revenue mobilisation.[14]

Figure 9: 26 of 31 states recorded an increase in their revenues from stamp duty and registration fees (as percentage of GSDP)



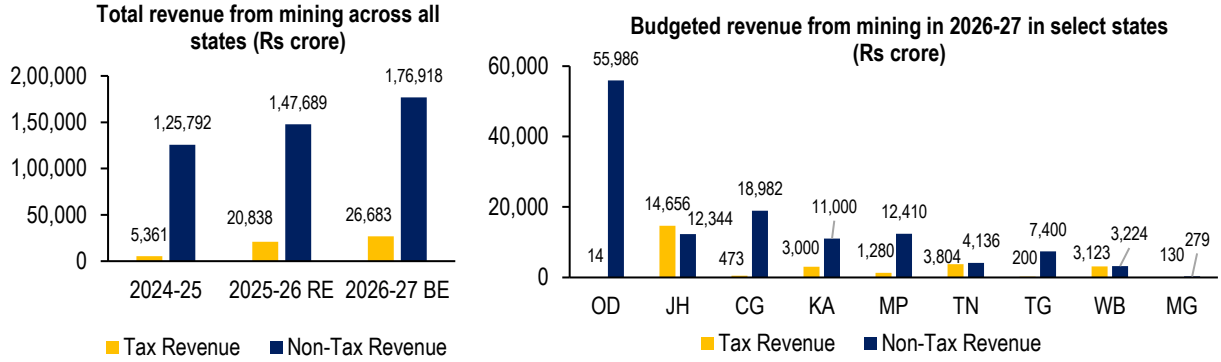
Note: 2025-26 data as per provisional actuals.
Sources: State Budget Documents; 16th Finance Commission; CAG; MoSPI; PRS.

Amendments to MMDR Act reduce states' autonomy in raising revenue from minerals

In 2026-27, mining is expected to constitute 40% of own revenue in Odisha and Jharkhand, and 25% in Chhattisgarh. The bulk of this revenue comes as non-tax receipts from payments such as royalty (Figure 10). As per the Mines and Minerals (Development and Regulation) Act, 1957 (MMDR), the centre decides rates for royalty in case of major minerals such as coal and iron ore.[15] States set these rates for minor minerals, such as sand and building stone.[16]

In addition, the Constitution empowers states to tax: (i) mineral rights, which may be subject to limitations by Parliament, and (ii) land and buildings.[17] Using these powers, some states such as Bihar and Odisha had introduced taxes on mineral bearing land and mineral rights. These were levied as a percentage of mineral quantity, value, or royalty. These laws were challenged before courts. In July 2024, the Supreme Court ruled that: (i) Parliament may restrict or prohibit state levies on mineral rights, (ii) states' power to tax mineral bearing land is distinct from powers to tax mineral rights and cannot be limited by Parliament, and (iii) mineral bearing land tax may be levied on mineral quantity, value or royalty.[18] After this judgment, more states such as Jharkhand and Tamil Nadu introduced these taxes (Table 13 on page 32).

Figure 10: Most mining revenue comes in the form of non-tax revenue



Note: See endnote 19 for methodology. Tax revenue comprises state taxes on mineral rights and mineral bearing land. State-wise chart shows states that have budgeted any tax revenue from mineral rights or mineral bearing land.
Sources: Detailed Revenue Receipts Statements under State budget documents 2026-27; PRS.

In August 2026, Parliament amended the MMDR Act to prohibit state governments from levying tax, cess, or other such levies, except in accordance with conditions prescribed by the central government.[20,21] This applies to any such levy on: (i) mineral rights, or (ii) mineral bearing lands, whether on mineral quantity, value, or royalty. The central government noted that the amendments seek to contain rising mining industry costs and bring uniformity in mineral taxation.[21] In doing so, the amendments have reduced the autonomy of states in raising revenue from major minerals.

In 2026-27, states have budgeted Rs 26,683 crore from taxes on mineral bearing land and mineral rights, a sharp rise from 2024-25 actuals (Rs 5,361 crore). Jharkhand has estimated the highest revenue under these heads (Rs 14,656 crore). Continuance of this revenue will now depend on the central government. However, most mining revenue is still non-tax and mainly comes from royalty on major minerals. In the 22 states where the breakup between major and minor mineral revenue is available, major minerals account for 70% of mining non-tax revenue in 2026-27. In Odisha, out of the total mining revenue worth Rs 56,000 crore in 2026-27, Rs 42,207 crore is estimated from royalty on major minerals (75%). Royalty rates on major minerals have always been fixed by the centre.

In August 2024, the Supreme Court had also allowed states to raise tax demands going back until April 1, 2005.[22] These could be recovered in instalments over 12 years from April 2026. The 2026 amendments prohibit collecting any unpaid or unrecovered dues of such levies.[20] Odisha estimated arrears of around one lakh crore rupees on this account.[23] Similarly, Jharkhand estimated arrears of Rs 1.36 lakh crore.[23] States will have to forgo this revenue.

The restrictions under the 2026 amendments will also apply to critical minerals. Blocks for critical minerals (such as lithium, cobalt, and rare earths) have been auctioned in 15 states.[24] These include Gujarat, Bihar, Uttarakhand, and Arunachal Pradesh, which are not generally associated with mining.

Southern and western states to gain from change in devolution criteria by 16th FC

The Finance Commission (FC) is a constitutional body constituted by the President every five years to make recommendations on centre-state financial relations. These include recommendations on: (i) the division of central tax revenue between the centre and states, (ii) each state's share, and (iii) grants to supplement the resources of local bodies. The report of the 16th FC (Chair: Dr Arvind Panagariya) for the five-year period between 2026-27 and 2030-31 was tabled in Parliament in February 2026.[25]

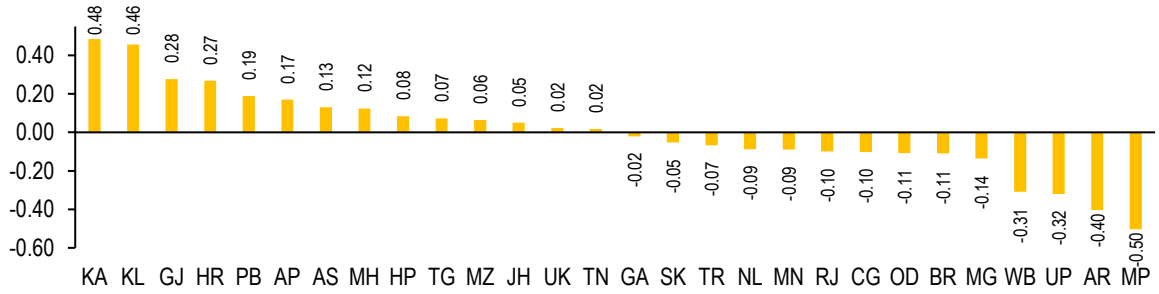
States' share in the divisible pool of central taxes has been recommended at 41%, same as the 15th FC. However, the formula for distribution among states has been altered (Table 2). To provide for the distribution, the FC defines a formula with weightage for certain parameters. The 16th FC introduced a new criterion, contribution to national GDP with 10% weightage. This has led to an increase in the share of states such as Karnataka, Keralam, Gujarat, and Maharashtra (Figure 11, and Table 8 and Table 9 on page 29).

Table 2: Devolution criteria for distribution of central taxes among states

Criteria	15th FC (2021-26)	16th FC (2026-31)
Income Distance	45%	42.5%
Population (2011)	15%	17.5%
Demographic Performance	12.5%	10%
Area	15%	10%
Forest	10%	10%
Tax and Fiscal Efforts	2.5%	-
Contribution to GDP	-	10%

Sources: Reports of the 15th and 16th FC; PRS.

Figure 11: Change in share of states from 15th to 16th FC (in percentage points)

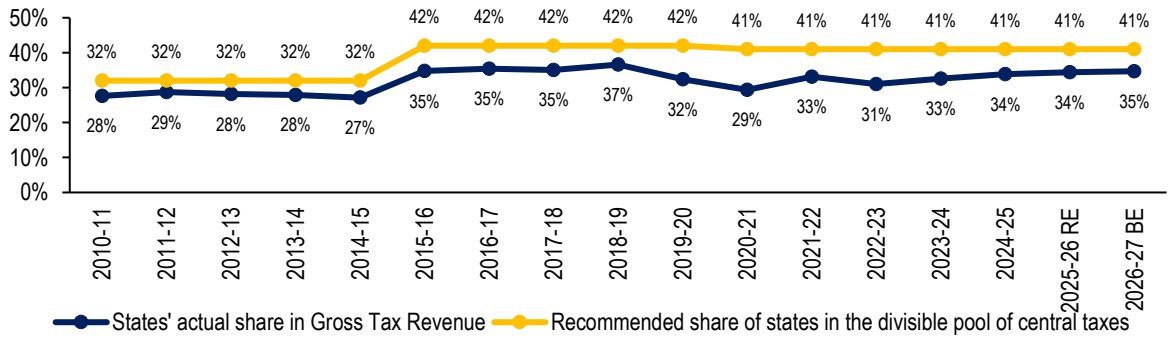


Sources: Reports of the 15th and 16th FC; PRS.

Article 270 of the Constitution specifies the taxes which are included in the divisible pool. Cesses and surcharges are excluded. This implies that the central government is not mandated to share revenue collected from cesses and surcharges. Cesses and surcharges are taxes earmarked for a specific purpose. Some examples include the Primary and Secondary Education Cess, and the Road and Infrastructure Cess.

The share of cesses and surcharges increased from 7.5% of gross tax revenue in 2000-01 to 13.5% in 2014-15.[12,26] The 14th FC significantly increased the states' share in central taxes from 32% (13th FC) to 42%. This increase was expected to provide greater fiscal autonomy to states. The 15th FC retained this approach, and recommended a 41% share (1% decrease as state of Jammu and Kashmir was reorganised into two UTs). The same share has been recommended by the 16th FC. However, the effective divisible pool has remained between 31%-37% of gross tax revenue since 2015-16 (except for the pandemic year) because of the high share of cesses and surcharges (Figure 12).

Figure 12: Recommended vs actual states' share in central taxes due to cesses and surcharges



Sources: Union Budget Documents of several years; Reports of the 15th and 16th FC; PRS.

Local bodies' failure to meet eligibility criteria may limit grant releases

Local bodies such as panchayats and municipalities generate revenue from their own sources (such as property taxes) and receive grants from the state government. On the recommendations of the Central Finance Commission, the central government transfers certain local body grants to state governments. The purpose of these grants is to supplement the resources of local bodies for delivering basic civic services. The 10th FC (1995-2000) was the first to recommend grants to local bodies.

The 16th FC has recommended grants worth Rs 7.91 lakh crore for urban local bodies (ULBs) and rural local bodies (RLBs) for 2026-31, an increase of 121% from the grants recommended by the 15th FC (Table 3). ULBs have been allocated a higher share to address growing urbanisation and cost of service delivery. States with more urban areas see an increase in the share of ULB grants (Table 10 on page 30). For the share among states for RLBs, rural population (2026 projections) will have 90% weightage and the state's area will have 10% weightage. For ULBs, urban population (2026) will have 90% weightage, and 10% will be based on own source revenue as a share of value added by the secondary and tertiary sectors.

The 16th FC noted that eligibility conditions set by the 15th FC have resulted in a significant improvement in reporting of accounts for both RLBs and ULBs. For states to be able to receive the 16th FC grants, local body elections should have been held in the state, and all local bodies should have published provisional accounts for the previous year, and audited accounts for the year before that. States should also have formed state finance commissions (SFCs) within five years from the formation of the previous SFC.

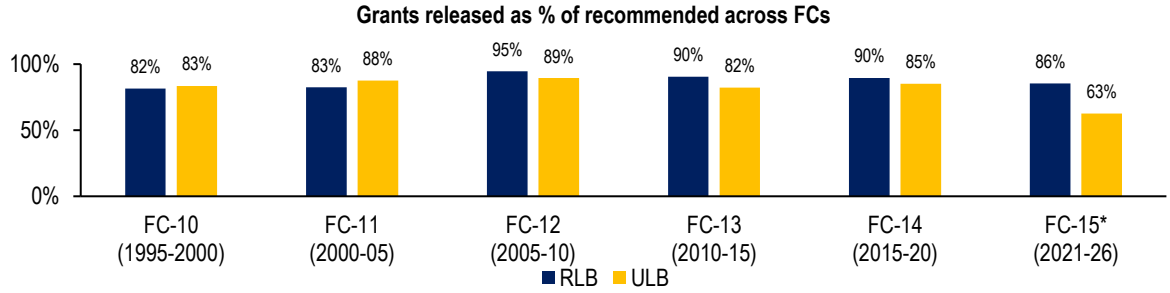
Table 3: Increase in local body grants by 16th FC (in Rs crore)

	14th FC	15th FC	Increase	16th FC	Increase
RLB	2,00,292	2,36,805	18%	4,35,236	84%
ULB	87,144	1,21,055	39%	3,56,257	194%
Total	**2,87,436**	**3,57,860**	**25%**	**7,91,493**	**121%**

Sources: Report of the 16th FC; PRS.

Since the 10th FC, actual grants released to local bodies have been lower than the recommended amount (Figure 13). This may be because states fail to meet the eligibility criteria. For example, the 14th FC recommended a 90:10 split between basic and performance grants for RLBs, and an 80:20 split for ULBs.[26] Performance was linked to audited accounts and own-source revenue improvement. The 15th FC recommended 60% grants to be tied and 40% to be untied, for both RLBs and ULBs.[12] The tied grants were specifically for the purpose of water and solid waste management.

Figure 13: Local bodies have not fully availed grants in any FC award period



Note: Chart excludes interim year 2020-21 of the 15th FC. *Grants released are as of July 2025 for ULBs, and March 2026 for RLBs.
Sources: Starred Question No. 254, Lok Sabha, March 10, 2026; Report of the 16th FC; PRS.

For 2026-31, grants have been divided as 80% basic and 20% performance. Half the basic grants will remain tied for water and waste management. The performance grants have further been divided into local body and state performance components. The 16th FC noted that revenues generated by local bodies are minuscule (Table 11 on page 30 for state-wise details). Local bodies have to grow their own source revenue every year by a minimum rate to get the performance grant. The state performance grant will be released in a year only if the state provided grants to local bodies in the previous year. This should be at least 20% of the basic grants recommended by the FC for the previous year. Any undistributed performance grant will be shared among other local bodies (in case of local body performance grant), and among performing states in case of state performance grants.

States to bear a higher expenditure burden for rural employment guarantee scheme

Parliament passed the VB-G RAM G Act, 2025 to replace MGNREGA, 2005. The VB-G RAM G scheme is being implemented from July 1, 2026.[27] Under the new scheme, guaranteed employment has increased from 100 to 125 days. However, states will have to pay a larger share of the cost (Table 4). Had VB-G RAM G been in place instead of MGNREGA in 2025-26, states would have spent around Rs 33,000 crore, assuming the same number of person days and wage rates (see methodology on page 31). This is around six times what they actually spent under MGNREGA (Rs 5,261 crore). For large states such as Bihar, Madhya Pradesh, Maharashtra, and Uttar Pradesh, VB-G RAM G would have led to additional state spending of Rs 2,000-3,000 crore in 2025-26 (Figure 15).

As per the draft VB-G RAM G Rules, a state's share in the central allocation will be based on the devolution parameters of the 16th Finance Commission.[28] By this formula (and taking the 2026-27 Union Budget allocation), six states would have fallen short of the central fund requirement in 2025-26. Under VB-G RAM G, these states would have to bear this excess expenditure (ranges between Rs 80 crore to Rs 650 crore).

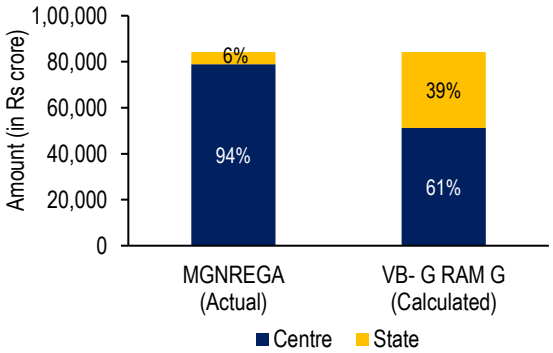
In June 2026, the central government notified the minimum wage rate of Rs 300 per day under VB-G RAM G.[29] Subsequently, states raised their wage rates for 2026-27.[29] At the new wage rates, VB-G RAM G would have cost states around seven times their actual 2025-26 spending under MGNREGA.

Table 4: MGNREGA vs VB-G RAM G

Parameter		MGNREGA	VB-G RAM G
Guaranteed days of employment		100 days	125 days
Fund-sharing (centre: state)	Wages	100% centre	60:40; 90:10 for Himalayan and North-Eastern states; admin costs up to 9% of total expenditure to be shared between centre and state
	Material costs	75:25	
	Admin costs	centre up to 6% of the total scheme spending; state bears excess	
Central allocation		Demand driven; no fixed allocation	State-wise fixed allocation; excess borne by states
Pause on work		None	Up to 60 days in a financial year

Sources: MGNREGA Act, 2005; VB-G RAM G Act, 2025; PRS.

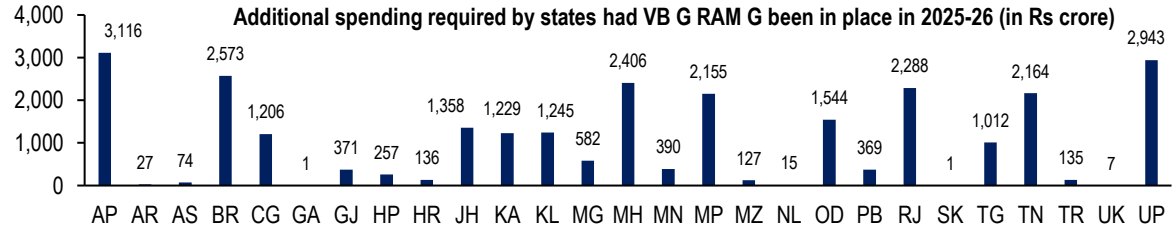
Figure 14: State spending would have been six times had VB-G RAM G applied in 2025-26



Note: VB-G RAM G estimates based on the methodology outlined on page 31.
Sources: MGNREGA Portal, as accessed on September 28, 2026; VB-G RAM G Act, Union Budget Documents 2026-27; PRS.

Under VB-G RAM G, guaranteed employment has increased to 125 days. In 2025-26, the average number of workdays per household under MGNREGA was 43 days against guaranteed employment of 100 days.[30] Only 4% of households availed the full 100 days of work.[30] CAG (2025) identified issues such as low-wage rate and delay in paying wages as some of the key reasons.[31,32,33,34] Any increase in person days provided under VB-G RAM G will also raise state spending further. From the second year, the Rules also link central allocation under VB-G RAM G to performance criteria such as timely wage payments.[28] Thus, any performance gaps may decrease central funds. As an interim measure until the Rules are notified, the central government has decided to allocate state-wise funding for 2026-27 based on the funds released under MGNREGA in 2024-25.[35]

Figure 15: In 2025-26, additional state spending under VB-G RAM G would have been around Rs 2,000-3,000 crore for large states



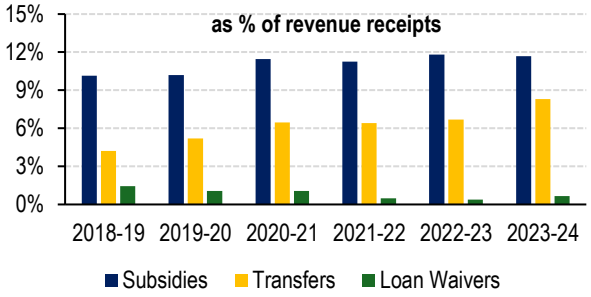
Note: The VB-G RAM G estimate for each state is based on the methodology outlined on page 31.
Sources: MGNREGA Portal, as accessed on September 28, 2026; Union Budget Documents 2026-27; PRS.

States are increasingly spending more on cash transfer schemes

Subsidies alter the cost of production or consumption of goods and services.[25,36] While subsidies can improve access to goods and services, they can also lead to excessive use of subsidised items.[25,37] Transfers provide direct cash assistance to eligible beneficiaries.[25,36] They seek to supplement the income of beneficiaries to either buy or produce goods and services, without changing market prices.[25,36] However, if transfers are not well targeted, they may provide benefits to unintended beneficiaries.[25]

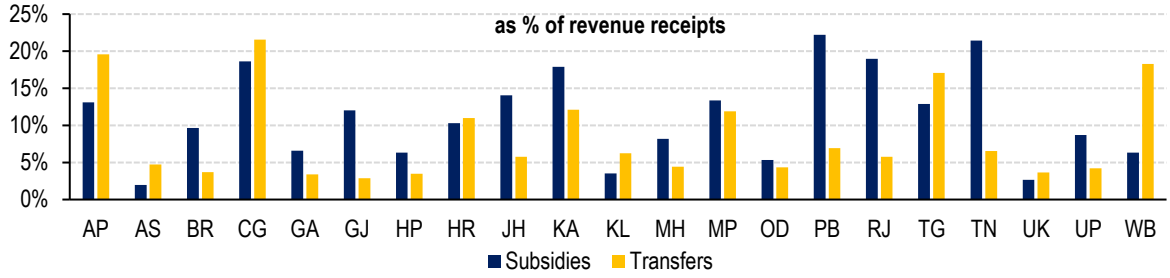
Spending by states (excluding all north-eastern states except Assam) on subsidies and transfers grew from 16% of their revenue receipts in 2018-19 to 21% in 2023-24. During this period, subsidies grew at an annualised rate of 12% while transfers grew at 24% (Figure 16). In 2023-24, states such as Andhra Pradesh (20% of revenue receipts), Chhattisgarh (22%), and West Bengal (18%) spent relatively more on transfers as compared to other states (Figure 17). Andhra Pradesh and Chhattisgarh were also among the states spending relatively more on both subsidies and transfers. Chhattisgarh spent about 40% of its revenue receipts on these two items, the highest among all states in 2023-24.

Figure 16: Transfers grew 24% annually between 2018-19 and 2023-24, twice the rate of growth in subsidies



Note: Data unavailable for north-eastern states (except Assam) and UTs.
Sources: 16th Finance Commission; PRS.

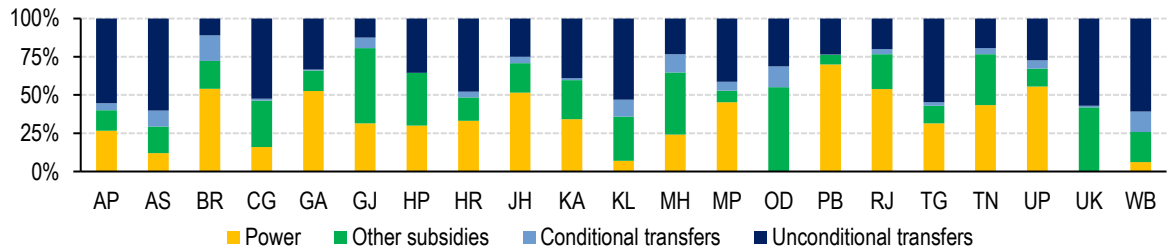
Figure 17: States such as Andhra Pradesh, Chhattisgarh, and West Bengal spent more than 18% of their revenue receipts on transfers in 2023-24



Note: Data unavailable for north-eastern states (except Assam) and UTs. Loan waivers given by states are excluded.
Sources: 16th Finance Commission; PRS.

Power subsidies accounted for more than half of the total expenditure on subsidies and transfers in states such as Punjab (70%) and Uttar Pradesh (56%) in 2023-24 (Figure 18). These mostly consisted of support to state electricity distribution companies to enable them to provide electricity at subsidised tariffs to agricultural and domestic consumers.[25] The 16th FC noted that power subsidies across states is greatly understated, as much of these remains off-budget or implicit.[25] In seven states, unconditional transfers account for more than half of the total expenditure on subsidies and transfers. These include West Bengal (61%) and Assam (60%). The 16th FC noted that unconditional transfer schemes tend to have a large and untargeted beneficiary base.[25] It further observed that these are not only inefficient, but also impose a large fiscal burden.[25] It recommended that governments take measures to rationalise the beneficiary base for such schemes.[25]

Figure 18: Power subsidies and unconditional transfers formed the largest share of expenditure on subsidies and transfers in several states in 2023-24



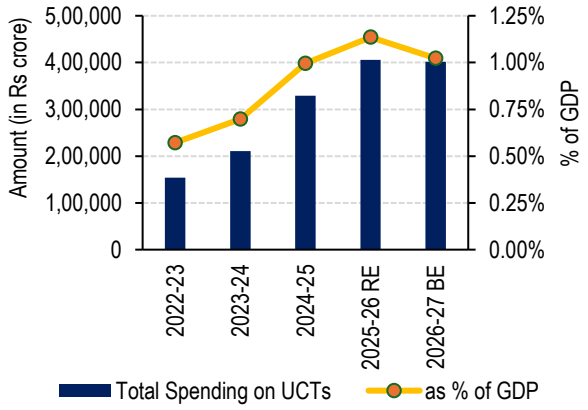
Note: Data unavailable for north-eastern states (except Assam) and UTs. Loan waivers given by states are excluded.
Sources: 16th Finance Commission; PRS.

Nearly 90% of cash transfers towards women and social security pensions

States provide unconditional cash transfers (UCTs) to a wide range of beneficiaries. These include women, farmers, youth, and social security pension beneficiaries such as the elderly, widows, and persons with disabilities. For example, states such as Andhra Pradesh and Maharashtra provide state-funded additional assistance to farmers alongside the central PM-KISAN scheme. Haryana, Karnataka, and Telangana provide financial assistance to widows. In states such as Tamil Nadu and West Bengal, unemployment allowance is being provided to youth. These transfers are generally disbursed either monthly (such as in most UCT schemes for women across states) or paid in two to three equal instalments in a year (such as Odisha's UCT scheme for women and farmers assistance schemes). This analysis draws on 128 identified UCT schemes for women, farmers, youth, and social security pension beneficiaries. As this is not an exhaustive list, the actual expenditure on this account could be higher.

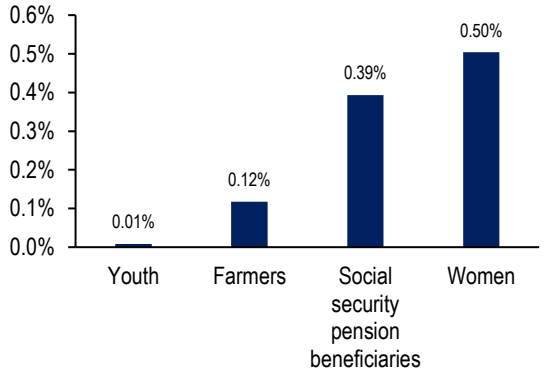
States have estimated to collectively spend about 1% of GDP (about four lakh crore rupees) on UCT schemes in 2026-27, up from 0.6% in 2022-23 (Figure 19). This increase reflects the introduction of newer schemes and increases in spending on existing schemes. For example, in 2026-27, Punjab introduced its UCT scheme for women while Keralam and West Bengal increased their budgetary allocation towards women's UCT schemes. Nine states including West Bengal, Andhra Pradesh, and Telangana spend over 10% of their revenue receipts on UCT schemes (Table 14 on page 32).

Figure 19: State spending on UCTs to rise from 0.6% of GDP in 2022-23 to 1% of GDP in 2026-27



Sources: State and Union budget documents; MoSPI; PRS.

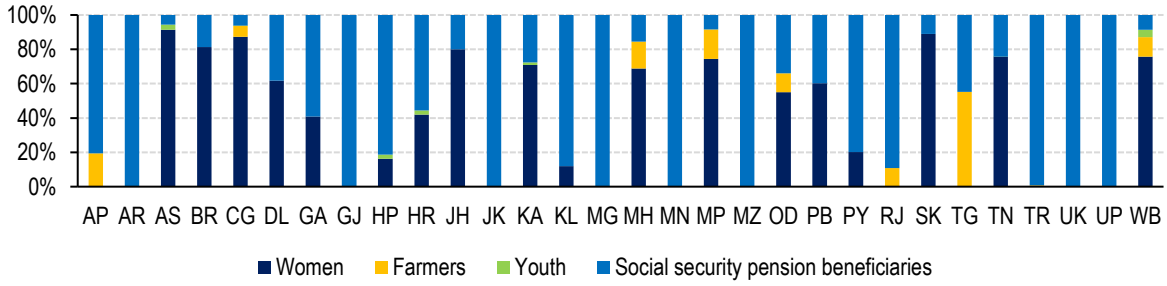
Figure 20: Transfers to women account for a large share of spending in 2026-27 (as % of GDP)



Sources: State and Union Budget documents; MoSPI; PRS.

In 2026-27, transfers to women and social security pensions have the largest share of UCT (Figure 20). Fourteen states have budgeted to spend more than three-fourths of their total UCT expenditure on social security pension schemes (Figure 21). In Gujarat, Uttar Pradesh, and Meghalaya, these schemes account for almost all UCT expenditure. In other states such as Chhattisgarh, Jharkhand, Karnataka, and Tamil Nadu, a majority of the UCT expenditure is towards cash transfer schemes for women. The estimated expenditure of Jharkhand and West Bengal towards their UCT scheme for women is 10% and 11% of revenue receipts respectively, the highest shares among all states.

Figure 21: UCT scheme for women and social security pensions form a larger share of unconditional cash transfers in several states



Sources: State Budget Documents; PRS.

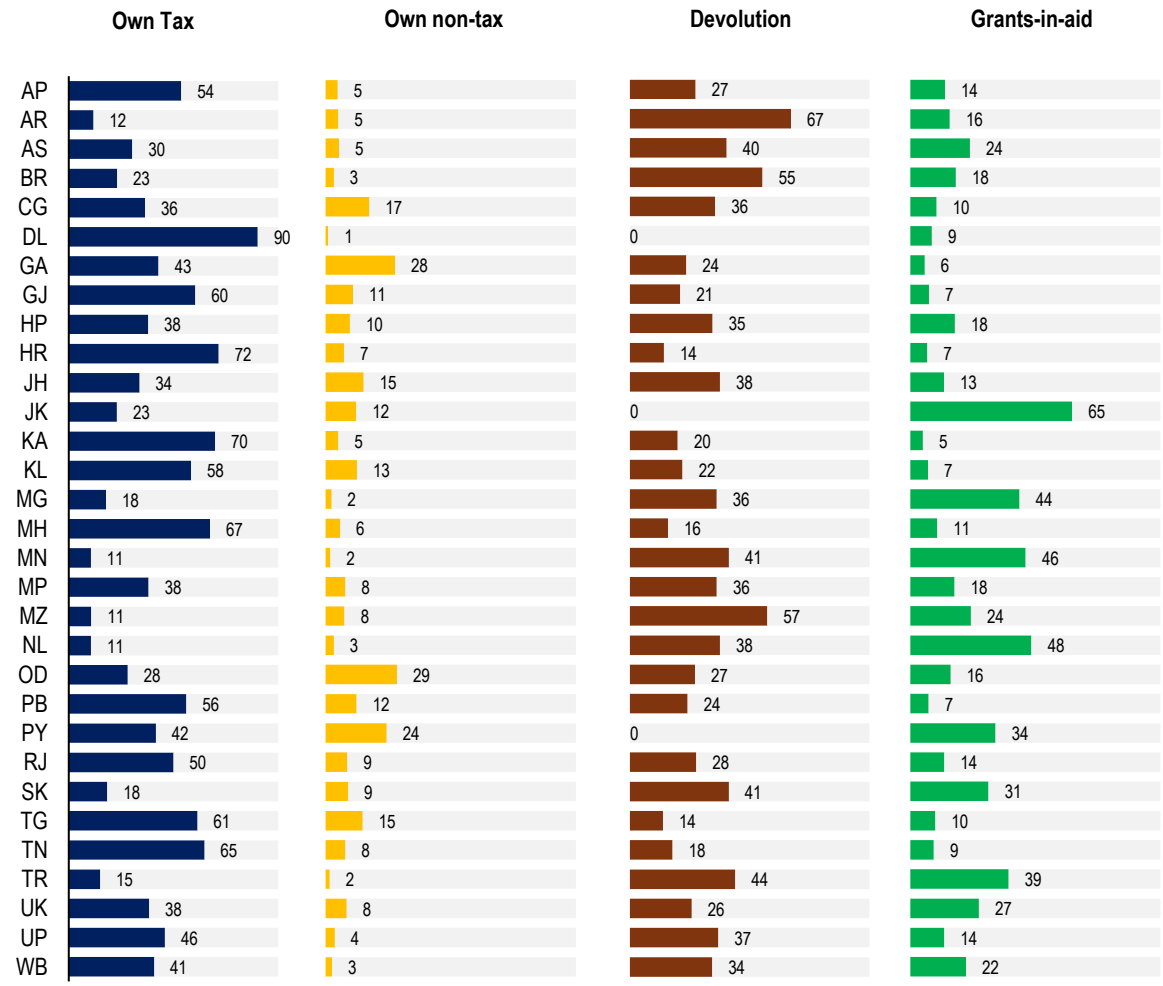
TRENDS IN STATE FINANCES

This section discusses trends in state finances based on the budget estimates for 2026-27.

Own tax revenue is the largest source of revenue for most states

States' revenue receipts comprise: (i) own revenue and (ii) transfers from the central government. Own revenue includes revenue earned by the state government from tax and non-tax sources. States also receive transfers from the central government in the form of their share in central taxes and grants-in-aid. Receipts from central taxes are devolved as per the recommendations of the Finance Commission. Grants-in-aid include grants for centrally sponsored schemes (such as MGNREGA) and grants recommended by the Finance Commission (such as local body grants).

Figure 22: In 2026-27, states have estimated to raise 50% of receipts from own tax revenue (in %)



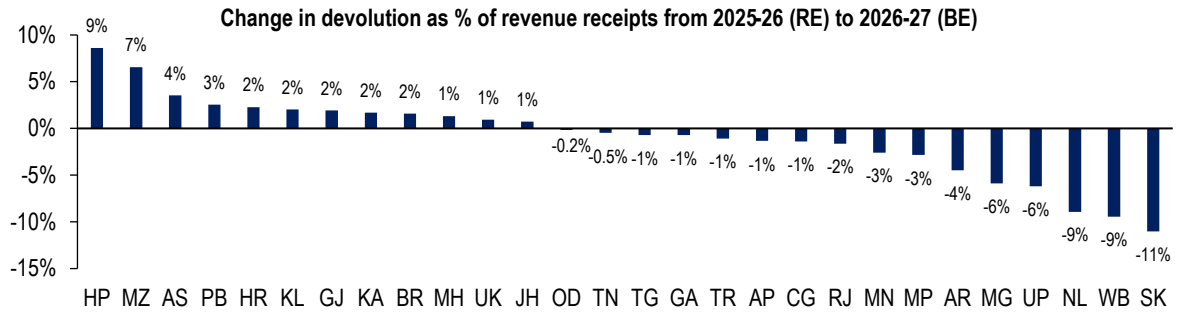
Note: Delhi, Jammu and Kashmir, and Puducherry do not receive devolution of central taxes as they are UTs.
Sources: State Budget Documents; PRS.

In 2026-27, states estimate to raise 58% of their revenue receipts from own tax and non-tax sources. The contribution of own tax revenue is significantly higher (more than 60% of revenue receipts) in states such as Haryana, Karnataka, Maharashtra, Telangana, and Tamil Nadu. The share of own non-tax revenue in states' revenue receipts varies from 1% to 29%. States with a higher share of own non-tax sources include mineral-rich states such as Chhattisgarh, Jharkhand, and Odisha. Goa and Puducherry have higher than average non-tax revenue as electricity distribution is managed by state electricity departments rather than power distribution companies.

States expect to receive 28% of revenue receipts as tax devolution and 14% as grants-in-aid. As noted on page 7, the 16th Finance Commission changed the devolution formula. Figure 23 shows expected change in devolution as a share of revenue receipts from 2025-26 RE to 2026-27 BE. Devolution is

expected to make up a larger share of revenue receipts in states such as Himachal Pradesh and Mizoram. In contrast, devolution is expected to fall as a share of revenue receipts in states such as West Bengal and Uttar Pradesh. Some states are expecting more than 70% of their revenue receipts from central assistance. These include Bihar (73%), Meghalaya (80%), and Manipur (87%). Unlike devolution, some central grants are tied to specific expenditure priorities, limiting spending flexibility.

Figure 23: Devolution as a share of revenue receipts expected to fall in Uttar Pradesh and West Bengal

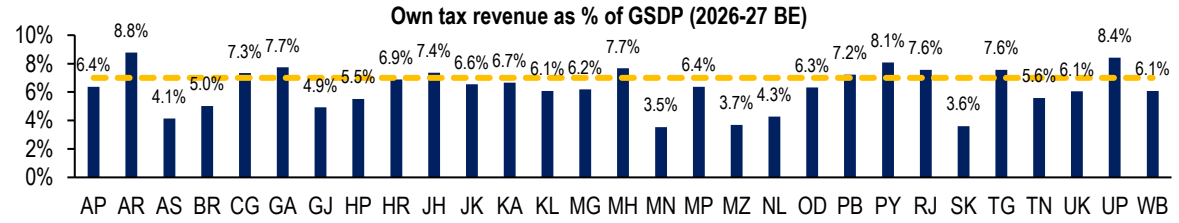


Sources: State Budget Documents; PRS.

Own tax revenue of states is estimated to be 7% of GDP

States' own tax revenue is estimated to increase from 6.8% of GDP in 2025-26 RE to 7% in 2026-27 BE. In 2024-25 (actuals), it was 6.4% of GDP. Most states have budgeted own tax to GSDP ratio between 6% and 8%. States with relatively higher own tax to GSDP ratio include Arunachal Pradesh (8.8%), Uttar Pradesh (8.4%), Maharashtra (7.7%), and Goa (7.7%). While Uttar Pradesh has estimated the second-highest own tax to GSDP ratio, it has undershot revenue targets in recent years. States with lower than average own tax to GSDP ratio include Bihar and Gujarat, possibly due to limited excise revenue as these states have enforced alcohol prohibition.

Figure 24: Among large states, Assam and Gujarat have low own tax revenue as a share of GSDP



Note: Delhi and Tripura excluded as 2026-27 GSDP estimates are not available.
Sources: State Budget Documents; PRS.

SGST is the largest source of own tax revenue across states

In 2026-27, states estimate State Goods and Services Tax (SGST) to be about 44% of their own tax revenue. Other sources of own tax revenue include: (i) sales tax (19%), (ii) state excise (14%), and (iii) stamp duty and registration fees (13%). States apply sales tax and state excise on alcohol for human consumption, and sales tax on petroleum products. Stamp duty and registration fees on court or property-related documents also accrue to state revenues.

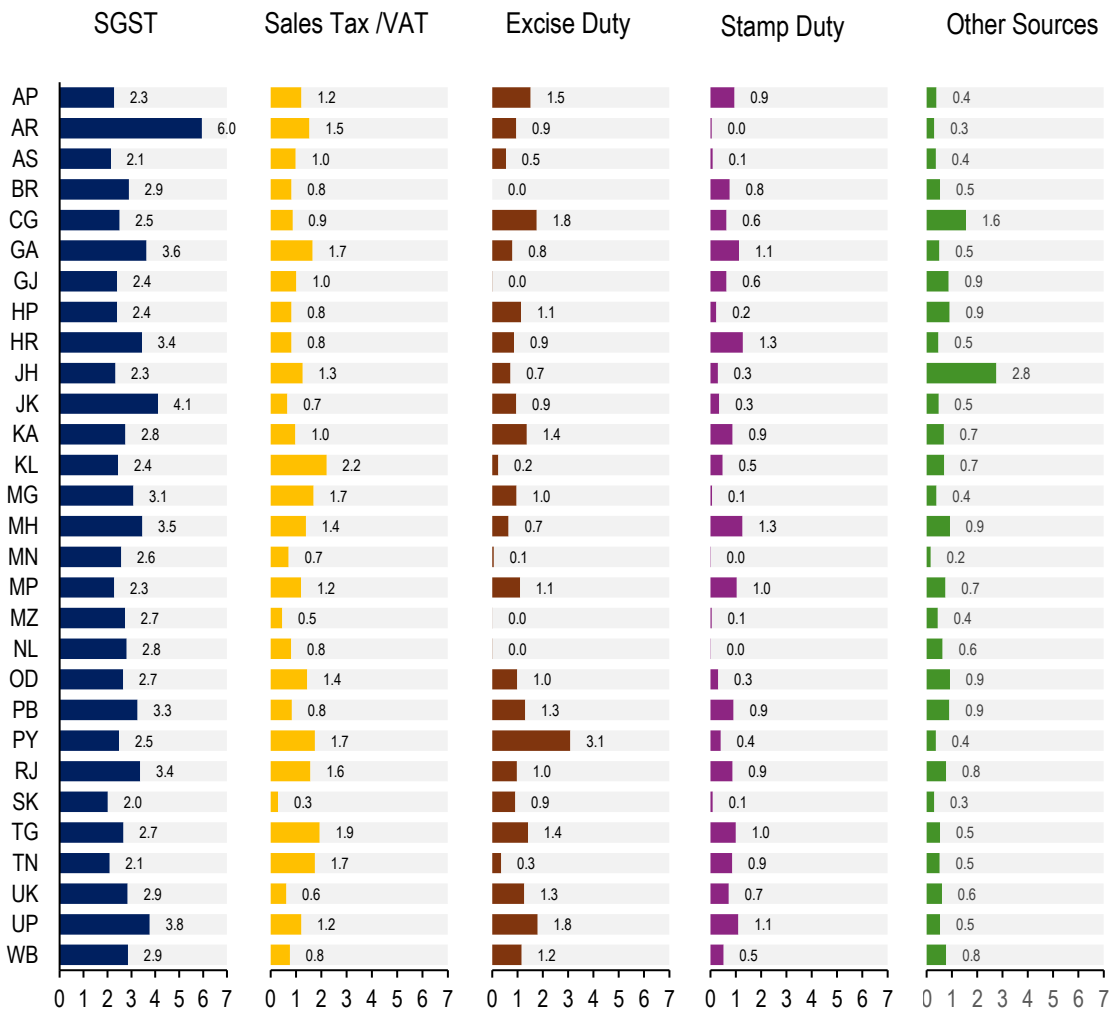
In September 2025, the GST Council reduced tax rates on several products.[2] This rate reduction may have impacted SGST revenue of states (page 4). Most states estimate their SGST revenue to be about 2% to 3% of their GSDP in 2026-27. States with higher SGST to GSDP ratio include Arunachal Pradesh (6%), Jammu and Kashmir (4%), and Uttar Pradesh (4%). Uttar Pradesh expects its SGST revenue to increase by 79% over the previous year (2025-26 RE). However, on average, Uttar Pradesh's actual SGST revenue has been 19% lower than budgeted between 2022-23 and 2024-25.

RBI (2026) also noted the potential of states to mobilise revenues from non-GST tax sources, in particular stamp duty and registration fees.[11] It observed inter-state disparities in revenue collection between comparable states.[11] In 2026-27, several states are expecting stamp duty and registration fees

to be between 0.1% and 0.9% of their GSDP. States budgeting higher revenue from this source (as a percentage of GSDP) include Haryana (1.3%) and Maharashtra (1.3%) (page 5).

Other sources of own tax revenue include revenue from taxes on electricity and vehicles. Some mineral rich states such as Jharkhand and Chhattisgarh also impose cess on mineral bearing lands, which adds to their own tax revenue (Table 13 on page 32). In 2026, Parliament amended the Mines and Minerals (Development and Regulation) Act, 1957.[38] The amendment prohibits states from imposing specified mining related levies and retrospectively collecting certain levies which have not yet been collected.[38] This can significantly impact the tax revenue of states especially those with higher receipts from mining (page 6).

Figure 25: Composition of own tax revenue in 2026-27 (as % of GSDP)

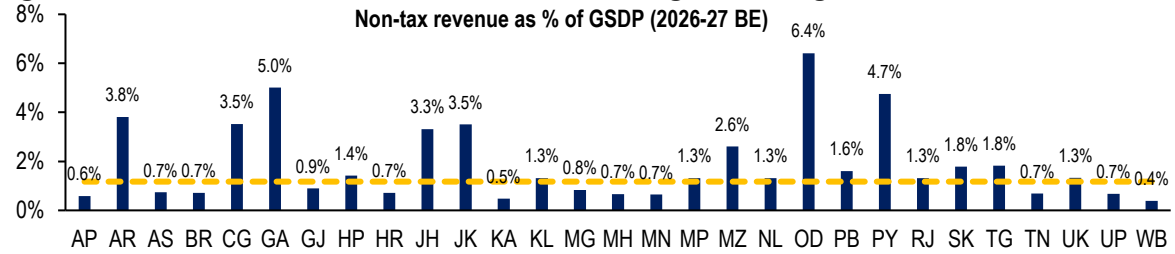


Note: Delhi and Tripura not shown in charts as 2026-27 GSDP estimates are not available.
Sources: State Budget Documents; PRS.

Own non-tax revenue of states estimated to be 1.2% of GDP

States have estimated their non-tax revenue to be 1.2% of GDP in 2026-27 (8% of revenue receipts). Non-tax revenue includes receipts from mining and metallurgical industries, dividends and profits, and interest receipts. Mineral-rich states such as Odisha, Chhattisgarh, and Jharkhand plan to raise 6.4% of GSDP, 3.5%, and 3.3% from non-tax sources respectively. This is higher than most other states. Odisha will raise about 29% of its revenue receipts from non-tax sources (79% of which is from mining and related activities). This is the only state where this item exceeds revenue from own tax sources (28% of revenue receipts). In Goa and Puducherry, higher non-tax revenue is largely due to receipts from sale of power. In Goa, about 70% of non-tax revenue accrues from sale of power and related activities, while it accounts for 87% of non-tax revenue in Puducherry.

Figure 26: Mineral-rich states such as Odisha and Chhattisgarh raise higher non-tax revenue



Note: Delhi and Tripura are excluded as 2026-27 GSDP estimates are not available.
Sources: State Budget Documents; PRS.

Auction of mineral blocks

States use auctions to grant mineral concession for major minerals (such as iron ore and bauxite).[39] For notified deep-seated and critical minerals, the central government exclusively conducts auctions to grant specified mineral leases.[39] Between 2015-16 and 2025-26, a total of 592 mineral blocks (including 34 by the central government) were auctioned across India.[39] However, out of the total 592 auctioned blocks, only 95 saw execution of mining leases (as of March 2026).[39] Further, production has started in only 82 of these blocks (14% of auctioned blocks).[39] Odisha has the highest number of auctioned blocks in production (30), followed by Karnataka (16), Gujarat (9), and Madhya Pradesh (6).[39]

The Ministry of Mines (2025) noted that the time taken for operationalisation of auctioned mines is dependent on obtaining various clearances post auction.[40] NITI Aayog (2026) noted that clearances required for operationalisation of auctioned mines include forest clearance, environment clearance, wildlife clearance, and consent to operate.[41] It observed that despite a statutory deadline, most of these clearances face delays and backlogs across states.[41] For example, the Ghoraburhani-Sagasahi iron ore mine in Sundargarh in Odisha took over five years to finally operationalise in 2021.[41]

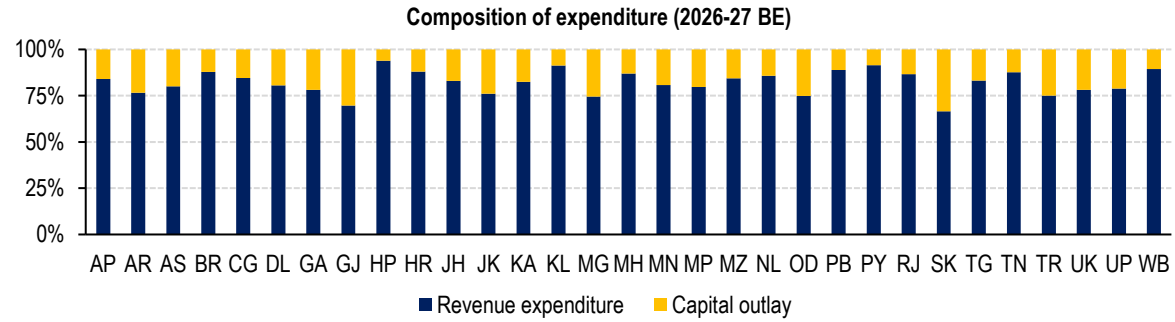
Operationalisation of auctioned mineral blocks can be important for states to realise production-linked revenues such as royalties. Delays in obtaining statutory clearances and commencing production may postpone these receipts. Certain measures introduced by central and state governments to expedite mineral block operationalisation include: (i) intermediary timelines for early operationalisation, (ii) state level pre-auction committees to resolve issues such as land-scheduling, (iii) unified mining portal to monitor mine operationalisation, and (iv) financial incentives (such as Rs 250 crore per state for operationalising major mineral blocks within a given time period) under the Scheme for Special Assistance to States for Capital Investment (SASCI).[42,43]

Expenditure by states to comprise largely of revenue expenditure

Expenditure can be classified into two major categories: (i) revenue expenditure, and (ii) capital expenditure. Revenue expenditure includes spending on items which are recurring in nature, such as salaries, pensions, interest payments, subsidies, and administrative expenses. These do not create any asset for the state. Capital expenditure is expenditure incurred to create assets or reduce liabilities. Examples include construction of roads, bridges, schools, hospitals, and repayment of loans.

In 2026-27, states plan to spend 82% on revenue expenditure, 17% on creation of assets (capital outlay), and 1% on extending loans and advances. States spending 90% and above on revenue items include Himachal Pradesh, Keralam, and Puducherry. North-Eastern and Himalayan (NEH) states such as Arunachal Pradesh, Jammu and Kashmir, Meghalaya, and Sikkim estimate to spend higher than average on capital outlay. Higher central transfers and consequently a higher revenue surplus enable NEH states to spend more on capital outlay. Non-NEH states spending higher than average on capital outlay include Goa, Gujarat, Odisha, Madhya Pradesh, and Uttar Pradesh.

Figure 27: Revenue expenditure estimated to be 82% of total expenditure



Sources: State Budget Documents; PRS.

State policies for data centres

The growth of Artificial Intelligence (AI) is increasing demand for computing infrastructure such as data centres that can store and process data, and support digital services.[44] Several state governments have proposed a range of fiscal incentives to attract investment in data centres. These include subsidies (such as on land or power), fee exemptions (such as on stamp duties), and relaxation in building norms.[45] In 2021, five states, namely Tamil Nadu, Telangana, Tripura, Uttar Pradesh, and West Bengal had policies providing such incentives. As of October 2026, 18 states had introduced data centre-related policies, providing some or all the above noted incentives (Table 5). While these incentives may help attract investments, they may also impose a fiscal cost on states. The extent of this cost would depend on the incentives availed by developers and whether the resulting investments generate additional economic activity, employment, and revenue for the state. NITI Aayog (2026) noted that while data centres are a critical infrastructure, increasing scale places substantial demands on electricity, water, land, and local infrastructure.[46] It recommended that states move beyond attracting investments to ensuring that projects are developed in locations where the necessary infrastructure and resources can support them over the long term.[47]

Table 5: Key incentives as provided in state data centre policies of 18 states

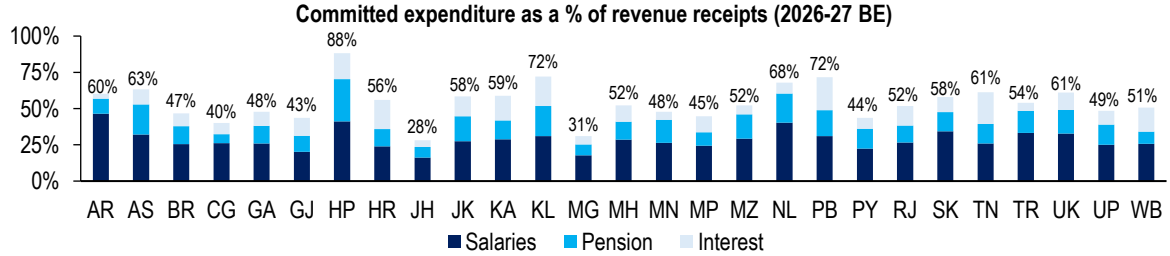
Incentives	States	Examples
Waivers on electricity taxes or tariffs	All 18 states	Uttar Pradesh and Tamil Nadu offer 100% electricity duty exemptions for five to 10 years
Stamp duty exemptions	15 states; all other than Gujarat, Bihar, and Telangana	100% stamp duty exemptions on specified items in Andhra Pradesh and West Bengal
Capital subsidy	11 states including Chhattisgarh, Odisha, and Tripura	20% to 35% subsidy on investments in specified areas in Chhattisgarh, Odisha, Jharkhand, Madhya Pradesh, and Tripura

Note: The 18 states are AP, BR, CG, GJ, HR, JH, KA, MP, MH, MN, OD, PB, RJ, TN, TG, TR, UP, and WB.
Sources: State Data Centre Policies; "Data Centre", Ministry of Electronics and Information Technology website as accessed on October 28, 2026; PRS.

More than half of revenue receipts to be spent on salaries, pensions, and interest

States are obligated to incur certain expenses as part of revenue expenditure. These include payment of salaries, pensions, and interest on borrowings. Expenditure on these items cannot be reduced in the short to medium term. Allocating a higher share of revenue receipts towards committed expenditure reduces the fiscal space to incur other developmental expenditure. In 2026-27, states have estimated to spend 52% of revenue receipts towards committed expenditure items. NEH states often run state employment schemes which raises their burden of committed expenditure. Other states which have estimated more than 60% include Keralam, Punjab, and Tamil Nadu. In contrast, states such as Bihar, Chhattisgarh, Gujarat, Jharkhand, and Meghalaya will spend less than average in 2026-27.

Figure 28: Committed expenditure takes up more than half of revenue receipts

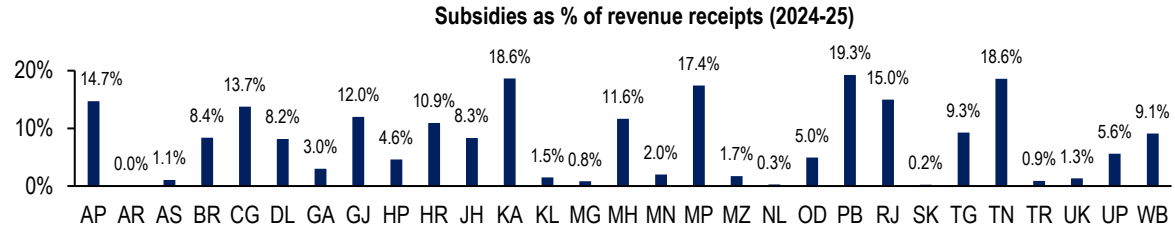


Note: Andhra Pradesh, Delhi, Odisha, and Telangana have been excluded from the chart due to unavailability of salary figures.
Sources: State Budget Documents; PRS.

States spent 11% of their revenue receipts on subsidies in 2024-25

While all states do not provide the detailed break-up for subsidies in their budget documents, CAG gives these details after the audit. Hence, this data is reported with a lag. In 2024-25, 29 states spent Rs 4.4 lakh crore on subsidies (11% of their revenue receipts). States spending a higher amount of revenue receipts on subsidies include Punjab (19.3%), Karnataka and Tamil Nadu (18.6%), Madhya Pradesh (17.4%), and Rajasthan (15%).

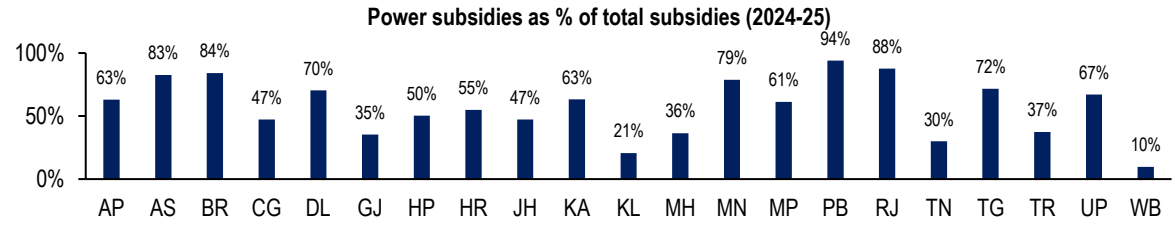
Figure 29: Subsidies consumed 11% of states' revenue receipts



Note: Jammu and Kashmir and Puducherry excluded as data is not available.
Sources: CAG; PRS.

States provide subsidies in sectors such as agriculture, power, and transport. Most states provide subsidies in the power sector, in the form of free electricity to consumers, or assistance to distribution companies (box on page 21). About 94% of subsidies given in Punjab are for the power sector. Other states with a higher share in power subsidies include Rajasthan (88%) and Bihar (84%).

Figure 30: Subsidies are concentrated in the power sector in most states

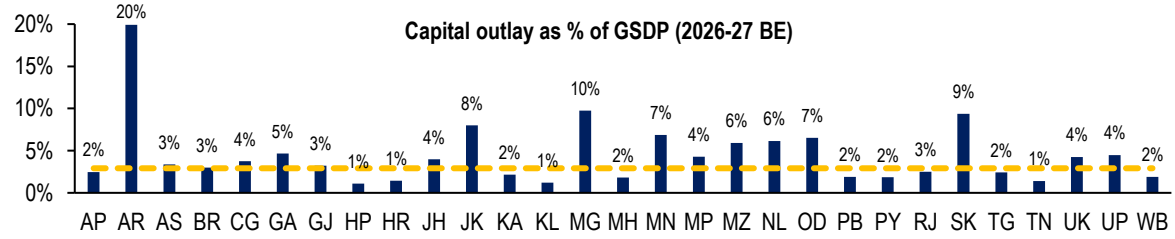


Note: 10 states excluded as data is not available.
Sources: CAG; Report on Performance of Power Utilities, 2024-25, Power Finance Corporation; PRS.

States plan to spend 2.9% of GDP on capital outlay

Capital outlay is expenditure incurred towards creation of assets, such as building schools and hospitals. In 2026-27, states plan to spend about 2.9% of GDP in aggregate on capital outlay. In contrast, revenue expenditure is about 14% of GDP. Spending more on revenue items decreases the space for capital outlay. Other than NEH states (which get higher central transfers), Odisha and Goa have allocated a higher proportion of their GSDP towards capital outlay.

Figure 31: Other than NEH states, Odisha plans to spend the highest on capital outlay

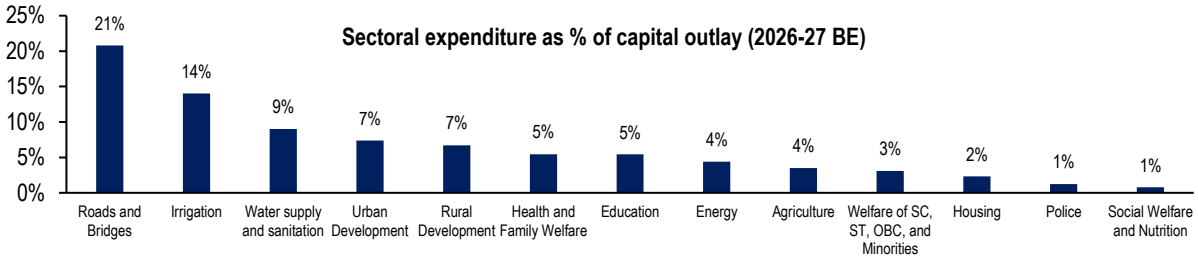


Note: Delhi and Tripura excluded as 2026-27 GSDP estimates are not available.
Sources: State Budget Documents; PRS.

Within capital outlay, spending on roads and bridges is the highest in 2026-27

States have allocated the highest capital outlay towards roads and bridges (Rs 2.4 lakh crore) in 2026-27, followed by irrigation, and water supply and sanitation. These sectors are capital intensive unlike sectors such as education and social welfare in which items such as salaries and cash transfers account for the majority of expenditure.

Figure 32: Roads and Bridges account for the highest sectoral spending in capital outlay

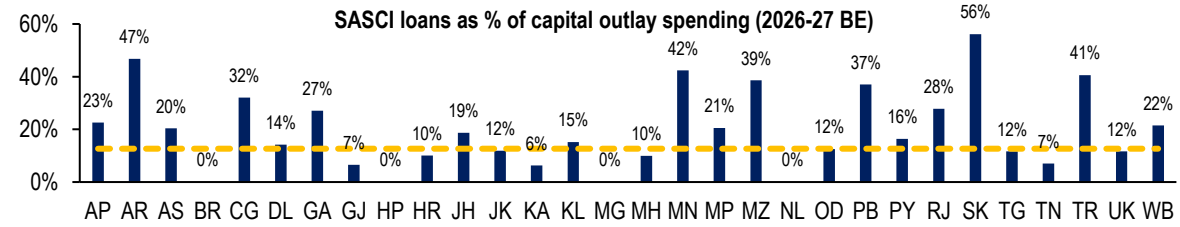


Sources: State Budget Documents; PRS.

Portions of capital outlay to be funded through SASCI loans in most states

To boost capital outlay by states, the central government introduced SASCI in 2020-21, providing 50-year interest-free loans to states. A total of 26 states have budgeted SASCI loans worth Rs 1.45 lakh crore. This is about 13% of the total capital outlay planned by all states in 2026-27. However, some states such as Bihar and Himachal Pradesh have not budgeted any SASCI loans in 2026-27. Under the 2026-27 SASCI guidelines, about 38% of the total fund is untied while the rest is linked to certain metrics such as growth in capital expenditure by the state.[48]

Figure 33: SASCI loans fund a higher capital outlay in Chhattisgarh and Punjab among large states

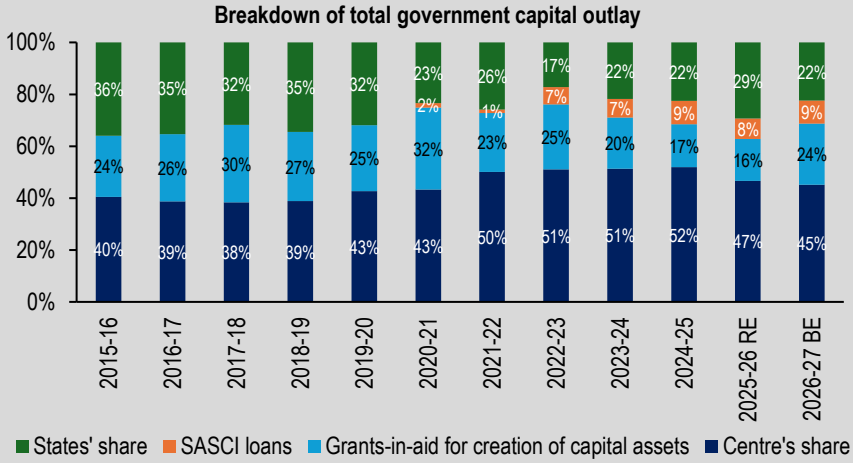


Note: Data for Uttar Pradesh is not available. Bihar, Himachal Pradesh, Meghalaya, and Nagaland budgeted zero receipts under SASCI.
Sources: State Budget Documents; PRS.

Capital outlay of states is being boosted by central assistance

Combined capital outlay of the centre and states has ranged between 4%-5% of GDP since 2015. Before 2020-21, states contributed 32-36% of total capital outlay, while the centre funded 64-68%, either through direct spending or through grants-in-aid to states for creation of capital assets. Post-pandemic, states' priorities shifted towards revenue expenditure. Centre's contribution rose to about 75% in most years. In addition to grants-in-aid, SASCI loans are also supporting capital outlay of states since 2020-21. SASCI's contribution to capital outlay has increased from about 2% in 2020-21 to 9% in 2026-27 BE.

Figure 34: Over 70% of total capital outlay to be funded by centre directly or indirectly



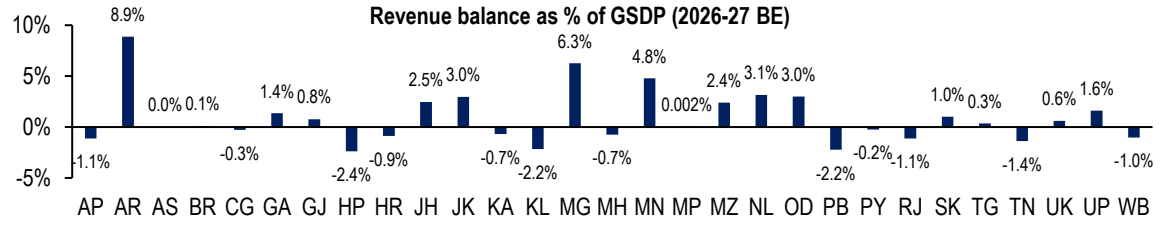
Note: SASCI loans and grants-in-aid for capital outlay taken from Union Budget Documents.
Sources: Union Budget Documents; RBI, State Budget Documents; PRS.

12 states have budgeted a revenue deficit in 2026-27

Revenue balance is the difference of revenue expenditure and revenue receipts. A revenue deficit occurs when revenue expenditure exceeds revenue receipts. Revenue deficit implies that the state government needs to borrow to finance those expenses which do not increase its assets or reduce its liabilities. In 2026-27, 12 states have budgeted a revenue deficit. Assam has budgeted a revenue balance (no surplus or deficit). The remaining 18 states have budgeted a revenue surplus.

According to 2024-25 actuals, 16 out of 31 states recorded a revenue deficit in that year. Finance Commissions in the past have recommended post-devolution revenue deficit grants to states, to help them cover non-plan revenue deficits. The 16th FC recommended discontinuing such grants. It observed that states have reported recurrent revenue deficit across successive FCs. It noted that if shortfalls in revenue account are compensated through revenue deficit grants, states will not undertake necessary fiscal reforms such as rationalising subsidies or curbing revenue expenditure. This might impact states with higher revenue deficits such as Himachal Pradesh and Punjab.

Figure 35: 12 states are estimating a revenue deficit



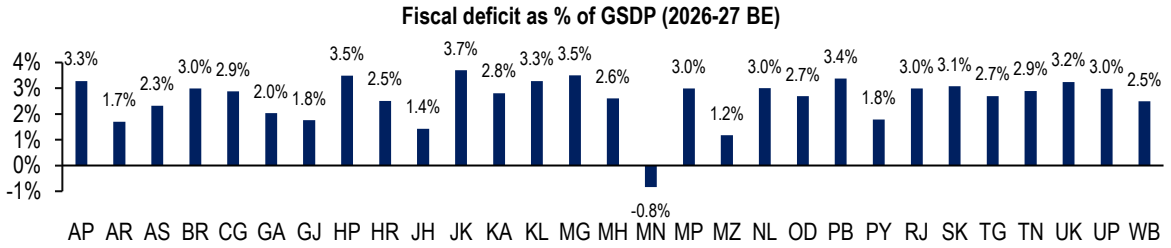
Note: Delhi and Tripura have budgeted a revenue surplus but are not included as GSDP estimates are not available.
Sources: State Budget Documents; PRS.

Fiscal deficit estimated at 2.9% of GDP, marginally below the 3% limit

Fiscal deficit occurs when total expenditure exceeds total receipts. State governments finance this gap through borrowings. A fiscal surplus arises if the receipts are higher than the expenditure. Following the passing of the Fiscal Responsibility and Budget Management (FRBM) Act, 2003 in Parliament, states also passed their respective FRBM Acts. The FRBM Acts prescribe limits for deficits and outstanding liabilities of the government and are aimed at ensuring debt management.

The 16th FC has recommended the annual fiscal deficit limit for states at 3% of GSDP, excluding SASCI loans. In 2026-27, states have estimated an aggregate fiscal deficit of 2.9% of GDP, marginally below the limit recommended by the FC. Nine states have estimated a fiscal deficit higher than 3%. States with higher fiscal deficit include Jammu and Kashmir (3.7%), Himachal Pradesh (3.5%), Meghalaya (3.5%), and Punjab (3.4%).

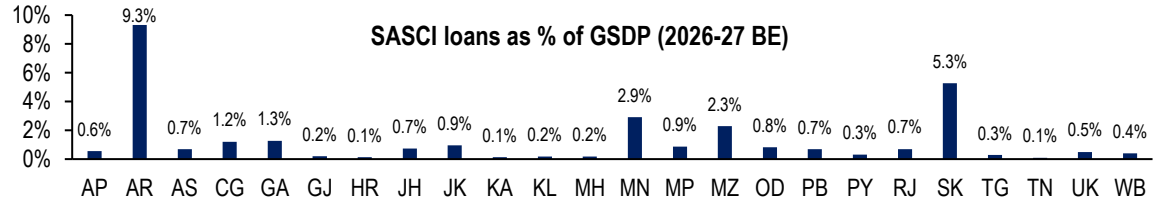
Figure 36: Fiscal deficit excluding SASCI loans to be higher than 3% of GSDP in nine states



Note: SASCI data for Uttar Pradesh is not available. Bihar, Himachal Pradesh, Meghalaya, and Nagaland budgeted zero receipts under SASCI. Delhi and Tripura have budgeted fiscal deficit but are not included as GSDP estimates are not available. (+) indicates deficit and (-) indicates surplus.
Sources: State Budget Documents; PRS.

Six states including Arunachal Pradesh and Sikkim have SASCI loans accounting for more than 1% of their GSDP in 2026-27. SASCI loans in states such as Karnataka and Maharashtra are below 0.5% of their GSDP.

Figure 37: SASCI loans exceed 1% of GSDP in six states



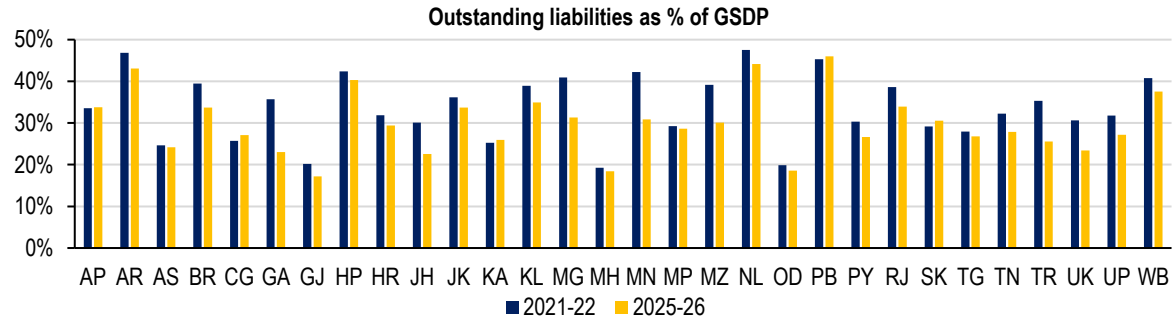
Note: Data for Uttar Pradesh is not available. Bihar, Himachal Pradesh, Meghalaya, and Nagaland budgeted zero receipts under SASCI.
Sources: State Budget Documents; PRS.

Outstanding liabilities of six states estimated to cross 35% of GSDP in 2025-26

States borrow to finance their fiscal deficits. The accumulation of borrowings over the years is the total debt stock or outstanding liabilities of a state government. The FRBM Acts of states specify the limit on borrowings as a percentage of GSDP. In 2017, the FRBM Review Committee (Chair: Mr N.K. Singh) had recommended a debt to GDP ratio ceiling of 20% for states. This target had to be achieved by 2023. The debt of states went up during the pandemic. The 15th FC estimated aggregate debt of states by March 2026 to be 32.5% of GDP. As of March 2026, this figure was 28%. States with outstanding liabilities of more than 40% of GSDP include Arunachal Pradesh, Himachal Pradesh, Nagaland, and Punjab. Three states, Gujarat, Maharashtra, and Odisha, have estimated their debt below 20%. This figure excludes the 50-year interest-free loans provided to states for capital expenditure. The 16th FC has not recommended any debt target for states.

Figure 38 compares the debt position of states in 2025-26 with 2021-22, when outstanding liabilities had peaked after the pandemic. States such as Chhattisgarh, Karnataka, Punjab, and Sikkim have seen an increase in their outstanding liabilities, as compared to 2021-22. Most states have not been able to reduce their debt levels significantly.

Figure 38: Outstanding liabilities to be higher than 35% of GSDP in six states

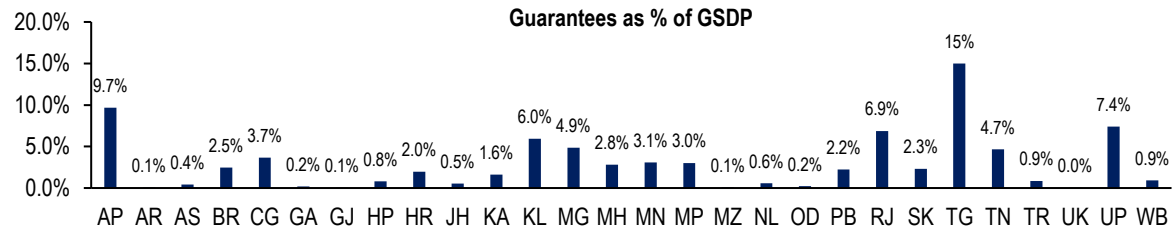


Note: Delhi is not included as 2025-26 BE is not available. Liabilities exclude 50-year interest-free SASCI loans.
Sources: RBI; PRS.

Outstanding guarantees of state governments about 4% of GDP as of March 2025

State Public Sector Enterprises (SPSEs) are entities which are owned or controlled by state governments directly or indirectly. State governments may issue guarantees on behalf of SPSEs. If an SPSE defaults, the state government will be required to fulfil the debt obligation. As of March 2025, guarantees issued by 28 states amounted to about Rs 13 lakh crore (4% of GDP). States with higher levels of guarantee to GSDP ratios include Telangana (15%), Andhra Pradesh (9.7%), Uttar Pradesh (7.4%), Rajasthan (6.9%), and Keralam (6%).

Figure 39: Guarantees amount to 4% of GDP as of March 2025



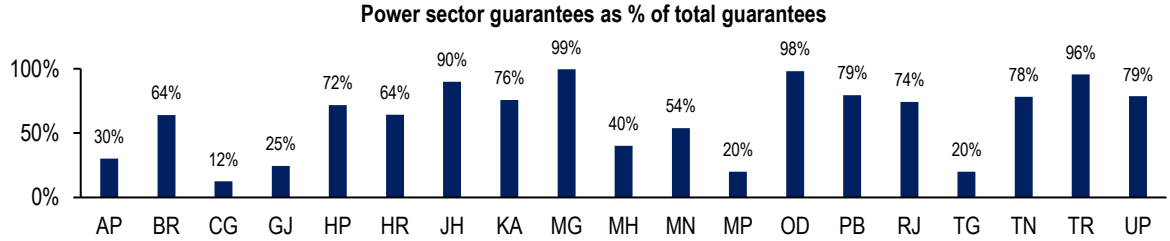
Note: Delhi, Jammu and Kashmir, and Puducherry excluded from chart as data is not available.
Sources: CAG; PRS.

Guarantees are concentrated in the power sector

Nineteen states (for which data is available) have outstanding guarantees in the power sector, amounting to Rs 6.2 lakh crore, as of March 2025. This accounts for more than half (about 52%) of the total outstanding guarantees by these states. States such as Meghalaya, Odisha, and Tripura have more than 90% of guarantees in the power sector. The 16th FC noted that state public sector

enterprises (SPSEs) in the power sector, primarily distribution companies (discoms), account for the highest proportion of losses incurred by SPSEs across states. Apart from these guarantees, central and state governments have repeatedly provided state discoms with revenue and capital support. This includes subsidies, equity infusions, grants, and bailouts. However, discoms continue to generate huge debt which acts as a burden on state finances. We discuss this in the box on discoms below.

Figure 40: Power sector accounts for most guarantees given across states as of March 2025



Sources: State Budget Documents; PRS.

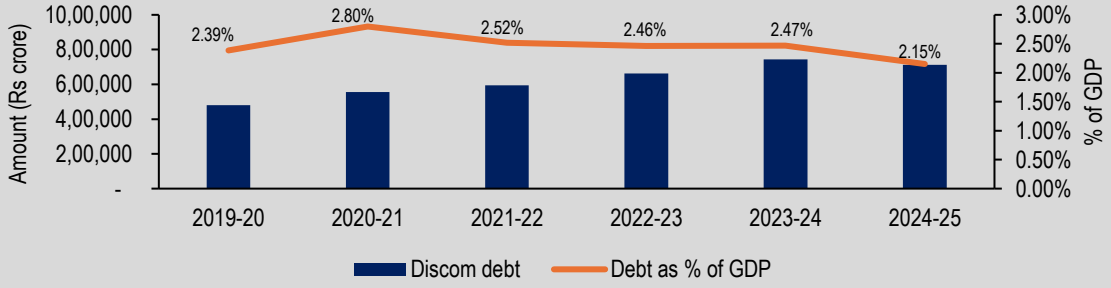
State of state-owned discoms

In 2024-25, the accumulated losses of all state-owned discoms were about Rs 6.8 lakh crore (2% of GDP). The 16th FC noted that discom losses are disproportionately concentrated in eight states.[25] These include Andhra Pradesh, Keralam, Madhya Pradesh, Maharashtra, Rajasthan, Tamil Nadu, Telangana, and Uttar Pradesh. The accumulated losses of these eight states accounted for about 82% of total accumulated losses, or 1.7% of GDP.[49]

Losses over the years lead to accumulation of debt. In 2024-25, accumulated debt of all discoms was about Rs 7.1 lakh crore (2.2% of GDP).[49] The eight states named above account for 78% of the total discom debt. Weak financial health of discoms has implications for state finances.[25] Repeated cycles of losses and debt accumulation force the state governments to bail out discoms.[25] Apart from bailouts, they also provide revenue support in the form of subsidies and grants. Among these eight states, five spent more than half of their subsidies in the power sector in 2024-25 (Figure 30). In Rajasthan, Tamil Nadu, and Uttar Pradesh, more than 70% of guarantees are for the power sector (Figure 40).

The gap between average cost of supply (ACS) and average revenue realised (ARR) was Rs 0.80 per unit in 2022-23, and Rs 0.24 per unit in 2023-24. This implies that cost of supplying power is higher than the revenue realised by discoms. ACS-ARR gap has improved in 2024-25 to Rs 0.11 per unit. The 16th FC noted that discoms have little incentive to plug leakages caused by technical losses, theft, under-billing, and under-collection. It suggested privatisation as a long-term solution to avoid repeated bailouts. This could be supported by creating special purpose vehicles (SPVs) to warehouse the existing working capital and loans. Additionally, state governments may be provided specific assistance under SASCI for debt repayment.

Figure 41: Discom debt has reduced as % of GDP



Sources: Report on Performance of Power Utilities 2024-25, Power Finance Corporation; PRS.

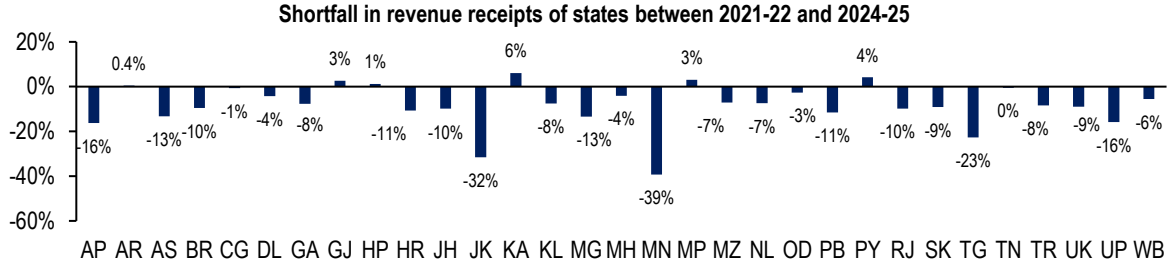
Credibility of budget estimates

The state budget provides three sets of numbers: (i) budget estimates: an estimate for the upcoming financial year, (ii) revised estimates: revision in the budget estimate for the ongoing financial year, and (iii) actuals: the final audited amount for the previous year. The state legislature approves the budget for the upcoming year based on budget estimates. The revised estimates may provide a more realistic picture of the government's finances in the ongoing year, as they are made with reference to the actual transactions already recorded in that year. Actuals may fall short of, or exceed the budget estimates, and this comparison helps understand the credibility of a proposed budget.

States raised 8% less revenue than budgeted between 2021-22 and 2024-25

States on average raised 8% less revenue than their budget estimates between 2021-22 and 2024-25. States with the highest shortfall in revenue receipts include Manipur (39%), Jammu and Kashmir (32%), and Telangana (23%). Only six of the 31 states met their budgeted target for revenue receipts. States borrow to compensate for the shortfall in their revenue. The amount of borrowing in a particular year is limited by their FRBM laws and the borrowing limit fixed by the centre. If additional borrowing is insufficient to meet the shortfall, states may reduce their expenditure.

Figure 42: States recorded 8% shortfall in revenue receipts between 2021-22 and 2024-25

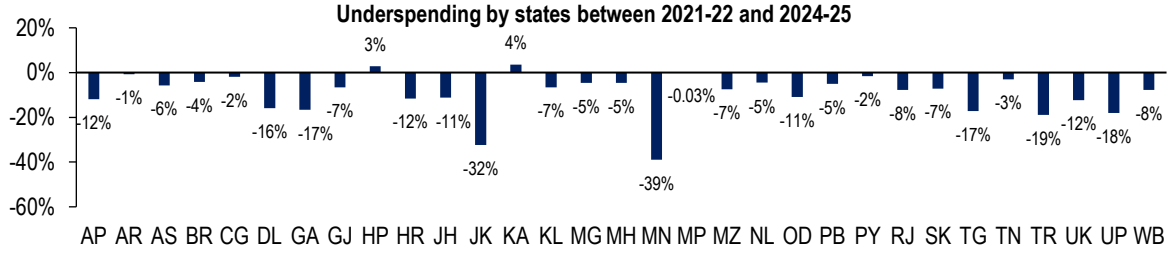


Sources: State Budget Documents; RBI; PRS.

States spent 9% less than budgeted between 2021-22 and 2024-25

Shortfall in revenue receipts combined with limits on borrowings implies that states have less money to spend. Between 2021-22 and 2024-25, states underspent their budget by 9%. States with the highest shortfall in revenue receipts also fell well short of their spending plans. These include Manipur (39%) and Jammu and Kashmir (32%).

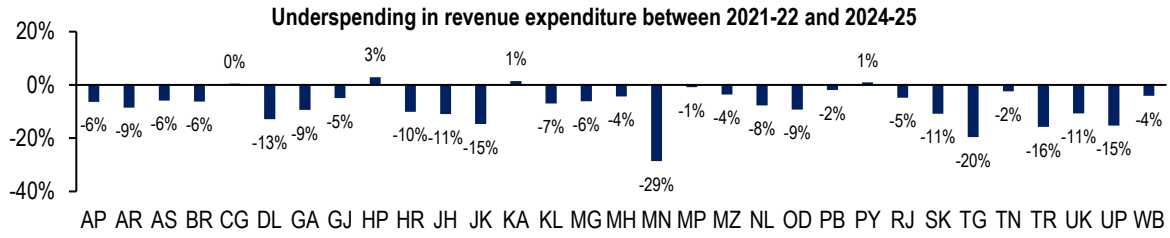
Figure 43: All states except Karnataka and Himachal Pradesh underspent their budget



Sources: State Budget Documents; RBI; PRS.

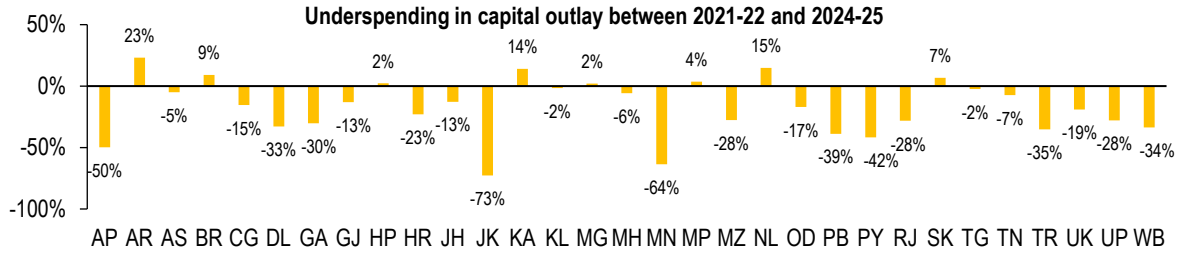
Average underspending in case of revenue expenditure between 2021-22 and 2024-25 was 7% compared to 17% for capital outlay. Certain revenue expenditure items such as salaries, pensions, and interest payments cannot be cut during the year. Consequently, a higher burden of expenditure cuts is borne by the capital account. For example, Andhra Pradesh had a shortfall of 16% in revenue receipts, and cut 12% in total expenditure, with 6% reduction in revenue expenditure and 50% cut in capital outlay.

Figure 44: States underspent their budget for revenue expenditure by 7%



Sources: State Budget Documents; RBI; PRS.

Figure 45: States underspent 17% of their budget for capital outlay



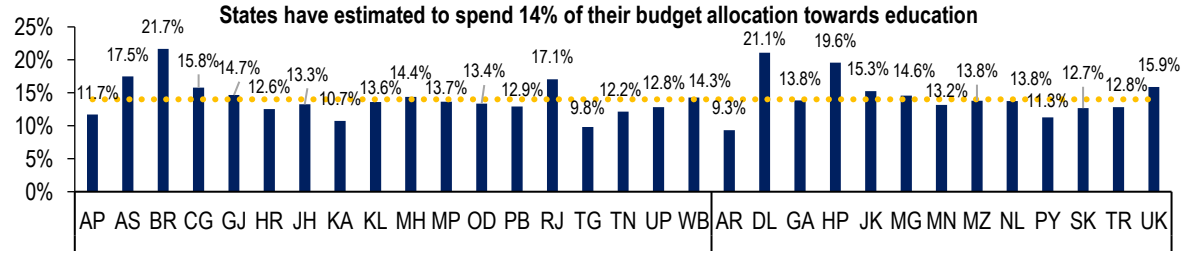
Sources: State Budget Documents; RBI; PRS.

Sector-wise outlay in 2026-27

We show below the allocation by states on key sectors as per the budget estimates of 2026-27. The share of expenditure on a sector denotes the share of that sector in the state's budget. Expenditure on a sector is the sum of the revenue expenditure and the capital outlay in that sector. Note that spending on a sector may be affected by funding by the centre, including grants for centrally sponsored schemes and other central grants. The sectoral spending in Delhi may be different from other states as police is with the centre and the union territory has negligible rural or agricultural area. States may allocate similar items across different heads. For instance, West Bengal classifies expenditure on Pradhan Mantri Awas Yojana-Gramin under housing, whereas Uttar Pradesh includes it under rural development. Punjab counts electricity subsidy to farmers under spending for agriculture, and not under energy. The sectors shown below account for 66% of the total budgeted expenditure by states in 2026-27. To aid comparison, we show small states (population less than two crore) separately.

Education

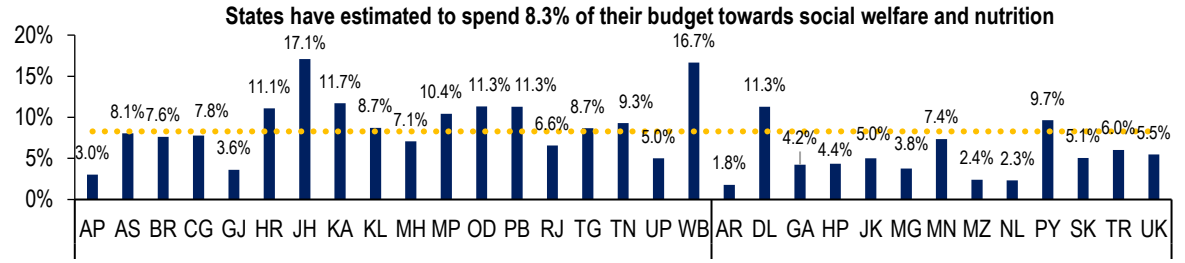
Figure 46: Bihar to spend the highest among all states on education



Sources: State Budget Documents; PRS.

Social Welfare and Nutrition

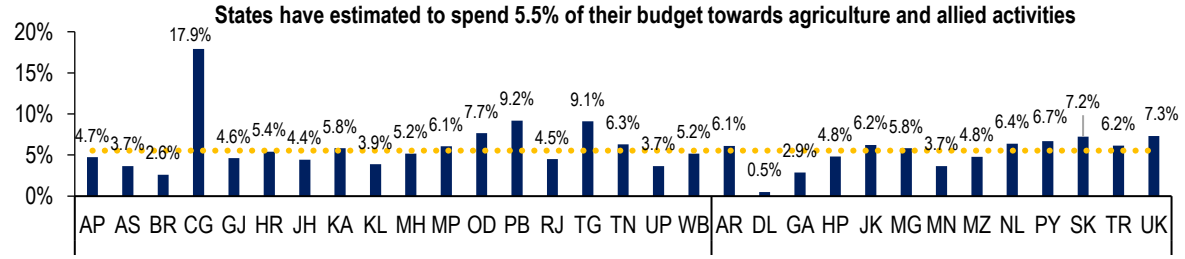
Figure 47: Jharkhand and West Bengal to spend more than half of their social welfare budget on unconditional cash transfers to women



Sources: State Budget Documents; PRS.

Agriculture and allied activities

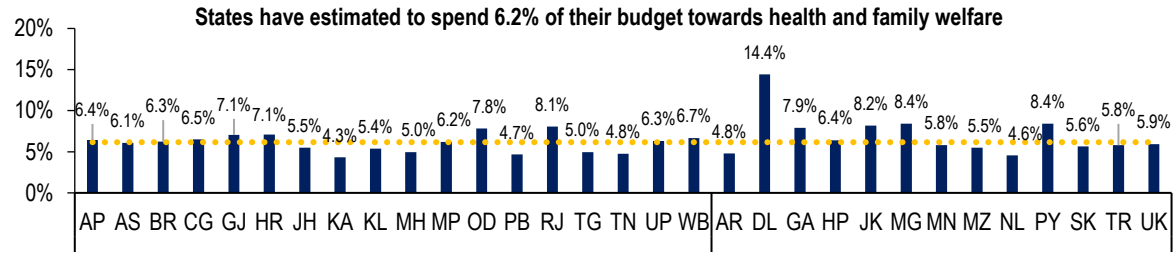
Figure 48: Chhattisgarh to spend about half of its agricultural budget on farm input assistance and food security schemes



Sources: State Budget Documents; PRS.

Health and family welfare

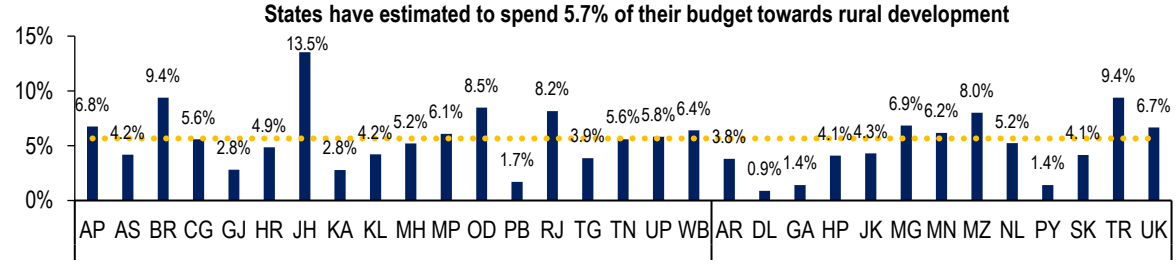
Figure 49: Five states estimated to meet the National Health Policy target of 8% spending on health



Sources: State Budget Documents; PRS.

Rural development

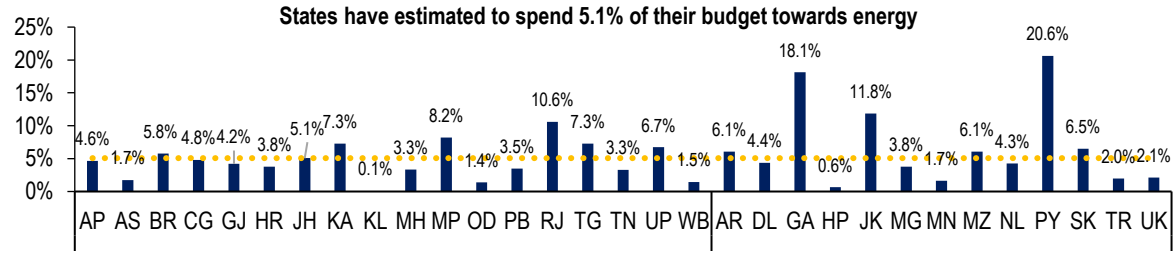
Figure 50: State spending on rural development estimated to double from 2024-25 levels in several states on account of higher spending on VB-G RAM G



Sources: State Budget Documents; PRS.

Energy

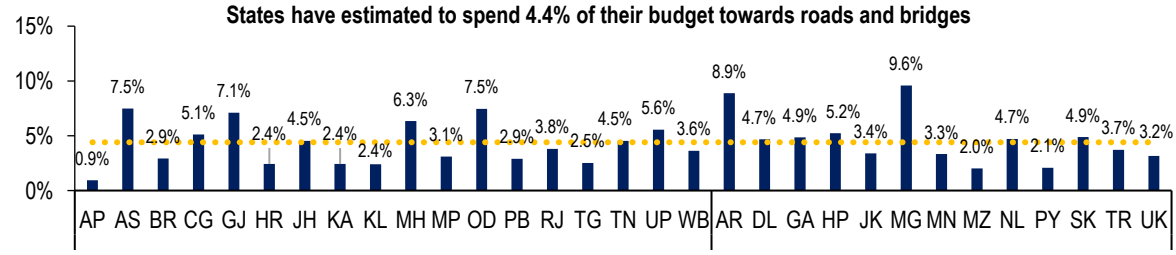
Figure 51: Rajasthan and Madhya Pradesh allocate a larger proportion to energy



Note: Goa, Puducherry, and Jammu and Kashmir have higher spending on energy as electricity distribution is undertaken by government departments and not state-owned distribution companies as in most other states.
Sources: State Budget Documents; PRS.

Roads and bridges

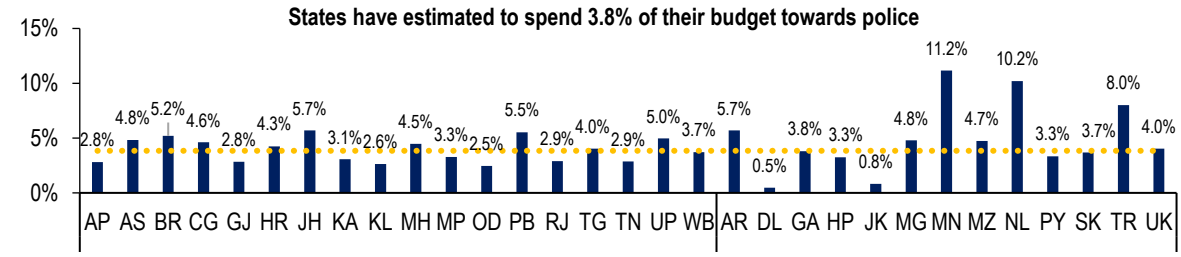
Figure 52: Assam, Maharashtra, Odisha, and Gujarat among the higher spenders on roads



Sources: State Budget Documents; PRS.

Police

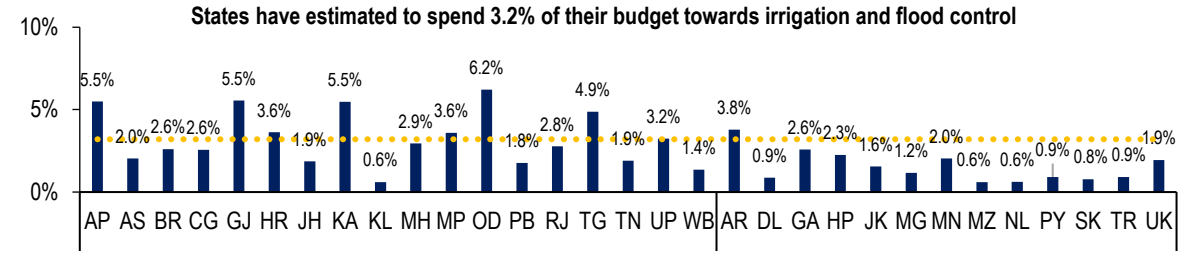
Figure 53: Police spending estimated to be higher in Jharkhand and Punjab



Sources: State Budget Documents; PRS.

Irrigation and flood control

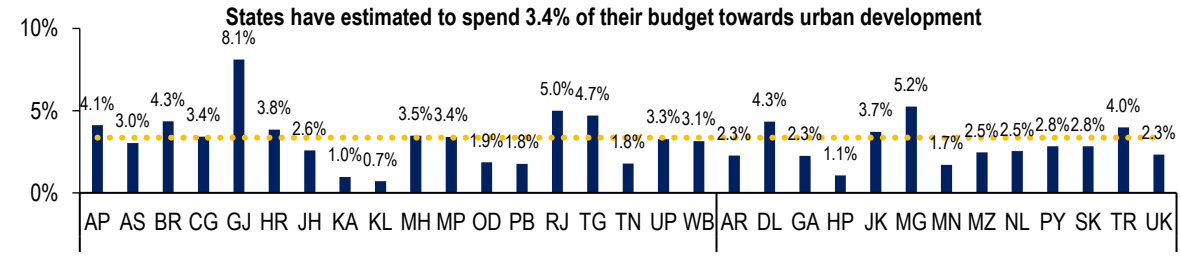
Figure 54: Odisha to spend the highest on irrigation and flood control; 75% of this spending will be on capital outlay in areas such as flood control and irrigation pipeline projects



Sources: State Budget Documents; PRS.

Urban development

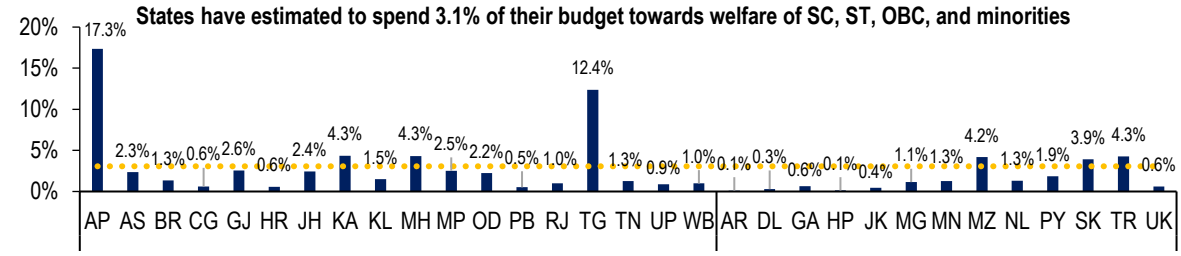
Figure 55: Gujarat estimated to spend about 47% of its urban development budget on a state scheme on urban infrastructure development



Sources: State Budget Documents; PRS.

Welfare of SC, ST, OBC, and Minorities

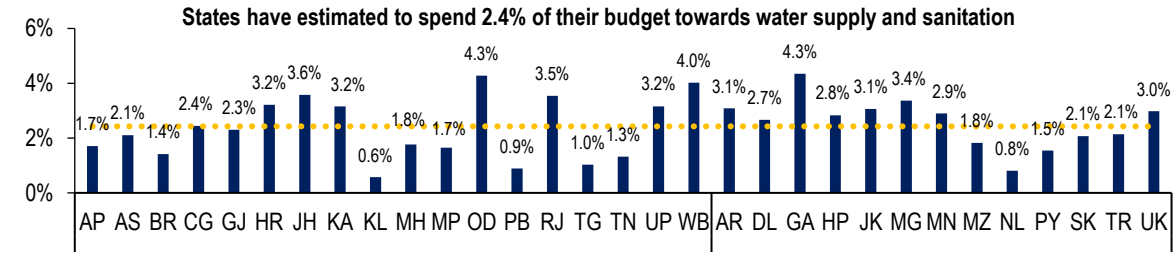
Figure 56: Andhra Pradesh to spend about 52% of its SC, ST, OBC, and Minorities welfare budget toward social security pension scheme



Sources: State Budget Documents; PRS.

Water supply and sanitation

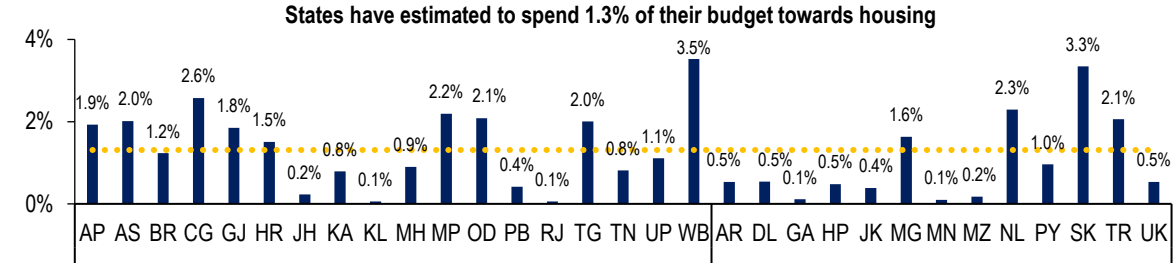
Figure 57: Odisha to spend more than half of its water supply and sanitation budget on capital outlay



Sources: State Budget Documents; PRS.

Housing

Figure 58: About 96% of West Bengal's housing expenditure to be on rural housing scheme



Sources: State Budget Documents; PRS.

Annexure

Table 6: Revenue balance as a percentage of GSDP

State	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26 PA
AP	-2.5%	-2.1%	-1.6%	-2.9%	-3.6%	-0.8%	-3.3%	-2.7%	-3.8%	-2.8%
AR	12.0%	12.8%	14.9%	8.9%	13.2%	16.5%	17.8%	17.8%	18.0%	24.3%
AS	-0.1%	-0.5%	2.1%	-0.4%	0.1%	-0.7%	-2.5%	-0.5%	-0.5%	-0.3%
BR	2.6%	3.2%	1.3%	-0.3%	-2.0%	-0.1%	-1.5%	0.3%	-0.04%	-2.2%
CG	2.1%	1.2%	0.2%	-2.8%	-1.9%	1.1%	1.9%	-2.2%	-0.9%	-1.6%
DL	0.8%	0.7%	0.8%	0.9%	0.2%	0.4%	1.4%	0.6%	1.0%	0.4%
GA	1.1%	0.7%	0.5%	-0.4%	-2.2%	0.1%	2.8%	1.4%	2.5%	1.3%
GJ	0.5%	0.4%	0.2%	0.1%	-1.4%	0.3%	0.9%	1.4%	0.7%	1.0%
HP	0.7%	0.2%	1.0%	0.0%	-0.1%	0.7%	-3.3%	-2.6%	-3.0%	-3.1%
HR	-2.8%	-1.7%	-1.6%	-2.3%	-3.1%	-2.3%	-1.8%	-1.1%	-1.6%	-0.9%
JH	0.8%	0.7%	1.8%	0.6%	-1.0%	1.8%	3.3%	2.4%	1.5%	2.7%
JK	1.7%	5.4%	-3.0%	-0.2%	-0.1%	0.0%	2.8%	1.5%	1.5%	0.4%
KA	0.1%	0.3%	0.0%	0.1%	-1.2%	-0.7%	0.6%	-0.4%	-0.7%	-0.8%
KL	-2.4%	-2.4%	-2.2%	-1.8%	-3.3%	-3.2%	-0.9%	-1.6%	-2.5%	-2.0%
MG	2.2%	2.9%	-1.7%	-0.4%	-2.4%	1.6%	-0.1%	2.6%	0.1%	0.1%
MH	-0.4%	0.1%	0.5%	-0.6%	-1.6%	-0.5%	-0.1%	-0.3%	-0.6%	-0.6%
MN	4.4%	4.2%	3.0%	1.5%	1.9%	4.1%	4.5%	2.0%	2.2%	0.1%
MP	0.6%	0.6%	0.8%	-0.3%	-1.9%	0.4%	0.3%	0.9%	0.1%	0.1%
MZ	6.8%	8.8%	7.0%	0.8%	-3.2%	2.3%	0.6%	1.7%	-0.1%	2.0%
NL	3.6%	3.4%	1.9%	-0.7%	1.3%	5.1%	1.9%	3.2%	1.7%	-0.4%
OD	2.4%	3.0%	2.8%	0.5%	1.7%	6.3%	2.7%	3.9%	2.5%	2.3%
PB	-1.7%	-2.0%	-2.6%	-2.7%	-3.2%	-2.9%	-3.8%	-3.7%	-3.9%	-2.4%
PY	-0.3%	0.6%	0.0%	-0.1%	-1.7%	0.5%	1.6%	-0.1%	-0.7%	-0.5%
RJ	-2.4%	-2.2%	-3.2%	-3.6%	-4.3%	-2.2%	-2.3%	-2.6%	-2.5%	-2.0%
SK	4.0%	4.1%	2.4%	-4.3%	-2.3%	1.1%	1.1%	0.3%	0.9%	0.5%
TG	0.2%	0.5%	0.5%	-0.7%	-2.4%	-0.8%	0.5%	0.1%	-0.6%	-0.5%
TN	-1.0%	-1.5%	-1.4%	-2.1%	-3.5%	-2.2%	-1.5%	-1.7%	-1.5%	-2.2%
TR	2.0%	-0.7%	0.3%	-4.4%	-2.0%	2.4%	0.8%	2.8%	1.8%	1.8%
UK	-0.2%	-0.9%	-0.4%	-0.9%	0.5%	1.6%	1.8%	1.0%	0.4%	0.2%
UP	1.5%	0.9%	1.7%	3.9%	-0.1%	1.6%	1.6%	1.4%	2.0%	1.4%
WB	-1.8%	-1.0%	-0.9%	-1.7%	-2.6%	-2.4%	-1.8%	-1.6%	-2.2%	-2.6%

Note: (+) indicates surplus, (-) indicates deficit. PA: Provisional Actuals.
Sources: CAG; PRS.

Table 7: GST rate revision for items subject to GST compensation cess

Item	GST 1.0		GST 2.0
	GST Rate	Compensation Cess	GST Rate
Coal	5%	Rs 400 per tonne	18%
Automobiles			
*Small Cars**	28%	1%-3%	18%
Non-small Cars	28%	17%-20%	40%
SUVs	28%	22%	40%
Hybrids	28%	15%	40%
Motorcycles above 350 cc, personal aircraft, yachts	28%	3%	40%
Aerated Drinks	28%	12%	40%
Tobacco / Pan Masala^	28%	e.g. 5% + Rs 2,076-Rs 4,170 per 1,000 for cigarettes; 204% for Gutkha	40%

Note: These changes came into effect from September 2025; *not exceeding 1200 cc for petrol or 1500 cc for diesel and up to four metres in length; ^ from February 2026, tobacco products attract enhanced excise duty and pan masala attracts the Health Security se National Security Cess.
Sources: GST Council; PRS.

Table 8: Share of states in taxes devolved by centre

State	14th FC (2015-16 to 2019-20)		15th FC (2021-22 to 2025-26)		16th FC (2026-27 to 2030-31)	
	Share out of 100	Share of divisible pool	Share out of 100	Share of divisible pool	Share out of 100	Share of divisible pool
Andhra Pradesh	4.31	1.81	4.05	1.66	4.22	1.73
Arunachal Pradesh	1.37	0.58	1.76	0.72	1.35	0.55
Assam	3.31	1.39	3.13	1.28	3.26	1.34
Bihar	9.67	4.06	10.06	4.12	9.95	4.08
Chhattisgarh	3.08	1.29	3.41	1.40	3.30	1.35
Goa	0.38	0.16	0.39	0.16	0.37	0.15
Gujarat	3.08	1.29	3.48	1.43	3.76	1.54
Haryana	1.08	0.45	1.09	0.45	1.36	0.56
Himachal Pradesh	0.71	0.30	0.83	0.34	0.91	0.37
Jammu and Kashmir	1.85	0.78	-	-	-	-
Jharkhand	3.14	1.32	3.31	1.36	3.36	1.38
Karnataka	4.71	1.98	3.65	1.50	4.13	1.69
Keralam	2.5	1.05	1.93	0.79	2.38	0.98
Madhya Pradesh	7.55	3.17	7.85	3.22	7.35	3.01
Maharashtra	5.52	2.32	6.32	2.59	6.44	2.64
Manipur	0.62	0.26	0.72	0.30	0.63	0.26
Meghalaya	0.64	0.27	0.77	0.32	0.63	0.26
Mizoram	0.46	0.19	0.5	0.21	0.56	0.23
Nagaland	0.5	0.21	0.57	0.23	0.48	0.20
Odisha	4.64	1.95	4.53	1.86	4.42	1.81
Punjab	1.58	0.66	1.81	0.74	2.00	0.82
Rajasthan	5.5	2.31	6.03	2.47	5.93	2.43
Sikkim	0.37	0.16	0.39	0.16	0.34	0.14
Tamil Nadu	4.02	1.69	4.08	1.67	4.10	1.68
Telangana	2.44	1.02	2.1	0.86	2.17	0.89
Tripura	0.64	0.27	0.71	0.29	0.64	0.26
Uttarakhand	1.05	0.44	1.12	0.46	1.14	0.47
Uttar Pradesh	17.96	7.54	17.94	7.36	17.62	7.22
West Bengal	7.32	3.07	7.52	3.08	7.22	2.96
Total	**100**	**42**	**100**	**41**	**100**	**41**

Sources: Reports of the 14th, 15th, and 16th FC; PRS.

Table 9: State share on each criterion used by 16th FC for devolution

State	Per capita GSDP distance	2011 Population	Demographic Performance	Area	Forest	Contribution to GDP	Final Share
	Weight: 42.5	17.5	10.0	10.0	10.0	10.0	
Andhra Pradesh	2.726	4.208	6.122	4.915	7.262	4.923	4.217
Arunachal Pradesh	0.078	0.117	0.069	2.526	9.573	0.839	1.354
Assam	3.701	2.649	2.688	2.366	4.209	2.952	3.258
Bihar	16.348	8.836	6.910	2.840	0.968	3.825	9.948
Chhattisgarh	2.649	2.168	2.087	4.078	8.850	2.973	3.304
Goa	0.031	0.124	0.171	1.500	0.305	1.326	0.365
Gujarat	2.495	5.130	4.670	5.920	1.426	5.958	3.755
Haryana	0.531	2.152	1.622	1.500	0.148	4.318	1.361
Himachal Pradesh	0.267	0.583	0.681	1.679	2.672	1.955	0.914
Jharkhand	4.280	2.800	2.443	2.405	2.784	2.850	3.357
Karnataka	1.279	5.186	5.497	5.785	8.924	6.591	4.131
Keralam	0.719	2.835	5.775	1.500	4.012	4.514	2.382
Madhya Pradesh	8.274	6.164	4.996	9.299	8.493	4.729	7.347
Maharashtra	3.133	9.538	8.928	9.282	7.879	8.312	6.441
Manipur	0.353	0.242	0.168	1.500	1.796	0.868	0.626
Meghalaya	0.337	0.252	0.150	1.500	1.851	0.940	0.631
Mizoram	0.055	0.093	0.047	1.500	2.928	0.763	0.564
Nagaland	0.187	0.168	0.068	1.500	1.305	0.851	0.481
Odisha	4.287	3.563	4.491	4.697	6.833	3.726	4.420
Punjab	1.840	2.355	2.587	1.519	0.240	3.670	1.996
Rajasthan	6.599	5.818	4.031	10.324	1.608	5.071	5.926
Sikkim	0.013	0.052	0.031	1.500	0.774	0.900	0.335
Tamil Nadu	1.510	6.124	9.379	3.923	3.898	6.641	4.097
Telangana	0.733	2.971	2.818	3.382	2.264	4.964	2.174
Tripura	0.348	0.312	0.264	1.500	1.466	1.158	0.641
Uttarakhand	0.429	0.856	0.791	1.613	3.280	2.401	1.141
Uttar Pradesh	27.353	16.959	14.108	7.268	2.322	6.566	17.619
West Bengal	9.448	7.747	8.410	2.677	1.930	5.416	7.215
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Sources: Report of the 16th FC; PRS.

Table 10: State-wise share in grants for local bodies (in %)

State	14th FC (2015-16 to 2019-20)	15th FC (2021-22 to 2025-26)		16th FC (2026-27 to 2030-31)	
		Rural	Urban	Rural	Urban
Andhra Pradesh	4.28%	4.32%	4.32%	3.82%	4.19%
Arunachal Pradesh	0.37%	0.38%	0.38%	0.39%	0.08%
Assam	2.22%	2.64%	2.64%	3.35%	1.12%
Bihar	8.24%	8.26%	8.26%	11.93%	3.16%
Chhattisgarh	2.38%	2.39%	2.39%	2.68%	1.72%
Goa	0.12%	0.12%	0.12%	0.04%	0.25%
Gujarat	5.23%	5.26%	5.26%	4.32%	8.19%
Haryana	2.08%	2.08%	2.08%	1.90%	2.70%
Himachal Pradesh	0.70%	0.71%	0.71%	0.86%	0.15%
Jammu and Kashmir	1.66%	-	-	-	-
Jharkhand	2.77%	2.78%	2.78%	3.27%	2.10%
Karnataka	5.27%	5.29%	5.29%	4.34%	6.37%
Keralam	2.67%	2.68%	2.68%	0.76%	5.75%
Madhya Pradesh	6.52%	6.56%	6.56%	7.36%	5.52%
Maharashtra	9.55%	9.59%	9.59%	7.54%	16.13%
Manipur	0.13%	0.29%	0.29%	0.29%	0.21%
Meghalaya	0.01%	0.30%	0.30%	0.34%	0.13%
Mizoram	0.04%	0.15%	0.15%	0.13%	0.13%
Nagaland	0.04%	0.21%	0.21%	0.16%	0.23%
Odisha	3.70%	3.72%	3.72%	4.30%	1.75%
Punjab	2.28%	2.29%	2.29%	1.95%	2.70%
Rajasthan	6.31%	6.36%	6.36%	7.23%	4.37%
Sikkim	0.07%	0.07%	0.07%	0.05%	0.07%
Tamil Nadu	5.92%	5.94%	5.94%	3.89%	8.64%
Telangana	3.05%	3.04%	3.04%	2.29%	3.98%
Tripura	0.19%	0.31%	0.31%	0.27%	0.35%
Uttarakhand	0.94%	0.95%	0.95%	0.93%	0.86%
Uttar Pradesh	16.01%	16.05%	16.05%	19.13%	11.56%
West Bengal	7.25%	7.26%	7.26%	6.48%	7.59%

Sources: Reports of 14th, 15th, and 16th FC; PRS.

Table 11: Details of own source revenue generated by local bodies (in Rs crore)

State	2019-20		2020-21		2021-22		2022-23		2023-24	
	RLBs	ULBs	RLBs	ULBs	RLBs	ULBs	RLBs	ULBs	RLBs	ULBs
Andhra Pradesh	1,537	2,177	1,413	2,401	1,385	2,637	1,712	3,228	1,315	3,247
Arunachal Pradesh	-	5	-	2	-	5	-	9	-	7
Assam	42	205	81	219	36	245	42	349	45	379
Bihar	54	348	54	352	53	417	52	481	55	553
Chhattisgarh	72	477	50	513	58	607	78	702	89	641
Goa	53	98	52	110	68	120	85	146	97	154
Gujarat	349	7,183	325	6,838	364	8,203	348	9,200	436	11,492
Haryana	480	1,045	353	1,061	634	1,415	692	1,443	1,105	1,841
Himachal Pradesh	125	129	155	124	141	124	164	146	157	150
Jharkhand	NA	288	NA	258	NA	281	NA	371	NA	410
Karnataka	1,891	4,873	2,106	5,012	3,157	5,582	2,416	6,558	2,792	7,121
Keralam	817	1,101	821	1,087	1,674	1,203	1,832	1,402	2,330	1,695
Madhya Pradesh	160	2,940	133	3,020	183	3,434	149	3,651	234	3,811
Maharashtra	3,907	31,118	3,417	28,190	4,147	49,188	4,312	39,131	4,745	44,190
Manipur	0.4	11	0.5	13	0.2	10	0.2	9	0.1	7
Meghalaya	NA	8	NA	6	NA	6	NA	7	NA	7
Mizoram	NA	7	NA	6	NA	6	NA	10	NA	12
Nagaland	NA	24	NA	24	NA	29	NA	24	NA	26
Odisha	66	373	55	445	53	501	64	629	74	602
Punjab	511	1,191	532	1,238	522	1,409	540	1,657	559	1,705
Rajasthan	100	717	110	728	120	1,131	132	1,575	146	1,792
Sikkim	6	14	5	11	6	13	7	18	7	19
Tamil Nadu	856	5,547	1,153	4,957	1,396	5,538	1,521	7,622	1,196	8,248
Telangana	487	3,563	481	3,785	547	4,151	522	4,989	515	4,917
Tripura	3	46	4	54	3	65	4	49	5	60
Uttarakhand	42	163	38	163	151	174	58	256	56	308
Uttar Pradesh	177	2,207	229	2,329	243	2,528	276	3,001	295	3,387
West Bengal	1,504	2,483	987	2,532	1,138	2,457	1,105	3,210	1,029	3,722
Total	**13,236**	**68,342**	**12,556**	**65,478**	**16,080**	**91,482**	**16,110**	**89,872**	**17,282**	**1,00,504**

Sources: Report of the 16th FC; PRS.

Methodology used for arriving at VB-G RAM G expenditure in 2025-26

We estimate what states would have spent had VB-G RAM G applied instead of MGNREGA in 2025-26 (see Table 12 below). For this, actual MGNREGA spending in 2025-26 is taken from the Financial Statement R7.1.1 under MGNREGA MIS.[30] It provides state-wise actual expenditure on unskilled wages, material costs, and admin costs. We estimate the centre's spending under MGNREGA in each state as: (i) entire unskilled wages expense, (ii) 75% of material cost, and (iii) admin cost up to 6% of total expenditure. We assume the state bears the rest.

For arriving at the centre-state breakup under VB-G RAM G, we hold the total expenditure to be constant (i.e., the same person days at the same wage rate, and material and admin budget). Under the VB-G RAM G Act, the centre and a state share expenditure in a 60:40 ratio (90:10 for north-eastern and Himalayan states). The Act also provides that the centre's contribution will be capped at a state-wise allocation, and a state must bear any excess expenditure. The draft Rules provide that state-wise allocation will be based on the 16th Finance Commission's devolution parameters.[28] We assume a state's allocation equals its share in the 2026-27 Union Budget allocation for VB-G RAM G (Rs 95,692 crore) as per its devolution share under the 16th FC. The centre's spending is taken to be the lower of: (i) this allocation, and (ii) 60% or 90% share of the expenditure.

Wage rates have also been increased under VB-G RAM G.[29] To estimate additional expenditure due to this, in a separate scenario, we raise each state's unskilled wage expenditure by the percentage increase in its notified wage rate for 2026-27. Material and admin costs are kept unchanged.

Table 12: Calculated expenditure under VB-G RAM G in 2025-26 (in Rs crore)

State	MGNREGA Expenditure Actuals (2025-26)						VB-G RAM G (calculated)			
	Wages	Material	Admin	Total	Centre	State	60% (or 90%) of Total	FC Formula	Centre	State
AP	4,821	2,547	422	7,791	7,154	637	4,675	4,038	4,038	3,753
AR	520	173	14	707	664	43	637	1,292	637	71
AS	1,362	484	99	1,946	1,825	121	1,751	3,120	1,751	195
BR	5,595	1,591	241	7,427	7,029	398	4,456	9,521	4,456	2,971
CG	2,639	486	195	3,320	3,198	122	1,992	3,158	1,992	1,328
GA	2	0	0	3	3	0.14	2	354	2	1
GJ	825	130	66	1,020	983	37	612	3,598	612	408
HP	751	414	66	1,231	1,127	104	1,108	871	871	360
HR	285	111	12	409	381	28	245	1,301	245	164
JH	3,179	349	87	3,614	3,527	87	2,168	3,215	2,168	1,446
KA	2,747	460	243	3,450	3,299	151	2,070	3,952	2,070	1,380
KL	2,858	238	221	3,317	3,236	82	1,990	2,277	1,990	1,327
MG	873	375	30	1,279	1,185	94	1,151	603	603	676
MH	4,698	2,991	196	7,886	7,137	748	4,731	6,163	4,731	3,155
MN	781	251	24	1,056	993	63	950	603	603	453
MP	4,695	921	346	5,962	5,732	230	3,577	7,033	3,577	2,385
MZ	558	101	30	688	663	25	620	536	536	153
NL	297	106	16	420	393	27	378	459	378	42
OD	3,407	908	113	4,428	4,201	227	2,657	4,230	2,657	1,771
PB	819	150	47	1,016	978	37	609	1,914	609	406
RJ	4,661	2,228	222	7,111	6,555	557	4,267	5,675	4,267	2,845
SK	64	37	5	105	96	9	95	325	95	11
TG	1,956	1,153	240	3,349	3,022	327	2,009	2,077	2,009	1,340
TN	4,721	1,350	182	6,254	5,917	338	3,753	3,923	3,753	2,502
TR	609	121	68	798	748	51	718	612	612	186
UK	330	189	29	548	500	47	493	1,091	493	55
UP	5,986	2,684	364	9,035	8,364	671	5,421	16,861	5,421	3,614

Note: West Bengal is excluded as MGNREGA was not implemented there in 2025-26. UTs with Legislature (Jammu & Kashmir and Puducherry) are excluded as the draft Rules do not specify their allocation. Delhi does not implement MGNREGA.
Sources: MGNREGA Portal, Ministry of Rural Development, as accessed on September 28, 2026; PRS.

Table 13: Examples of state laws imposing levies on minerals

State	Year of Passing	Levied on	Computation based on	Minerals covered	Example Rates (as in the original Act)
Jharkhand	2024	Mineral bearing land	Quantity or royalty	All	Rs 100 per metric tonne of coal dispatch, 50% of royalty paid on other than the specified mineral bearing land
Tamil Nadu	2024	Mineral bearing land	Quantity	13 major and 17 minor, and mineral oils	Rs 250 per metric tonne on lignite, Rs 400 per cubic metre on sand
Karnataka	2024	Mineral bearing land and mineral rights	Quantity or royalty	All major minerals	Rs 100 per tonne of iron ore dispatch, 3 times the royalty on iron ore, 1.25 times the royalty on limestone
Rajasthan	2008	Mineral rights	Quantity	Notified minerals	Up to Rs 500 per tonne of mineral dispatch (rate by notification)
Chhattisgarh	2005	Mineral bearing land	Quantity or royalty	All	Rs 5 per tonne of coal or iron ore dispatch, 5% of royalty for other minerals
Madhya Pradesh	2005	Mineral bearing land	Value	All	Up to 20% of value of minerals produced net of royalty
Andhra Pradesh	2005	Mineral bearing land	Quantity	All	Rate to be notified by the government
Odisha	2004	Mineral bearing land	Value	All	Up to 20% of half of the value of mineral produced over two years (rate by notification)
Meghalaya	1988	Mineral bearing land	Quantity	Specified minerals	Rs 10 per tonne on coal
West Bengal	1976	Mineral bearing land	Value (coal) or Quantity (others)	All	20% of annual value of coal-bearing land

Sources: See endnote 50; PRS.

Table 14: Allocation towards identified unconditional cash transfer schemes in 2026-27 (in Rs crore)

States	Women	Farmers	Youth	Social Security Pensions	Total UCT expenditure	As % of	
						Revenue expenditure	Revenue receipts
Andhra Pradesh	0	6,600	0	27,343	33,943	13%	14%
Arunachal Pradesh	0	0	0	161	161	1%	1%
Assam	3,700	0	119	230	4,049	3%	3%
Bihar	9,052	0	0	2,083	11,136	4%	4%
Chhattisgarh	8,200	600	0	585	9,385	6%	7%
Delhi	5,110	0	0	3,160	8,270	11%	10%
Goa	330	0	0	479	809	4%	3%
Gujarat	0	0	0	4,167	4,167	2%	2%
Haryana	6,500	0	370	8,629	15,499	10%	11%
Himachal Pradesh	100	0	15	499	614	1%	2%
Jammu and Kashmir	0	0	0	1,600	1,600	2%	2%
Jharkhand	14,066	0	0	3,517	17,583	15%	13%
Karnataka	28,608	0	600	11,184	40,392	12%	13%
Keralam	1,950	0	0	14,500	16,450	8%	10%
Madhya Pradesh	23,883	5,501	0	2,676	32,059	10%	10%
Maharashtra	26,500	6,060	0	5,989	38,549	6%	6%
Manipur	0	0	0	8	8	0.04%	0.04%
Meghalaya	0	0	0	119	119	0.5%	0.4%
Mizoram	0	0	0	30	30	0.2%	0.2%
Nagaland	0	0	0	0	0	-	-
Odisha	10,145	2,030	0	6,240	18,415	9%	7%
Puducherry	195	0	0	774	969	8%	8%
Punjab	9,300	0	0	6,132	15,432	10%	12%
Rajasthan	0	1,974	0	16,172	18,146	5%	6%
Sikkim	64	0	0	8	72	1%	1%
Tamil Nadu	14,414	0	8	4,613	19,036	5%	5%
Telangana	0	18,000	0	14,629	32,629	14%	14%
Tripura	0	4	0	506	509	2%	2%
Uttarakhand	0	0	0	699	699	1%	1%
Uttar Pradesh	0	0	0	13,604	13,604	2%	2%
West Bengal	36,000	5,425	2,020	4,097	47,542	14%	15%

Note: The above data corresponds to 128 identified unconditional cash transfer schemes.
Sources: State Budget Documents; PRS.

Glossary of key terms used in budget documents

Receipts indicate the money received by the government. This includes: (i) the money earned by the government, (ii) grants received (mainly from the centre), and (iii) the money it receives in the form of borrowings or repayment of loans.

Capital receipts indicate the receipts which lead to a decrease in assets or an increase in liabilities of the government. It consists of: (i) the money earned by selling assets such as shares of public enterprises, and (ii) the money received in the form of borrowings or repayment of loans.

Revenue receipts are receipts that do not directly impact the assets and liabilities of the government. This consists of the money earned by the government through tax and non-tax sources (such as dividend income and grants from the central government).

Capital expenditure is used to create assets or reduce liabilities. It consists of: (i) the money spent by the government on creating assets such as roads and hospitals, and (ii) the money given by the government for repayment of its borrowings.

Revenue expenditure is the expenditure which does not impact government's assets or liabilities. For example, this includes salaries, interest payments, pensions, administrative expenses, and subsidies.

Devolution of union taxes means the money received by states from the central government as the state's share in union taxes such as corporation tax, income tax, central GST, customs, and union excise. It is devolved to the state as per the criteria recommended by the Finance Commission.

Grants-in-aid are transferred by the central government to states and are often tied in nature, i.e., they are linked to specific schemes and expenditure avenues, such as the National Health Mission.

Outstanding debt is the stock of money borrowed by successive governments over the years which the government currently owes. The figure for a financial year indicates the government's outstanding debt at the end of that year.

Fiscal deficit is the gap between expenditure and receipts. This equals the money the government needs to borrow during the year. A surplus arises if receipts are more than expenditure.

Revenue deficit is the gap between the revenue components of receipts and expenditure, i.e., revenue expenditure and revenue receipts. This indicates the money the government needs to borrow to spend on non-capital components (which do not lead to the creation of assets).

Consolidated Fund of the State is the fund or account into which all of the state government's receipts are credited, and which it uses for financing its expenditure.

Charged expenditure includes expenditure that is not required to be voted on by the Assembly and is charged directly from the Consolidated Fund of the State. Such expenditure can still be discussed in the Assembly. Examples include interest payments, and salaries and allowances of the Governor.

Voted expenditure consists of all expenditure other than charged expenditure. Such expenditure is required to be voted upon by the Assembly, in the form of Demands for Grants.

Fiscal Responsibility and Budget Management Framework relates to laws passed by states for institutionalising financial discipline. The framework provides targets for revenue deficit, fiscal deficit, and outstanding debt to be met for a specified timeframe by states. It also requires states to bring out statements on fiscal policy for greater transparency.

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