Summary Report for the State of Bihar

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This updated report is a product of the NITI NCAER States Economic Forum. Prepared by a team led by Dr Anil Sharma, comprising of Dr Arjita Chandna, Dr Jayanta Talukder, Ms. Ayesha Ahmed, Ms. Aakansha Atal, Ms. Sneha Jyoti Kundu, Ms. Aliva Smruti and Ms. Kritika Soni. The NCAER team thanks Mr Rajib Sen and Dr Shelly Dahiya for their comments on an earlier version of this report. Comments are welcome at stateseconforum@ncaer.org.

1. *Demography*

As per the 2024 Census population projections, Bihar's population is 128.6 million, representing 9.2 percent of India's total population.[2] The projected population growth rate for Bihar (1.45 percent) is higher than the national average (0.9 percent), as of 2023-24. Bihar's population density (1,405 persons per sq. km.) as well as its dependency ratio (65.2 percent) have consistently exceeded their respective national averages, as per the 2026 Census projections.[3] A large majority of the population, about 88 percent, resides in rural areas, as of 2024. As per the National Family Health Survey (2019-21), the sex ratio at 908 female births per 1000 male births in the State is lower than the national average of 929 females per 1000 males.

As of 2023-24, Bihar's annual unemployment rate, at 3 percent, is slightly below the national average of 3.2 percent, and the Female Labour Force Participation Rate (30.5 percent) is lower than the national average (41.7 percent). The working population in Bihar is predominantly concentrated in Agriculture, Forestry, and Fishing (54.2 percent); Services (22.2 percent); and Construction sectors (18.2 percent). The proportion of workers engaged in the Manufacturing sector is only 5.2 percent of the total share of workers in 2023-24.[4] The State's performance on the Sustainable Development Goals (SDG) Index (57) still lags behind the national average (71) as of 2024.

2. *Economic Structure (Growth and Sectoral Composition)*

Bihar's real GSDP grew at an average rate of 5.7 percent between 2014-15 and 2023-24, which is lower than the national average growth of 6 percent during the same period.[5] During the last three decades, Bihar's share, in nominal terms, in the national GDP has decreased from 3.6 percent in 1990-91 to 2.8 percent in 2023-24. Its nominal per capita income was only 35.3 percent of the national per capita income in 2023-24.

The Services sector has the highest share in GSVA (57.3 percent), followed by Agriculture (23.9 percent) and Industry (18.8 percent), as of 2023-24. During the period from 2014–15 to 2023–24, the State's Agriculture and Industry sectors grew by 4.3 percent and 7.0 percent annually, respectively — both higher than the corresponding national growth rates of 4.0 percent and 5.9 percent. However, the Services sector grew at an average decadal rate of 6.4 percent, which was lower than the national growth rate of 6.8 percent.

3. *Socio-economic Indicators (Health and Education)*

Bihar's literacy rate, at 61.8 percent, was much lower than the national average of 73 percent, as of 2011.[6] School drop-out rates for secondary level (for Classes IX-X) have consistently

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[2] Projected data on population growth rate, dependency ratio, population density, and urban population are sourced from *"Population Projections for Indian States 2011-2036"* by the Technical Group on Population Projections, National Commission on Population, Ministry of Health and Family Welfare, Government of India.
[3] Population density and dependency ratio Census projections are available for 5-year periods (2021, 2026, etc.)
[4] Data on unemployment, female labour force participation, and workforce distribution are from the Periodic Labour Force Survey, 2017-18 to 2023-24.
[5] Data on Economic Structure are sourced from Ministry of Statistics and Programme Implementation (MoSPI), as of March 2025. First Revised Estimates (FRE) are used for FY 2023-24.
[6] Literacy data are sourced from Office of the Registrar General and Census Commissioner, Ministry of Home Affairs, 2011.

exceeded the national averages during the period from 2013-14 to 2023-24. Gross Enrolment Ratio (GER) for secondary level (for Classes IX–X) has consistently remained below national averages from 2013-14 to 2023-24, with a sharp decline of 16.8 percentage points in 2023-24. Pupil-Teacher Ratio (PTR) has been higher than the national averages over the same period but fell sharply by 24 percentage points in 2023-24.[7] The Gender Parity Index (GPI) for Higher Education for age group of 18–23 years in the State has remained below the national average from 2010–11 to 2021–22. As of 2021-22, Bihar recorded a GPI of 0.9 against a country average of 1.0. [8]

As of 2021, life expectancy (at birth) in Bihar, at 69.2 years, is slightly lower than the national average (69.8 years). The Infant Mortality Rate (27 deaths per 1,000 live births in 2021) is equal to the national average, but the Total Fertility Rate, at 3 children per woman, is higher than the national average (2 children per woman) for the same period (2019-21). Child nutrition in Bihar has improved, with some declines in shares of underweight and stunting statistics since 2006, but levels still remain above the national averages. Share of anaemia prevalence among children (69.4 percent) also remains slightly higher than the national benchmark (67.1 percent), as of 2019-21 (NFHS V). The share of fully immunised children, at 71 percent, is lower than the national average (76.4 percent) for 2019-21. Access to basic amenities such as household access to drinking water and electricity is either above or close to the national average, but the State continues to lag behind in access to sanitation facilities compared to the national average.

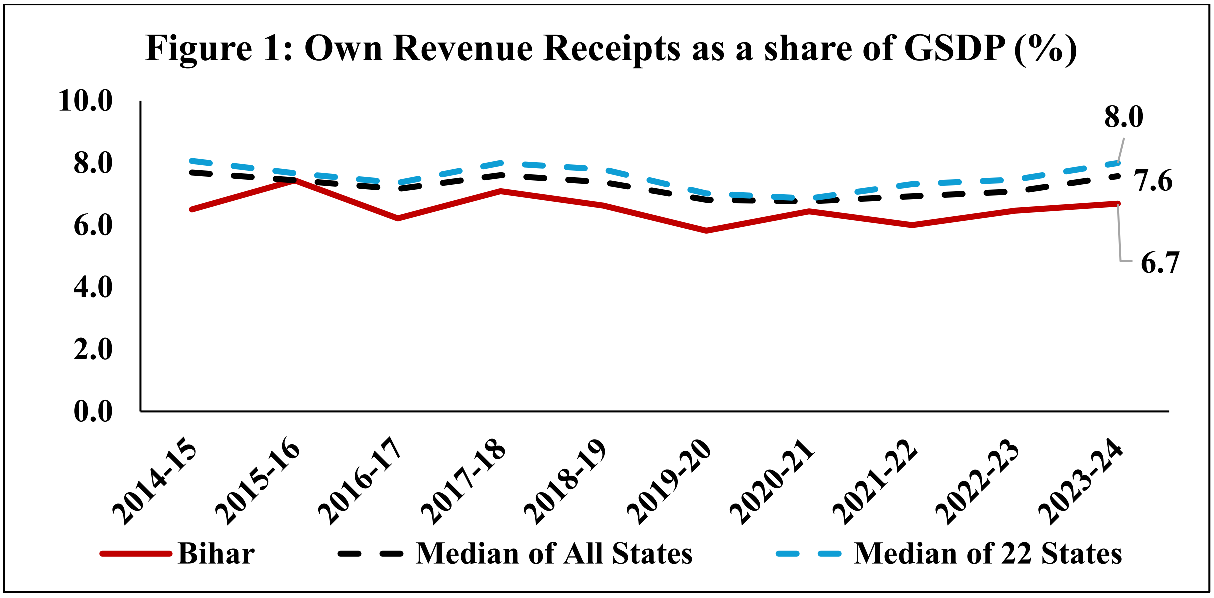
4. State of Public Finances and Tax Devolutions

4.1 Revenue Receipts and Resource Mobilisation

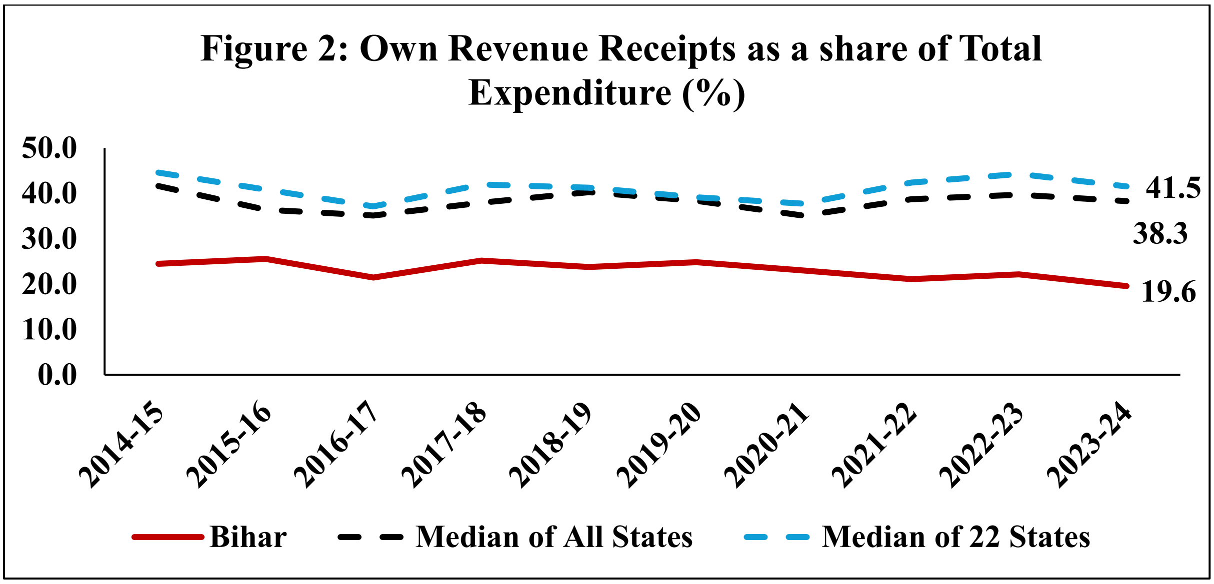
Bihar's total revenue receipts (own tax, own non-tax and shared by the Centre) stood at approximately 25.2 percent of GSDP in 2023-24,[9] exceeding the median of all States (19.5 percent) and that of 22 large States (16 percent).[10] However, the State collects less in own tax and own non-tax revenues as compared to the medians of all States and of 22 large States. Own non-tax revenue in particular has declined over the last two decades to less than 1 percent of GSDP as of 2023-24, particularly due to a fall in one of its sub-components - interest receipts. Transfers from the Centre are above the medians of all States as well as 22 large States and constitute around 73.4 percent of the total revenue receipts[11]. This high reliance on Central transfers makes the State vulnerable to Finance Commission recommendations or Central policies.

Own revenue receipts as a share of GSDP[12], which is a key indicator of revenue mobilisation, have remained stuck at a low level in Bihar during the last ten years, from FY 2014-15 to FY 2023-24 in comparison to the medians of all States as well as of the 22 States (Figure 1).

[7] School statistics are sourced from UDISE Reports, 2023-24.
[8] Higher education statistics are sourced from AISHE Reports, 2021-22.
[9] Data on fiscal variables are sourced from Reserve Bank of India, State Finances Report (RBI SFR), as of December 2024.
[10] For calculation of a median State, the variable as a percentage of GSDP was computed for each State, with the median taken both across 22 large States (excluding all Union Territories and North Eastern States, except Assam) as well as all States (excluding all UTs).
[11] Transfers from the Centre comprises of Grants-in-Aid and the State's share in Central taxes which includes Finance Commission-recommended transfers, discretionary grants and grants under other central schemes.
[12] Own revenue receipts are the sum of own tax revenue and own non-tax revenue.



Additionally, the need for Bihar to strengthen its own revenue generation capacity is evident from its relatively low reliance on own revenues to finance its expenditure. Over the past decade (2014-15 to 2023-24), the ratio of the State's own revenues to total expenditure has remained largely low (23.1 percent, average from 2014-15 to 2023-24) (Figure 2). This ratio, which is a key metric in NITI Aayog's Fiscal Performance Index, reflects a State's fiscal autonomy. Bihar has consistently covered a smaller share of its expenditure through its own revenues compared to the higher share for all-States (44.7 percent during the same period). This shows the State's lower fiscal independence and a greater reliance on Central transfers and other sources of funding.



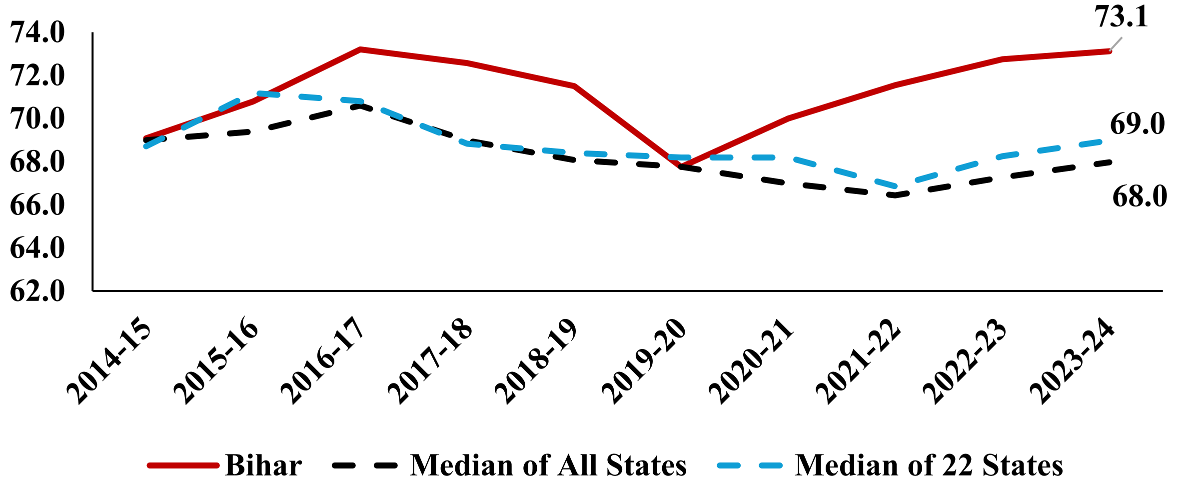
4.2 Expenditure and Quality of Expenditure

The State's total expenditure-to-GSDP ratio is higher than the medians of all States and 22 large States, respectively. Revenue expenditure is nearly 12 percentage points higher (29.3 percent) than the medians of all States (17.7 percent) and 22 large States (16.8 percent) respectively. While the capital expenditure, calculated as the sum of capital outlay and loans and advances from State governments, stood at 4.9 percent of GSDP, as of 2023-24, also higher than both the medians of all States (4.4 percent) and that of 22 large States (3.2 percent).

It is also important to note that the State fares better in the two key metrics of NITI Aayog's Fiscal Performance Index – development expenditure as a ratio of total expenditure[13] and capital outlay as a ratio of GSDP. Bihar's development expenditure as a ratio of total expenditure is higher in comparison to the medians of all States as well as of the 22 large States and has increased over the years from 70.2 percent in 2014-15 to 72.5 percent in 2023-24 (Figure 3). In comparison, the medians of all States as well as of the 22 States is stuck at the same level of around 67 percent or so for the last ten years, from FY 2014-15 to FY 2023-24. Further, the State also spends a comparatively higher amount of its resources as capital outlays compared to the medians of all States as well as of the 22 large States (Figure 4).

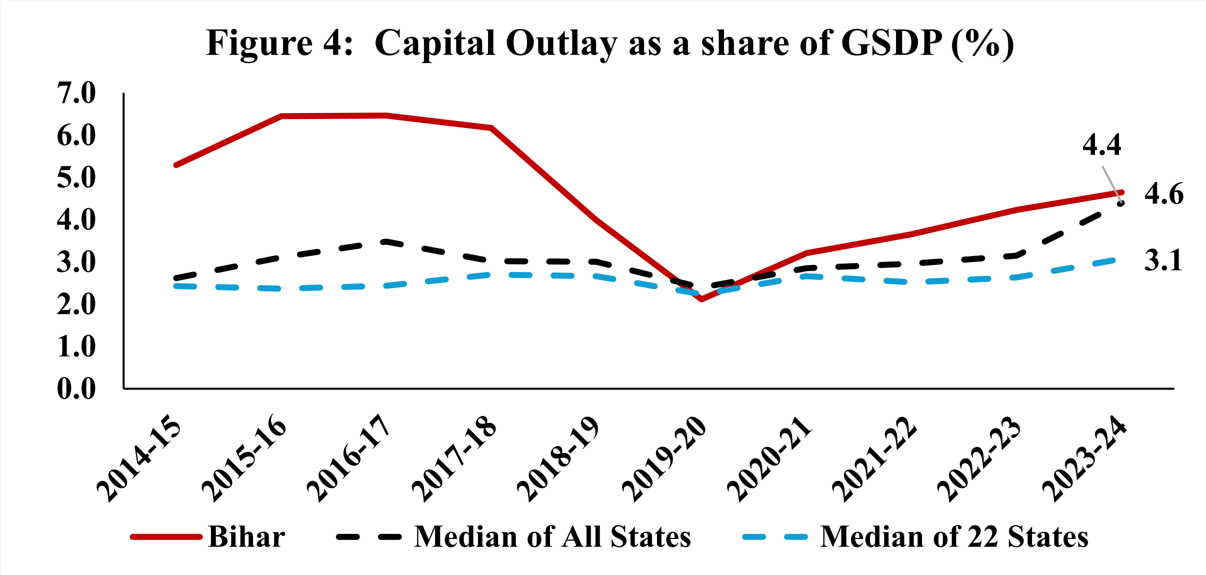
Notwithstanding these achievements, a disquieting development for the State is that Bihar's expenditures on both subsidies and committed expenditure exceeded the medians of all States and 22 large States as of 2023-24, and accounted for 1.8 percent and 9.9 percent of GSDP, respectively.[14]

Figure 3: Development Expenditure as a share of Total Expenditure (%)



[13] Development expenditure represents the combined spending, under total expenditure, on economic services and social services (including loans and advances by State Governments under both social and economic services). Total expenditure refers to the sum of revenue expenditure and capital expenditure (capital expenditure is defined as the sum of capital outlay and loans and advances).

[14] Committed Expenditure is calculated as the sum of interest payments, wages, salaries and pensions.



4.3 Power Sector Losses

In Bihar, power distribution is carried out by two State government-owned companies – South Bihar Power Distribution Company Limited (SBPDCL) and North Bihar Power Distribution Company Limited (NBPDCL).[15] These companies have consistently made losses, putting a strain on government finances. During the period of five years between 2019-20 and 2023-24, the subsidies provided to these companies have increased from Rs. 5,193 crore in 2019-20 to Rs. 13,161 crore in 2023-24.

Power subsidies constitute a significant portion of the total subsidies, ranging from 72.92 per cent to 82.77 per cent of the total during the period from 2019-20 to 2023-24. Furthermore, a significant part of the Guarantees provided by the State, during the period of last five years, are accounted for by the power sector. As of March 31, 2024, power sector formed 64.8 percent of the States's total Outstanding Guarantees.

The State's AT&C (Aggregate Technical& Commercial) losses are among the highest in the country (20.3 percent in 2023-24 against the national average of 19.0 percent) with potential reasons for high AT&C losses including theft, sub-optimal distribution of infrastructure, and inefficiencies in billing and collection. As per the Budget Speech for FY 2023-24, pre-paid meters are being installed to address these issues.

4.4 Debt and Fiscal Prudence

Bihar's debt-to-GSDP ratio, after declining until 2011-12, increased again and stood at 39 percent of its GSDP in 2023-24, higher than the medians of all States (31.1 percent) and 22 large States (30.8 percent)[16], as of 2023-24. Public debt or outstanding liabilities have risen in recent years due to increased reliance on borrowings to fund expenditure in 2020-21 and 2021-

[15] PFC Report on Performance of State Power Utilities (2009-10 to 2023-24)

[16] The measure of public debt or outstanding liabilities, as defined in RBI SFR, includes ways and means advance, reserve funds and deposits which are not included in CAG audit reports.

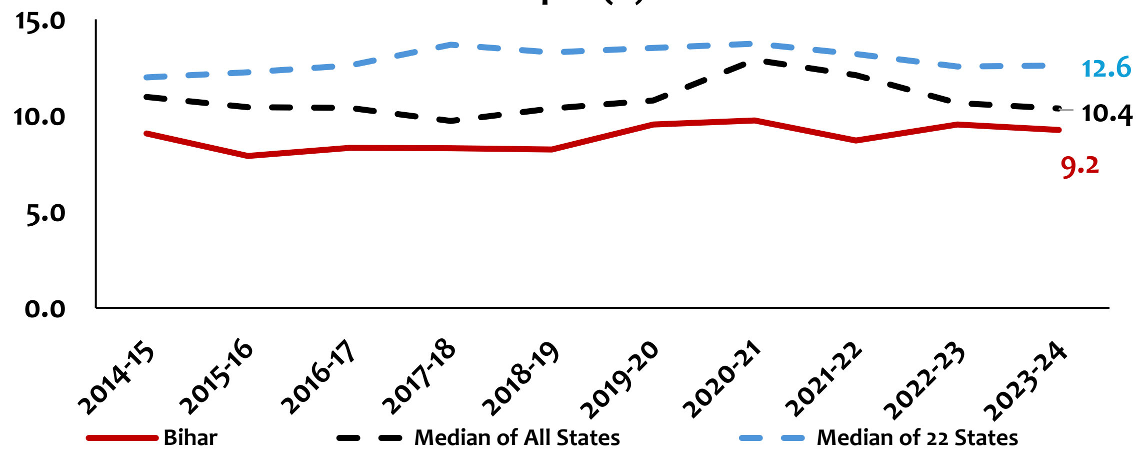
22[17]. The State's contingent liabilities (3.1 percent), as well as its primary (6.8 percent) and fiscal deficits (9 percent), are also higher than both these benchmarks, as of 2023-24.

In particular, Bihar's fiscal and primary deficits, after declining since 2000, have increased in the post-COVID period, highlighting a reversal of fiscal discipline. Currently, the State runs a fiscal deficit of 9 percent of GSDP and a primary deficit of 6.8 percent of GSDP in 2023-24, both nearly five percentage points higher than the medians of all States and 22 large States in the same year, suggesting a weak post-pandemic recovery. A high level of debt and higher contingent liabilities limit fiscal maneuverability as exemplified by the Debt Sustainability Analysis below (Section 4.6).

Bihar's revenue deficit stood at 4.2 percent of GSDP in 2023-24, noticeably higher than the median of all States which showed a revenue surplus of 0.1 percent and the median of 22 large States which had a revenue deficit of 0.5 percent. A high revenue deficit typically signals a State's penchant for borrowing to finance current consumption, which can worsen quality of spending and add debt without creating productive assets.

Further, the ratio of interest payments-to-revenue receipts, which show the share of revenues being used to pay interest on the outstanding debt indicates that the State is spending 9.2 percent of its total revenues on debt servicing. Figure 5 highlights the relative performance of Bihar vis-à-vis the medians of all States as well as of the 22 large States.

Figure 5: Interest Payments as a share of Total Revenues Receipts (%)



4.5 Debt Sustainability Analysis[18]

The Debt Sustainability Analysis shows that under the baseline scenario (where the debt level, primary deficit, real GDP growth, and real effective interest rate remain constant at their decadal averages from 2014-15 to 2023-24), Bihar's debt-to-GSDP ratio is projected to increase over the next five years, starting from 2024-25 to 2028-29.

[17] Bihar Budget Analysis 2023-24, PRS Legislative Research (Link)
[18] Eichengreen and Gupta (2025) Link

Only with higher nominal growth, or lower primary deficit, or with a combination of the two, debt to GSDP ratio can be expected to meaningfully take a downward trajectory. This suggests that to create a room for higher growth the State needs to improve revenue mobilization and put in place institutional reforms to address risks posed by higher debt including contingent liabilities.

4.6 Public Account Liabilities and Off-Budget Borrowings

The State's public account liabilities stood at 5.9 percent of GSDP in 2023-24, slightly higher than the average for all States and UTs (5 percent). Among the various components of public accounts, deposits bearing interest in the State have been marked by a sharp spike in 2020 before declining in the subsequent years.[19] In contrast, net balances of deposits not bearing interest have shown a consistent and significant upward trend over the past decade, reaching a peak of Rs. 39,656.9 crore in 2024. Similarly, net reserve funds bearing interest have also seen a resurgence, with their balance rising sharply in recent years. The State has completely phased out reserve funds not bearing interest after 2020.

The State reported off-budget borrowings of 0.01 percent of its GSDP, which were lower than the medians of all States and 22 large States, both at 0.2 percent of GSDP. Although these numbers are relatively small, it is crucial to note that relying on off-budget borrowings can lead to a distorted picture of the State's actual liabilities.

Moreover, according to the State Finances Audit Report by the Comptroller and Auditor General of India (CAG), the State recorded negative contributions from public accounts to its total resources, in three (2019-20, 2021-22 and 2023-24) out of five years between 2019–20 and 2023–24. This was due to disbursements exceeding receipts under the Suspense and Miscellaneous heads.

4.7 Overall Fiscal Health Index

As per the Fiscal Health Index 2025 report by NITI Aayog, Bihar ranks 13th out of 18 major States for 2022-23, scoring high on quality of expenditure, but low on revenue mobilization and fiscal prudence. As per the report, the State ranked 2nd on quality of expenditure, 18th on revenue mobilization, 17th on fiscal prudence and 11th on the debt index, putting it in the category of a 'Performer' State.

4.8 Finance Commission Devolutions

Bihar's share in taxes from the Centre, as per the FC recommendations, increased from 9.7 percent under the 14th FC to 10.1 percent under the 15th FC. Its share in the total grants-in-aid increased from 4.8 percent during the 14th FC to 5.3 percent under the 15th FC.

Regarding the utilization of FC grants (measured as released grants as a percentage of the recommended allocations),[20] Bihar has so far received a 4.8 percent share of the total 15th Finance Commission recommended grants (as per FC data for the period from 2021-22 to 2024-

[19] CAG State Finance Accounts Report, 2024

[20] Amounts released from the Centre to the States based on FC recommendations are a reflection on the appropriate utilisation of these grants and vary accordingly for each State.

25), of which 87.2 percent has been released thus far.[21] In comparison, the State has received its share of 4.8 percent from the 14th Finance Commission recommended grants, of which only 90.1 percent was released at the end of their tenure. Since the 12th FC, the State received a higher share of Finance Commission grants than the State average, while the released amounts were also slightly lower than the State average.

5. *Fiscal Rules*

Following recommendations of the 12th FC, the Bihar Government enacted the Bihar Fiscal Responsibility and Budget Management (BFRBM) Act in 2006 in accordance with the Union FRBM, 2003.[22] The BFRBM Act has been amended six times, in 2010, 2016, 2020, 2021 (twice), and 2022, highlighting several fiscal recalibrations in response to economic shocks over the last two decades.

Initially, the Act mandated to reduce revenue deficit/GSDP ratio every year by at least 0.1 percent depending upon the economic situation, to eliminate revenue deficit by 2008-09 and generate revenue surplus thereafter, and to reduce the fiscal deficit/GSDP ratio every year by at least 0.3 percent if it was more than 3 percent, to not more than 3 percent by 2008-09.

In 2010, an amendment was made to include the recommendations of the 13th FC, which mandated the State to bring down debt as a percentage of GSDP from 48.2 percent in 2010-11 to 41.6 percent in 2014-15. And, the fiscal deficit target was raised to 3.5 percent of GSDP for 2010-11 and to 3 percent thereafter.

In 2016, under the recommendations of the 14th FC, the Act was amended to anchor the fiscal deficit to an annual limit of 3 percent of GSDP with some flexibilities to extend the limit to 3.5 percent if the interest payments equaled or exceeded 10 percent of the revenue receipts in the preceding year, a reflection on the State's high committed expenditure burden. The 2020 amendment allowed the State to increase the fiscal deficit cap by Rs. 5,688 crore over and above the previously prescribed limits.

The BFRBM was further amended in 2021 twice, wherein the first amendment raised the fiscal deficit and annual borrowing limit to 5 percent of GSDP each for 2020-21, and the second amendment revised them to 4 percent and 4.5 percent, respectively, for 2021-22.

The 2022 amendment fixed the normal net borrowing limit to 3.5 percent of GSDP for 2022-23, and 3 percent for the period 2023-24 to 2025-26. The annual borrowing limit for the period 2022-23 to 2024-25 was increased by another 0.5 percent subject to the condition set forth by the Government of India.

Fiscal Discipline: As per the State Finances Audit Report of the Comptroller and Auditor General of India (CAG), during the period of 5 years from 2018–19 to 2022–23, the State could meet the revenue deficit target for only one year (2018–19), and the fiscal deficit target for three years (2018–19, 2019–20, and 2021–22). On debt, the State was able to meet the targets

[21] As per the 15th FC data for the period from 2021-22 to 2024-25.
[22] Data are sourced from State Audit Report of the CAG for the respective years and the State Government Gazette.

for three years (2020–21, 2021–22, and 2022–23), largely due to a recalibration of the debt-GSDP ratio laid out in its 2021 FRBM amendment, which increased the debt limit from 28 percent in 2019-20 to 41 percent in 2020-21.

The CAG report has recommended several action points in various areas to bridge the persisting gap between budget estimates and actuals; devising a mechanism to collect revenues expeditiously; ensure that employees' deductions are fully deducted and matched fully by government contributions, and fully transferred to National Securities Depository Limited (NSDL) in a timely manner; and, restructuring of loans so that interest payment remain within the budgeted fiscal deficit targets. The CAG report also states that the State Government has neither enacted Guarantee Act nor created a Guarantee Redemption Fund for fixing a ceiling on guarantees.

6. Summary

Over the past decade (2014–15 to 2023–24), Bihar's real GSDP grew at an average annual rate of 5.7 percent, below the national average of 6 percent. The State's share in national GDP (at current prices) has declined from 3.6 percent in 1990–91 to 2.8 percent in 2023–24. In 2023–24, Bihar's per capita income was just 35.3 percent of the national average. The purpose of this note is to review Bihar's social, economic, and fiscal landscape, focusing on debt trends, fiscal indicators, and compliance with the Fiscal Responsibility Act.

In recent years, the State's debt and liabilities have risen due to increased reliance on borrowings. After two decades of improvement, fiscal and primary deficits, along with contingent liabilities, have worsened post-COVID, indicating a reversal in fiscal discipline. Bihar's own revenue receipts, as a share of GSDP, have remained persistently low over the past decade, trailing the State averages.

While the State allocates a substantial share of spending to development, its expenditures on subsidies and committed liabilities exceeded the medians for States and the 22 large States.

Debt Sustainability Analysis (DSA) indicates that under current trends, Bihar's debt-to-GSDP ratio will rise from 2024–25 to 2028–29. A downward trajectory would require stronger nominal growth, lower primary deficits, or both. To enable higher growth and fiscal sustainability, Bihar must enhance revenue mobilization and implement institutional reforms to mitigate debt-related risks, including contingent liabilities.

Furthermore, the State should also adopt key recommendations from the CAG as per the 2023-24 State Finance Audit Report, including:

- Bridging the gap between budget estimates and actuals;
- Improving revenue collection mechanisms;
- Restructuring loans to keep interest payments within budgeted limits; and
- Establishing a Guarantee Redemption Fund to cap guarantees.