

The State of State Finances in India: Bridging the Data Gaps

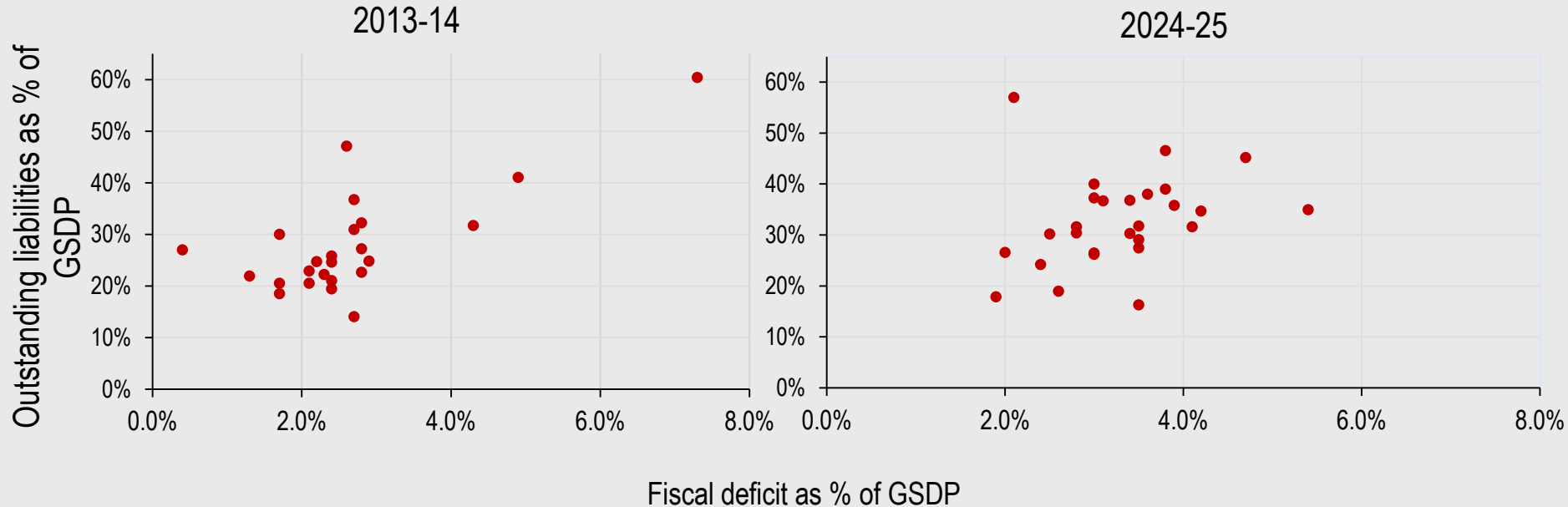
Anoop Singh
Distinguished Fellow, CSEP
Former Member, 15th Finance Commission

Kautilya Economic Conclave,
Delhi, October 4, 2025

Context

**States responsible for two-thirds of general government expenditure,
But state-level data ridden with data gaps**

**Reported debts and deficits for states have increased since 2013-14,
And probably by more once data gaps are included**



Source: State budget documents.

Union Government: Key steps to improve fiscal transparency;

Data gaps in state finances persist:

For example:

- Overestimation of expenditure towards asset building
- Understatement of committed expenditure such as subsidy and wage payments
- Under-reporting of debt and deficits

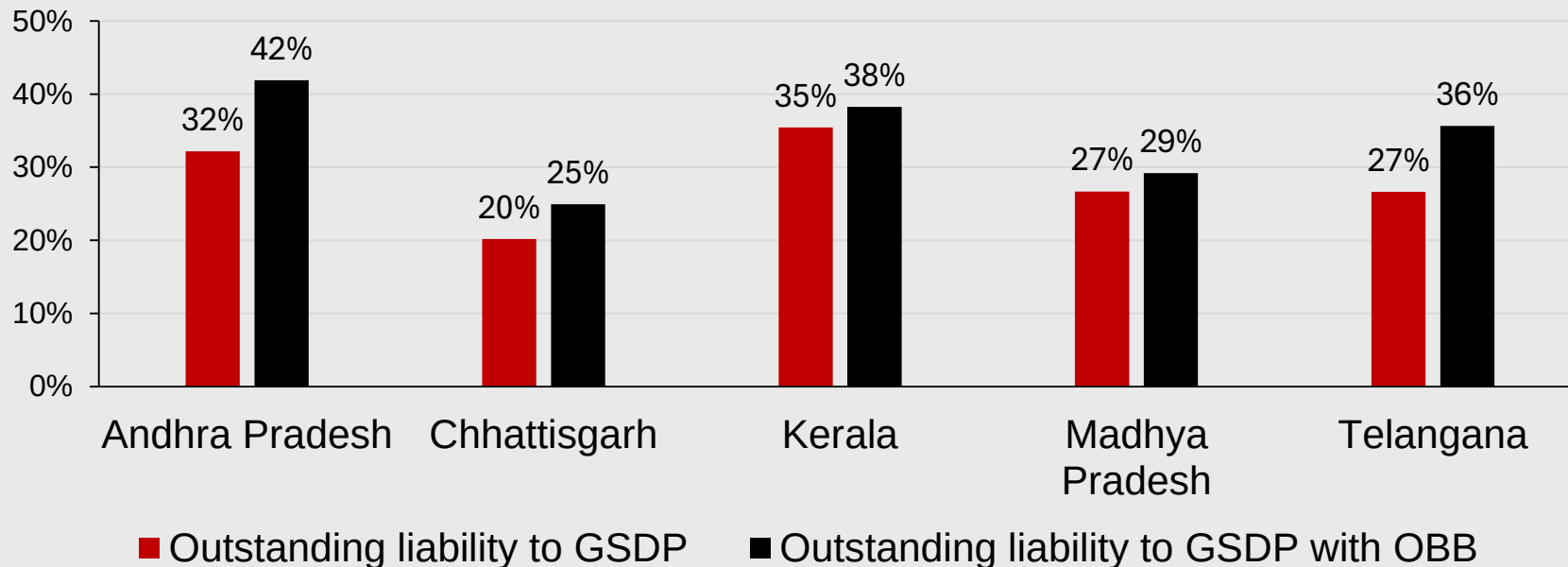
Subsidy and capital spending are two very large, politically salient categories of expenditure

“Understanding where the money really goes is essential for credible public finance management”

- Comptroller and Auditor General of India

Off-Budget Liabilities: Make Actual State Debt Higher

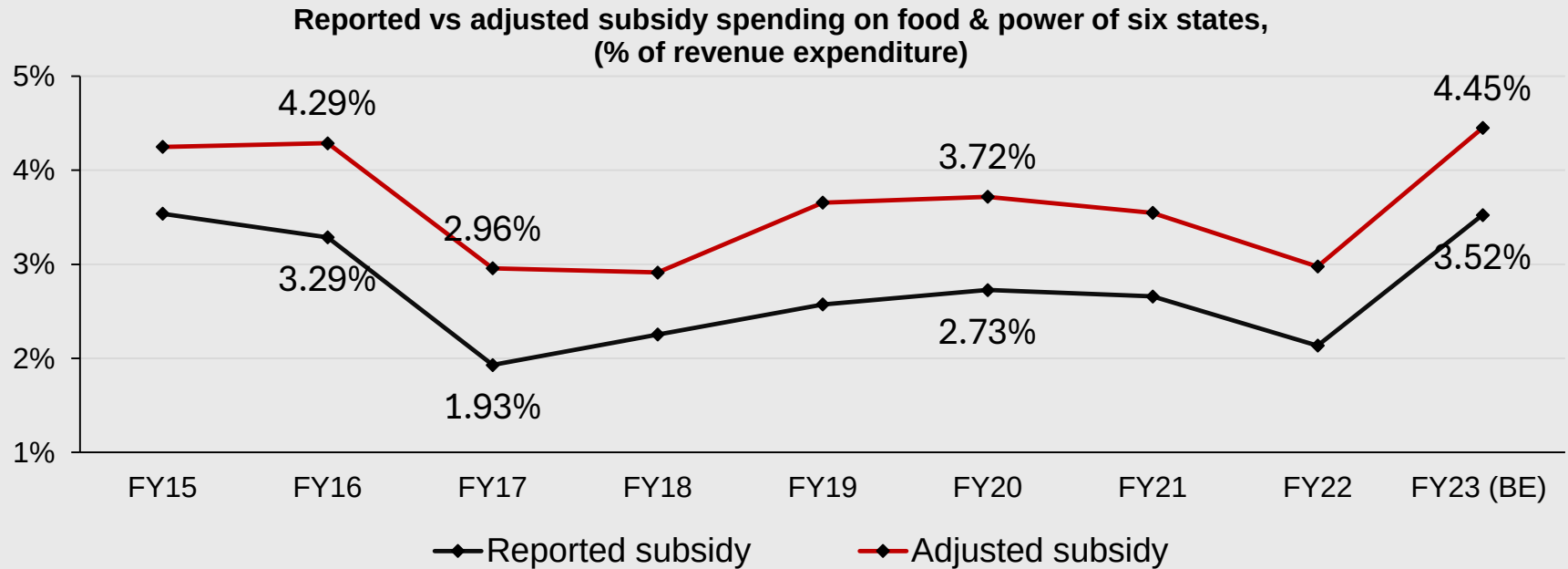
Select states: Recent Outstanding liabilities as per cent of GSDP



Note: Off-budget borrowings are reported by select states and understated compared to CAG figures.

Source: CAG State Finance Audit Reports.

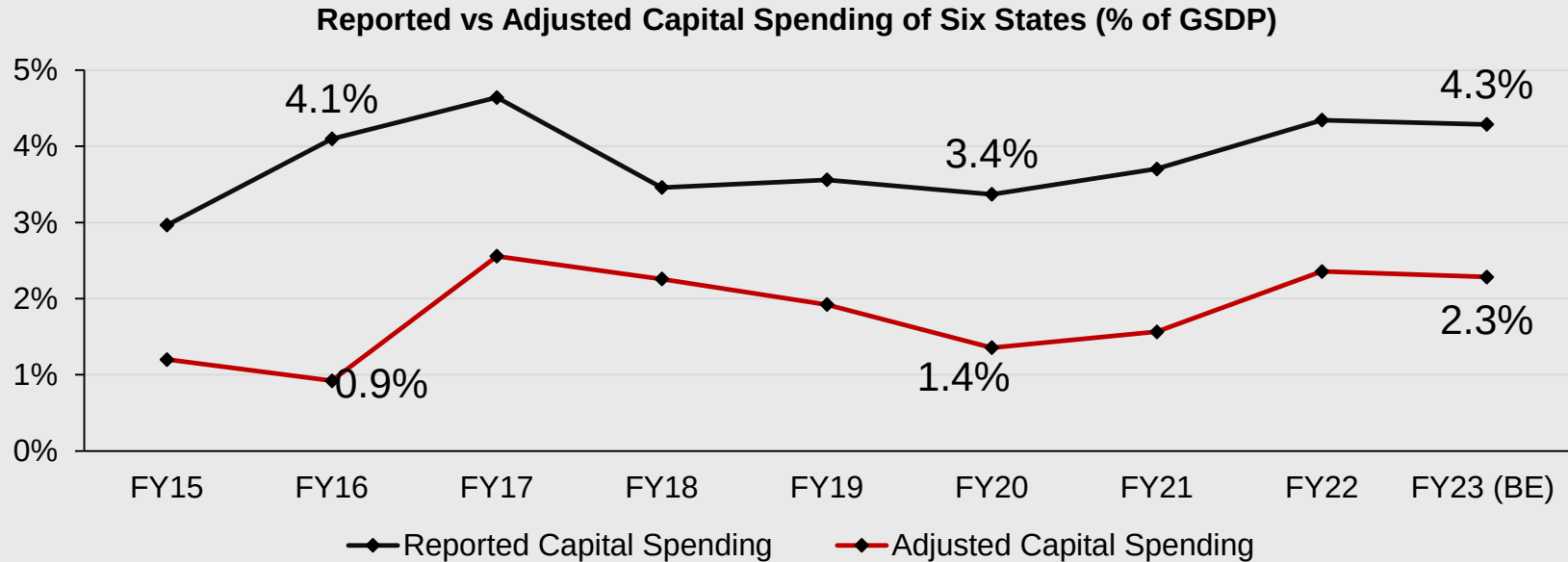
Misclassification of subsidy spending among sectors, equivalent to almost 1% of GSDP...



...which is more than the Union government's budget for MNREGS in 2025-26

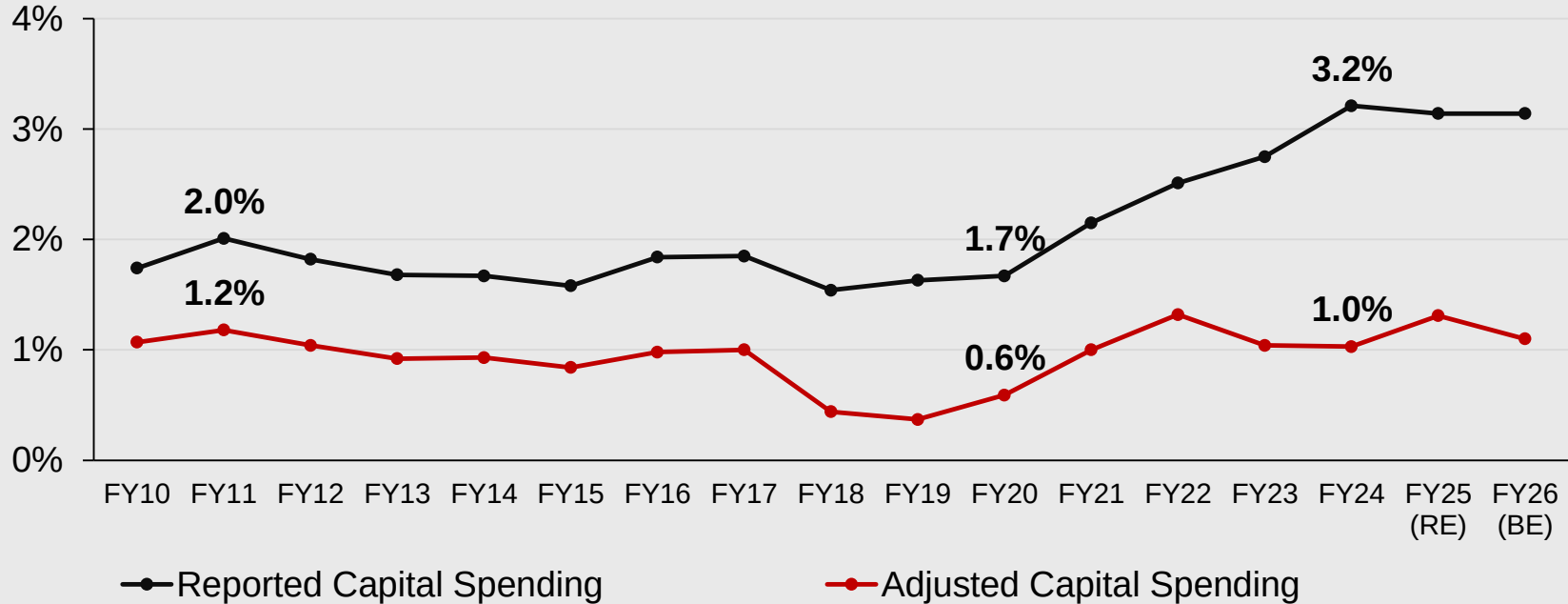
Capital spending is overstated

Nearly 2% of GSDP are financial transfers, not asset creation



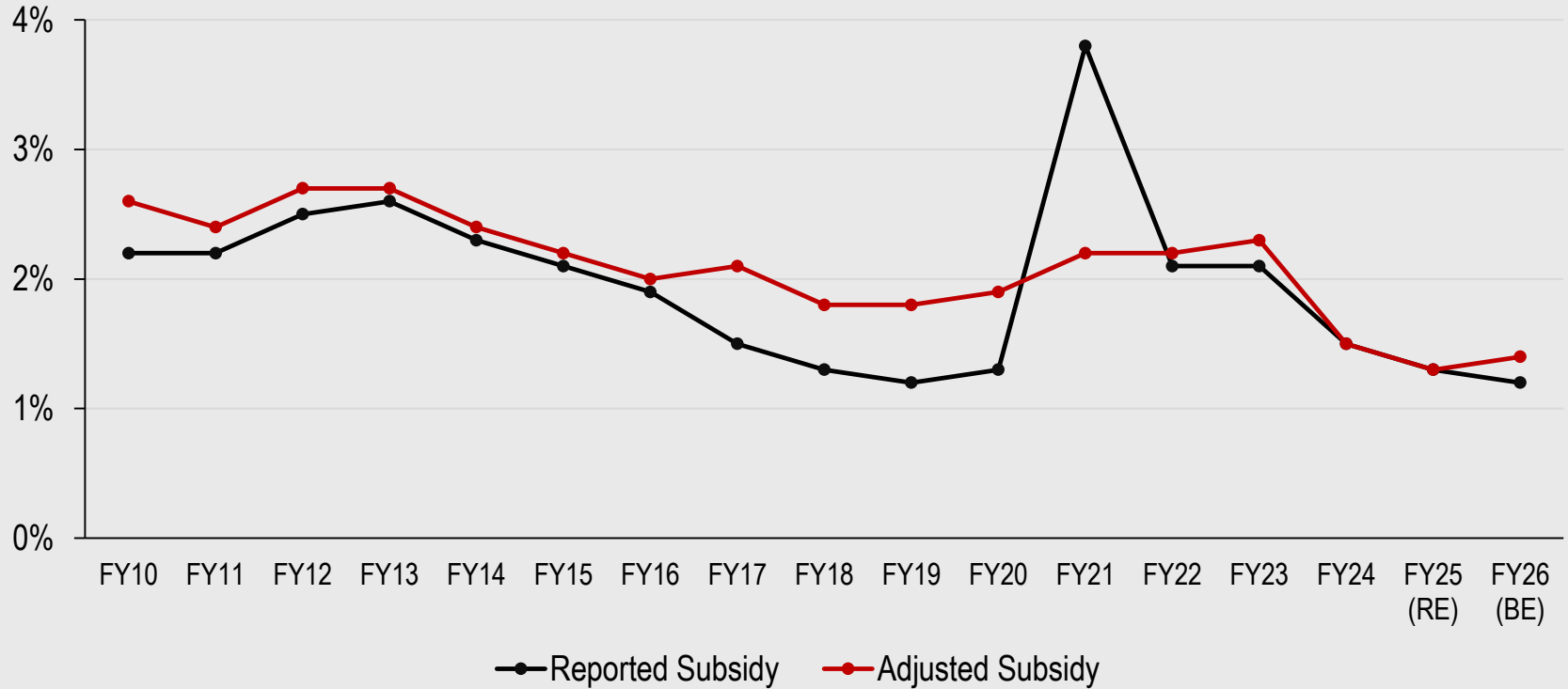
Data gaps are not just a problem with state governments

Union's reported vs adjusted capital spending as % of GDP



Data gaps are not just a problem with state governments

Union's reported vs adjusted subsidy spending as % of GDP



Key data gaps with examples

Data Gap	Off-Budget Borrowings	Subsidies	Capital Spending
Inconsistency/ Misclassification	Deficit & debt definitions vary across centre and states	Subsidy data components change abruptly without clear explanation	Maintenance costs, grants, subsidies often misclassified as capex leads to inflated expenditure items but inconsistency in tangible assets
Incompleteness	Data not available for all states and years	Many subsidy-equivalent schemes not reflected in official statements (such as special securities in lieu of subsidies)	Off-budget borrowings through PSUs/SPVs finance projects often excluded from fiscal assessment
Incomparability	Debt definitions/disclosures not uniform across states, making data incomparable	Different formats and heads make data incomparable across states	Separate disclosures for non-financial assets across all levels of governments must be made
Data Unavailability/ Lack of granularity	Lack of information on borrowing modalities (e.g., whether through public account, selling government bonds, special banking arrangements, etc)	Implicit subsidies generally not reported	Data not linked to specific projects; hard to assess productivity
Delayed data	Delay in preparation of financial reports by govts: they should prepare their accounts within 6 months of the end of financial year, and the CAG should audit and publish them within 9 months		

Key Recommendations

Harmonising Definitions

- Establish uniform classification of spending categories across governments at par with **international standards**

Enhancing Granularity & Integrating Off-Budget Spending

- Consistently include off-budget financing in all applicable subsidy and related statements
- Consolidate all expenditure—by SPVs, PSEs or through EBRs—into a composite capex figure with detailed, **sectoral, and project-specific breakdowns**

Consolidating General Government Data

- Report GFSM-aligned public finance data at the general government level
- Reform the PFM framework with collaboration with the states

Legal reform options

- State legislatures must **hold their governments accountable** against their own FRLs
- India needs a new, overarching, **comprehensive PFM law**, applicable to Union and States

Final Remarks: Fiscal Transparency

“Transparency is not about restoring trust in Institutions,
Transparency is the politics of managing mistrust.”

Ivan Krastev,
Bulgarian political scientist

References

- State Finance Accounts, CAG
- State Finance Audit Reports, CAG
- Union Accounts, CGA
- Budget documents for states and centre
- State Finances: A Study of Budgets, Reserve Bank of India
- *Managing Public Finances in a New Global Era: India's Experiences and Challenges*, Academic Foundation, Singh A., 2025