

RBI: States' fiscal outlook remains positive for FY25

Our Bureau
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States' fiscal outlook remains favourable for the current fiscal year with resilient domestic economic activity expected to support revenue buoyancy, according to a Reserve Bank of India report.

The report pointed out that States contained the rise in revenue expenditure to 15 per cent of GSDP during April-October, lower than the full-year Budget Estimate of 19.2 per cent.

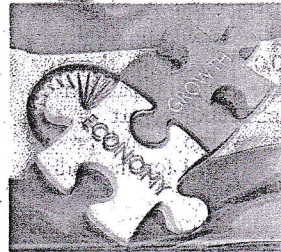
In FY24, provisional accounts (PA) indicated that States' revenue receipts moderated by 0.3 percentage points to 13.3 per cent of GDP, primarily due to a sharp dip in grants-in-aid from the Centre.

IMPROVED COMPLIANCE

Tax collections improved due to an increase in both own tax revenue and tax transfers from the Centre. Within the States' own tax revenues, SGST registered a robust growth, supported by higher economic activity and improved compliance.

States with a history of a low tax-GSDP ratios have seen considerable improvement in revenue mobilisation since the implementation of GST, leading to a reduction in inter-State disparities in tax collection. Sales tax collections, however, remained muted.

"In 2024-25, the States budgeted an increase in revenue receipts by 1 percentage point to 14.3 per cent of GDP, driven by both tax and non-tax sources. In the Union Budget, the share of



devolution to the States is projected to grow by 10.4 per cent in 2024-25 (BE) over 2023-24 (PA)," the RBI report said.

REVENUE BOOST

States are undertaking various initiatives to boost revenue collection, streamline compliance and enhance transparency. Gujarat has established GST Seva Kendras to simplify registration and prevent documentation mistakes while Haryana plans to create facilitation cells to assist start-ups and MSMEs with GST compliance.

Data analytics is being increasingly harnessed to track, monitor and simplify the refund process. Delhi aims to develop a faceless GST tax administration, and Tamil Nadu and Karnataka use AI for real-time monitoring. Amnesty schemes have been introduced in Kerala and Rajasthan to waive penalties on tax arrears.

On the expenditure side, States have contained the growth in revenue expenditure to 15 per cent of GDP in H1FY25, lower than the full-year Budget Estimate of 19.2 per cent. However, the capital outlay of the States is expected to gain pace in the second half of the year, aided by the Centre's 50-year interest-free loans.