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Abstract

West Bengal is one of India's largest states, accounting for around 7.1 percent of the country's population and about 5.5 percent of national GDP. Although its economy is larger than that of many states and consistently ranks among the six to eight largest state economies, it remains smaller than those of leading economic states such as Maharashtra, Tamil Nadu, Karnataka, and Gujarat. This study examines West Bengal's fiscal landscape by assessing its fiscal performance, identifying the key challenges to fiscal sustainability, and outlining a roadmap for fiscal consolidation. The analysis benchmarks the State against the average performance of All States and the neighbouring State of Odisha, with particular emphasis on the composition of receipts and developmental expenditure, the evolution of deficits and debt, and compliance with the provisions of the Fiscal Responsibility Act. Based on the analysis carried out in the study it suggests ways to mobilising resources (both tax and non-tax), rationalising subsidies, managing committed expenditure to expand capital investment, and strengthening fiscal prudence to improve fiscal resilience and create greater capacity to finance future development priorities.

Keywords: West Bengal; receipts; expenditure; debt; FRBM; fiscal prudence; resource mobilisation; expenditure quality; fiscal consolidation

JEL Classification: H62, H63, H71, H72, H75, H77.

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1. Economic and Development Context

West Bengal is one of India's largest states, accounting for around 7.1 percent of the country's projected population[1] and about 5.5 percent of national GDP. Although its economy is larger than that of many states and consistently ranks among the six to eight largest state economies, it remains smaller than those of leading economic states such as Maharashtra, Tamil Nadu, Karnataka, and Gujarat.

The State's real Gross State Domestic Product (GSDP) grew at an average annual rate of 5.3 percent during the period from 2014–15 to 2024–25, below the national average growth rate of 6.1 percent over the same period. Consequently, West Bengal's share in India's nominal GDP declined from 6.8 percent in 1990–91 to 5.5 percent in 2024–25. Similarly, the ratio of the State's nominal per capita income to India's nominal per capita income declined from 1.0 in 1990–91 to 0.8 in 2024–25, reflecting slower income growth than that achieved by several high-performing states, including Maharashtra, Gujarat, Karnataka, Tamil Nadu, and Telangana.

The State's economy is predominantly driven by the services and agriculture sectors, while manufacturing accounts for a relatively smaller share of economic activity. In terms of sectoral composition of Gross State Value Added (GSVA), West Bengal ranks 22nd among 33 States and Union Territories in the share of Industry, 13th in the share of Services, and 13th in the share of Agriculture. Since 2011–12, the shares of Agriculture and Services in the State's GSVA have consistently remained above the all-State average, whereas the share of Industry has remained below the corresponding all-State average throughout the period. In 2024–25, Industry accounted for 22.7 percent of GSVA.

As of 2024–25, the State's workforce was primarily concentrated in Agriculture, Forestry and Fishing (37.1 percent), followed by Services (33.6 percent) and Manufacturing (17.2 percent). The Construction sector accounted for 11.24 percent of total employment, slightly lower than the national average of 12.04 percent.

On socio-economic indicators[2], the State performs relatively well across several health and human development outcomes but continues to face challenges in certain aspects of education and child health. Literacy levels are above the national average, and the Gender Parity Index in higher education slightly exceeds the national benchmark. However, the secondary-level dropout rate remains higher than the national average, while the pupil–teacher ratio is marginally above the national benchmark. Health outcomes are comparatively favourable, with life expectancy exceeding the national average and both infant mortality and fertility rates remaining below the corresponding national levels. Child nutrition indicators have improved over time and continue to perform better than the national averages. However, the prevalence of anaemia among children remains a matter of concern. Access to basic amenities such as drinking water and electricity is higher than the national average, although access to sanitation facilities remained marginally below the national benchmark as of NFHS-V (2019–21).

The interaction between West Bengal's demographic profile, socio-economic conditions, and economic structure shapes the State's fiscal trajectory. A large population,

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[1] The projections 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.

[2] This section draws heavily from Sharma, et al (2026): Macro and Fiscal Landscape of the State of West Bengal, NITI-NCAER States Economic Forum.

high population density of 1133 persons per sq km (2026), and continuing development needs create substantial expenditure requirements. Consequently, the State's fiscal performance reflects the challenge of balancing developmental priorities while maintaining fiscal sustainability.

From a fiscal sustainability perspective, the State's revenue receipts and developmental expenditure as shares of GSDP remain substantially below the averages for All States. Own revenue mobilisation has remained relatively weak, with both own tax and non-tax revenues below the all-State averages, resulting in greater dependence on transfers from the Centre. On the expenditure side, a disproportionately large share of total expenditure is devoted to current expenditure, leaving only a limited fiscal space for capital formation.

The State's total outstanding liabilities -to-GSDP ratio remains significantly higher than the all-State average, although its contingent liabilities are relatively low. Both the fiscal deficit and the revenue deficit have generally remained well above the corresponding all-State averages. Interest payments absorb a relatively large share of revenue receipts, reflecting a substantial debt-servicing burden and limiting the fiscal space available for developmental spending.

Against this backdrop, the present study examines West Bengal's fiscal landscape by assessing its fiscal performance, identifying the key challenges to fiscal sustainability, and outlining a roadmap for fiscal consolidation. The analysis using data for the period from 2015-16 to 2024-25, benchmarks the State against the average performance of All States and the neighbouring State of Odisha, with particular emphasis on the composition of receipts and developmental expenditure, the evolution of deficits and debt, and compliance with the provisions of the Fiscal Responsibility Act.

2. Revenue Receipts and Resource Mobilisation

The revenue receipts and resource mobilisation efforts of a state are important indicators of its fiscal performance. Revenue receipts comprise three components: own tax revenues, own non-tax revenues, and transfers from the Centre.

Among these components, transfers from the Centre, which include the state's share in central taxes and grants-in-aid, continue to be the largest source of revenue for West Bengal, accounting for an average of about 56.2% of the state's total revenue receipts over the study period (Figure 1A). In comparison, transfers from the Centre constitute about 45% of total revenue receipts for All States and about 48.5% for Odisha. Thus, West Bengal is relatively more dependent on central transfers than both the average state and the neighbouring state of Odisha.

Own tax revenues account for about 41.8% of West Bengal's total revenue receipts, while own non-tax revenues contribute only around 2%. In comparison, the average across all states recorded higher shares of both own tax and own non-tax revenues in total revenue receipts. Odisha, by contrast, derives a significantly larger share of its revenue receipts (20.1%) from own non-tax revenues, largely reflecting substantial receipts from the mining and metallurgical sectors, although the share of its own tax revenues in total revenue receipts is comparatively lower.

In terms of their shares to Gross State Domestic Product (GSDP), West Bengal's total revenue receipts averaged around 13% of GSDP during the study period. However, this ratio is marginally lower than the average for All States and substantially lower than that of the neighbouring state of Odisha (Figure 1B).

The share of own revenue receipts as a percentage of GSDP is a key indicator of a state's revenue mobilisation capacity. On this measure, West Bengal performs relatively poorly compared with the average of All States (Figure 2A&B)). The shares of both own tax revenues and own non-tax revenues in the GSDP are smaller than the corresponding averages for All States as well as for Odisha. Among the three comparators, Odisha exhibits the strongest revenue mobilisation performance, generating higher shares of both own tax and own non-tax revenues relative to GSDP than either West Bengal or the average state.

Figure 1A: Composition of Revenue Receipts as a Share of Total Revenues: West Bengal, All States, and Odisha

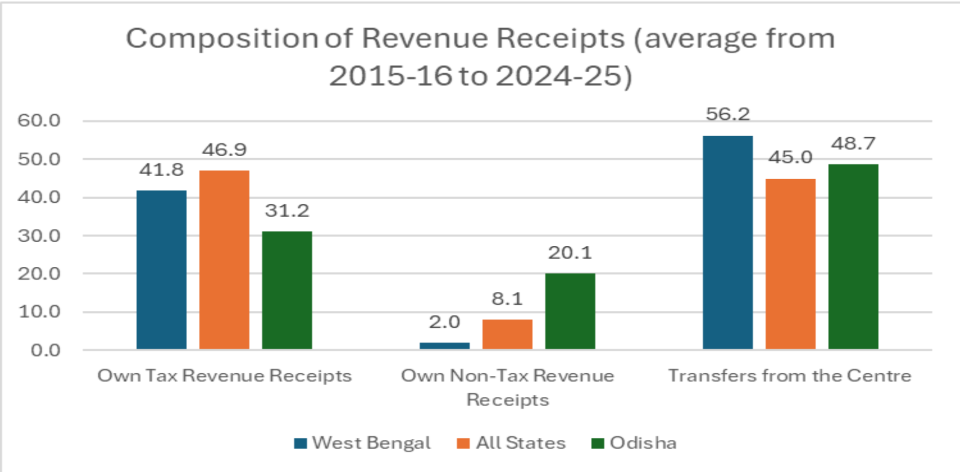
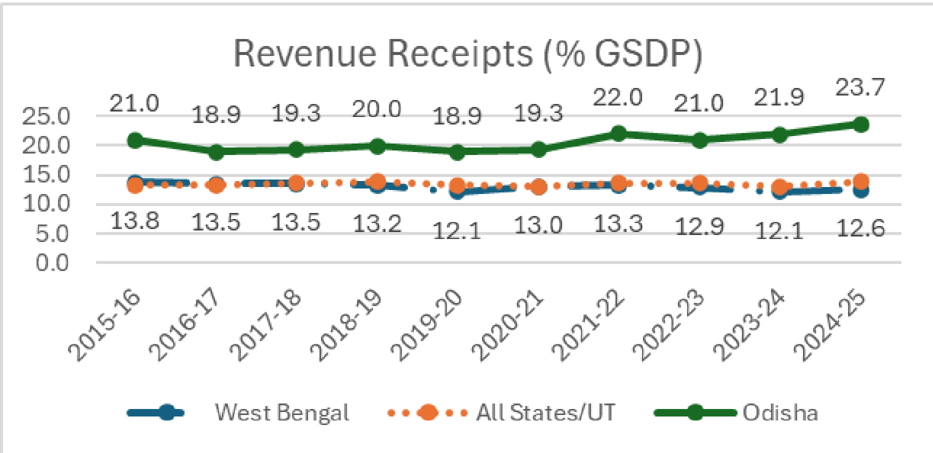


Figure 1B: Revenue Receipts as a Percentage of GSDP: West Bengal, All States and Odisha



Source: Developed from RBI (2026). State Finances: A Study of Budgets, 2025-26
***Note**:* Revised Estimates for FY 2024-25 have been used for GSDP.

Figure 2A: Own Tax Revenues as a Percentage of GSDP: West Bengal, All States, and Odisha

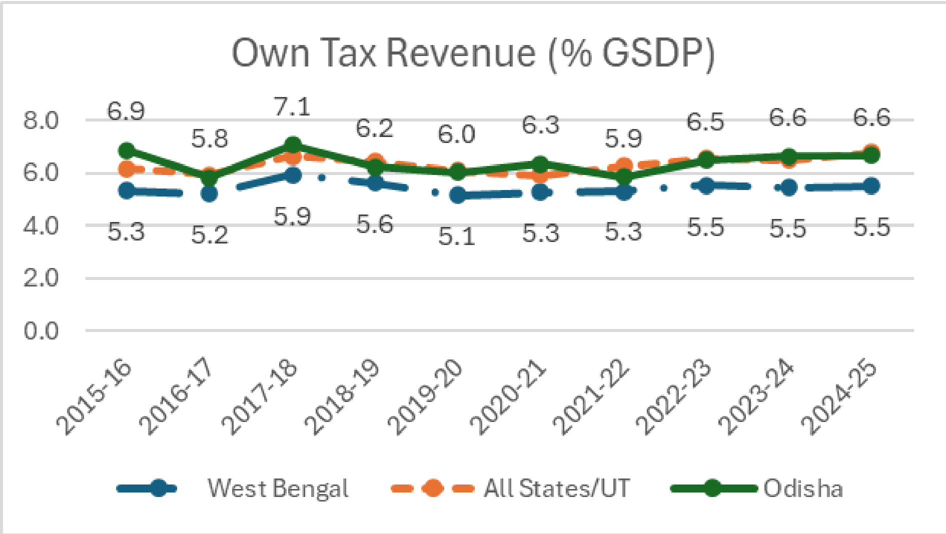
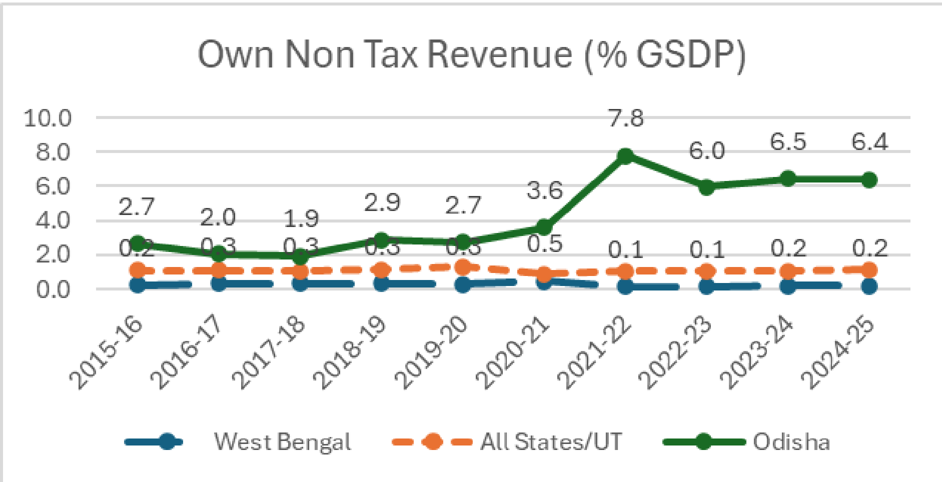


Figure 2B: Own Non-Tax Revenues as a Percentage of GSDP: West Bengal, All States, and Odisha



Source: Developed from RBI (2026). State Finances: A Study of Budgets, 2025-26
***Note**:* Revised Estimates for FY 2024-25 have been used for GSDP.

Further decomposition of own tax revenues shows that taxes on commodities and services account for the bulk of tax receipts, ranging from 85.4% in West Bengal to 92.1% in Odisha (Figure 3 A). Taxes on property and capital transactions account for 13.7% of tax revenues in West Bengal, whereas their share in Odisha is considerably lower, at only 7.3%.

A decomposition of non-tax revenues reveals marked differences in the composition of receipts across the two states (Figure 3B). In West Bengal, the mining sector contributes only 13.9% of non-tax revenues, whereas in Odisha it accounts for the largest share, at 75.4%. In contrast, other services constitute the largest component of non-tax revenues in West Bengal, accounting for 57.9%, compared with 15.2% in Odisha and 87.0% for the all-states average.[3] Interest income also represents a significant share of non-tax revenues in West Bengal (23.9%), compared with 11.5% for the all-states average and 5.7% in Odisha. By contrast, dividends and profits account for only a small share of non-tax revenues in all three cases—West Bengal, Odisha, and the all-states average.

Figure 3A: Composition of Own Tax Revenues (% shares of Total Own-Tax Revenues): West Bengal, All States, and Odisha

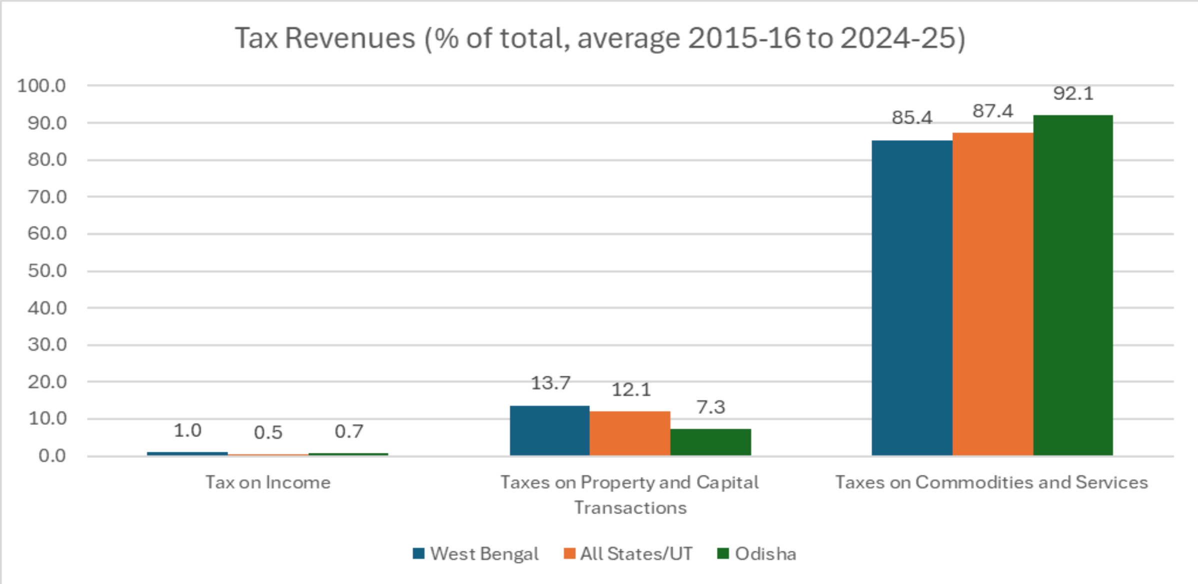
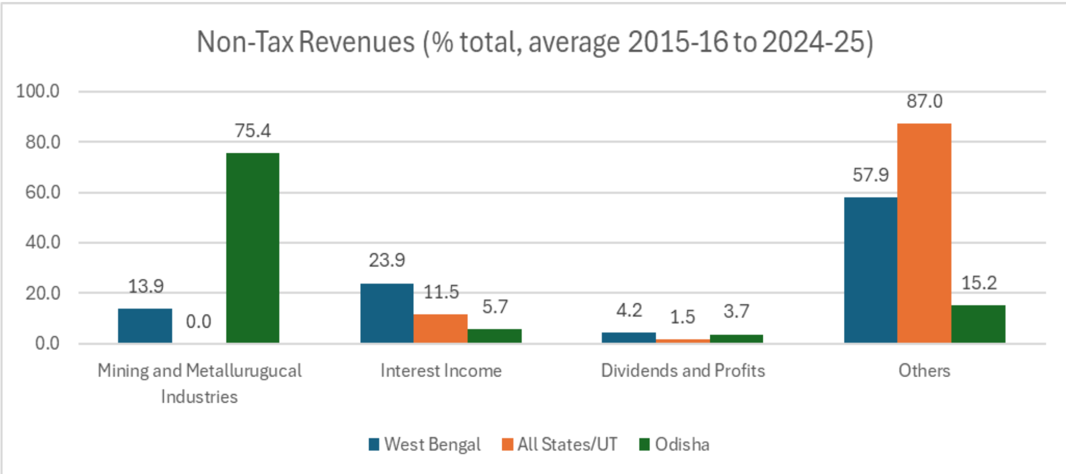


Figure 3B: Composition of Own Non-Tax Revenues (% share of Total Non-Tax Revenues): West Bengal, All States, and Odisha



Source: Developed from RBI (2026). State Finances: A Study of Budgets, 2025-26.

We also analysed revenue buoyancy, a measure of the percentage change in a state's own revenues relative to the percentage change in its Gross State Domestic Product (GSDP). Revenue buoyancy is an important indicator of a state's ability to mobilise its own revenues and the effectiveness of its revenue generation efforts. A buoyancy coefficient of less than 1 indicates that own revenues have grown less than proportionately to GSDP,

[3] This includes general, social, fiscal, and economic services.

whereas a coefficient greater than 1 implies that own revenues have grown more than proportionately.

For West Bengal, revenue buoyancy has been weak and volatile as reflected in buoyancy coefficient of less than or equal to 1 in six of the nine years under consideration, exceeding 1 only in 2017–18, 2022–23, and 2024-25 (Table 1). In contrast, Odisha recorded revenue buoyancy greater than 1 in five of the nine years.[4] These findings suggest that West Bengal's revenue 8obilization has generally been less responsive to economic growth than Odisha's. Improving revenue buoyancy will therefore require sustained efforts to strengthen the state's own revenue 8obilization.

Table 1: Own Revenue Buoyancy: West Bengal, All States, and Odisha

States	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
West Bengal	1.0	2.2	0.6	-0.4	-0.8	0.6	1.4	1.0	1.1
All States/ Uts	0.7	1.9	0.9	0.6	7.5	1.5	1.4	0.9	1.5
Odisha	-0.1	2.3	1.1	0.5	29.1	2.7	-0.7	2.4	1.0

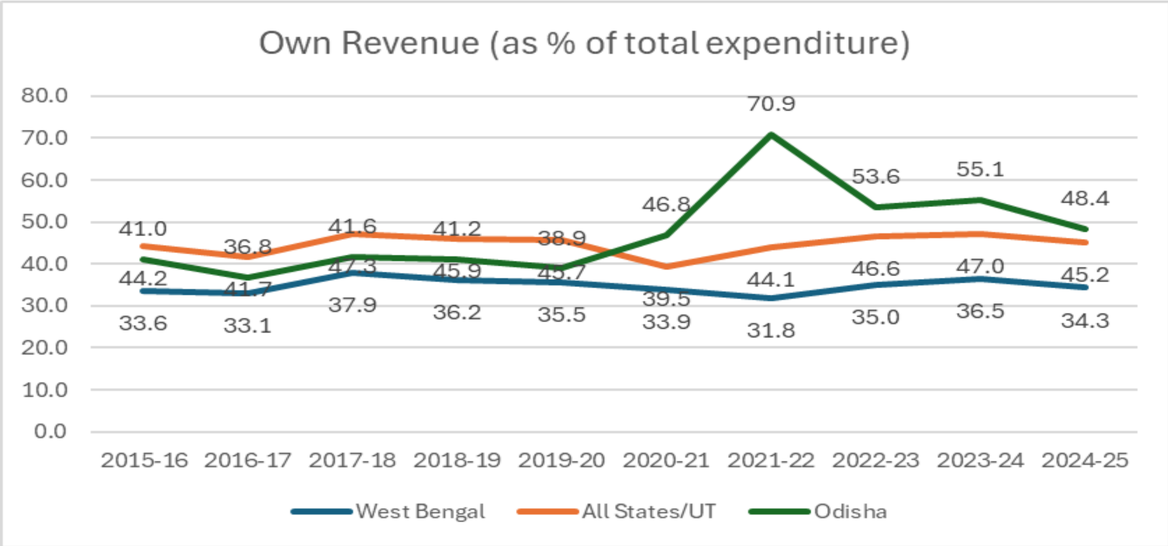
Source: Developed from RBI (2026). State Finances: A Study of Budgets, 2025-26.

The need for West Bengal to strengthen its own revenue generation capacity is also evident from its relatively low reliance on own revenues to finance its expenditure, particularly when compared with the average state. Over the past decade, the ratio of own revenues to total expenditure in West Bengal has remained largely unchanged (Figure 4).

This ratio, a key indicator in NITI Aayog's Fiscal Performance Index, reflects the degree of a state's fiscal autonomy. Throughout the study period, West Bengal has financed only about 35% of its total expenditure from its own revenues, indicating limited fiscal independence and a continued dependence on transfers from the Centre and other external sources of financing. In comparison, the average state finances about 45% of its expenditure from its own revenues, while Odisha finances slightly over 47% through its own revenue sources.

[4] A significantly large increase in own revenue buoyancy in Odisha in 2020-21 was primarily driven by higher non-tax revenue, as the Government auctioned mines (iron ore, manganese, bauxite and dolomite mines) following the Mines and Minerals (Development and Regulation) Amendment Act, 2015, which required the Government to auction all new mines and those with expired leases, resulting in high collection of mining revenue (Report of the Comptroller and Auditor General of India on State Finances for the year 2024-25).

Figure 4: Own Revenues vis a vis Total Expenditure:
West Bengal, All States, and Odisha



Source: Developed from RBI 2026). State Finances: A Study of Budgets, 2025-26

To increase the share of expenditure financed through its own resources, West Bengal will need to strengthen its revenue mobilisation efforts. As shown in Figure 2, the state's own tax revenues, measured as a percentage of GSDP, have remained largely stagnant and have consistently remained below the average for All States as well as Odisha. Moreover, this gap has widened in recent years, particularly since 2020–21, highlighting the growing need for measures to enhance the state's own tax mobilisation.

The stagnation in West Bengal's own tax revenues may be attributed to several structural characteristics of the state's economy.

First, the composition of the state's economy limits its tax mobilisation capacity. The services sector is the largest contributor to Gross State Value Added (GSVA), accounting for about 57% of the state's output. Within this, a substantial share is generated by relatively informal or unorganised sectors such as Real Estate, Ownership of Dwellings and Business Services and Trade, Hotels and Restaurants, which contributed about 7% and 16.7% of GSVA, respectively, in 2024–25. These sectors also account for a significant proportion of employment, with Transport, Storage, and Communications employing 13.3% of the workforce and Trade, Hotels and Restaurants employing 13.5%. Furthermore, Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles alone accounts for 10.7% of total employment (2024–25). The predominance of informal economic activity limits the state's tax base, as transactions and enterprises in the organised sector are generally easier to identify, monitor, and tax.

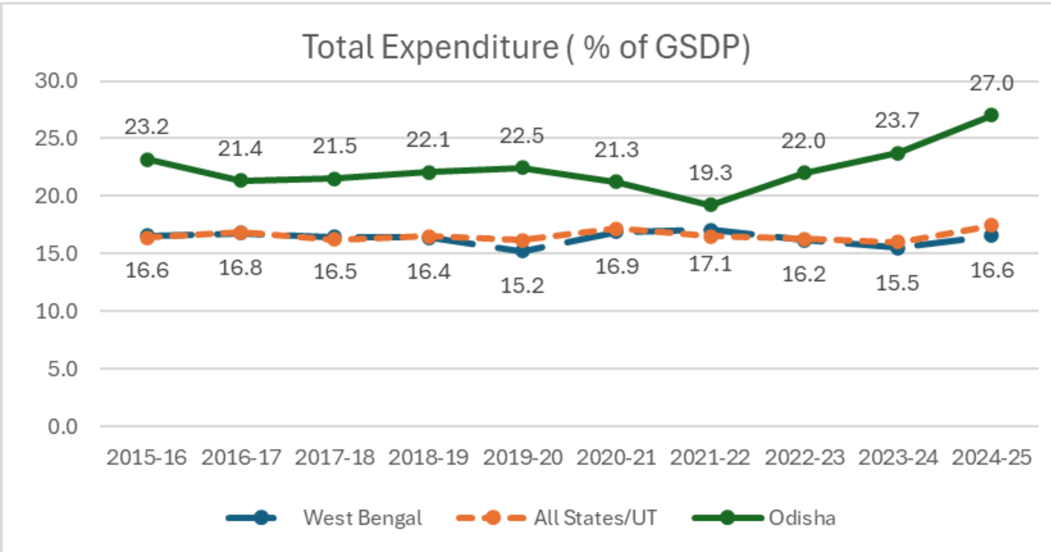
Second, the declining contribution of manufacturing and industry to the state's economy has adversely affected tax collections. Industry accounts for only about 22% of GSVA in West Bengal, compared with the All States average of around 29%. Given that manufacturing and industrial activities generally have higher tax buoyancy than many service-sector activities, the relatively smaller industrial base constrains the state's capacity to generate own tax revenues. This issue has also been highlighted by Ray and Bhattacharya (2017) and the State Finance of West Bengal report prepared by IIM Calcutta.

Third, West Bengal remains a relatively low-income state in terms of per capita income. According to the NCAER–NITI States Economic Forum (2024–25), the state ranks among the lower-income states when compared with the 19 major states. The RBI State Finances Report 2025–26 notes that states with lower per capita incomes generally have lower tax capacity, which limits the amount of tax revenue that can be mobilised given the structural characteristics of their economies. A lower per capita income is also associated with a narrower tax base and weaker growth in taxable economic activity, thereby constraining revenue mobilisation and contributing to relatively slower growth in tax collections.

3. Expenditure and Quality of Expenditure

West Bengal's total expenditure stood at 16.6 percent of its GSDP in 2024–25, marginally below the All-States average of 17.5 percent but substantially lower than Odisha's level of 27.0 percent (Figure 5). Moreover, the state's total expenditure has remained largely stagnant at around 16.4 percent of GSDP throughout the study period. While this level is only slightly below the All-States average, Odisha has recorded a significant increase in total expenditure over the same period, particularly since 2021–22.

Figure 5: Total Expenditure as a Percentage of GSDP: West Bengal, All States, and Odisha



Source: Developed from RBI (2026). State Finances: A Study of Budgets, 2025-26.
Note: Revised Estimates for FY 2024-25 have been used for GSDP.

West Bengal allocates a relatively large share of its resources to the social sector, including health, education, and other social services. At 9.6 percent of GSDP in 2024–25, the state's social sector expenditure exceeds the All-States average of 8.0 percent. However, it remains substantially below Odisha's allocation of 14.4 percent of GSDP (Figure 6A). A major share of this expenditure is devoted to health and education, where West Bengal performs slightly better than the All-States average (Figure 6B). Nevertheless, Odisha allocates a considerably larger proportion of its GSDP to these sectors, indicating a stronger emphasis on social sector investment.

Figure 6A: Social Sector Expenditures as a Percentage of GSDP: West Bengal, All States, and Odisha

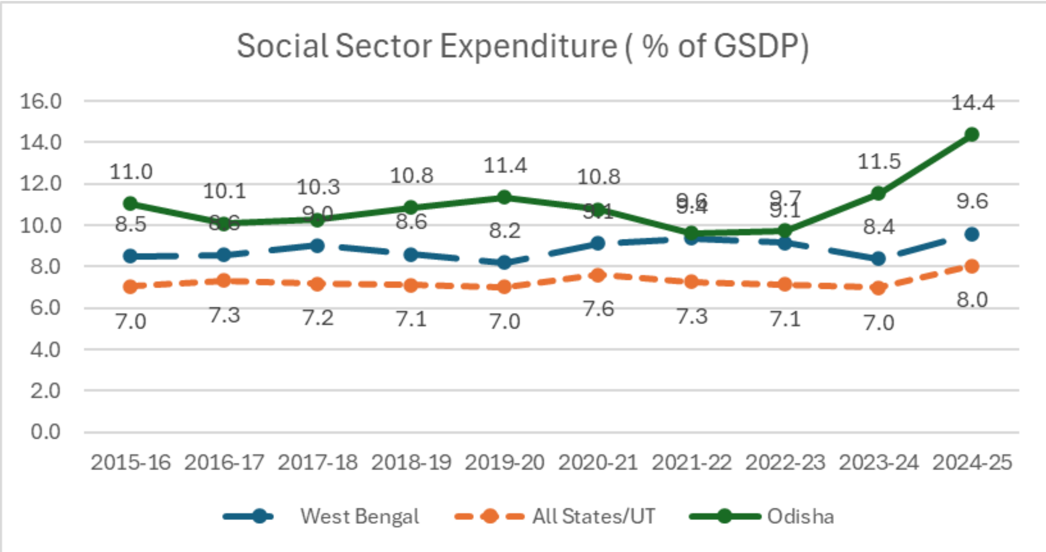
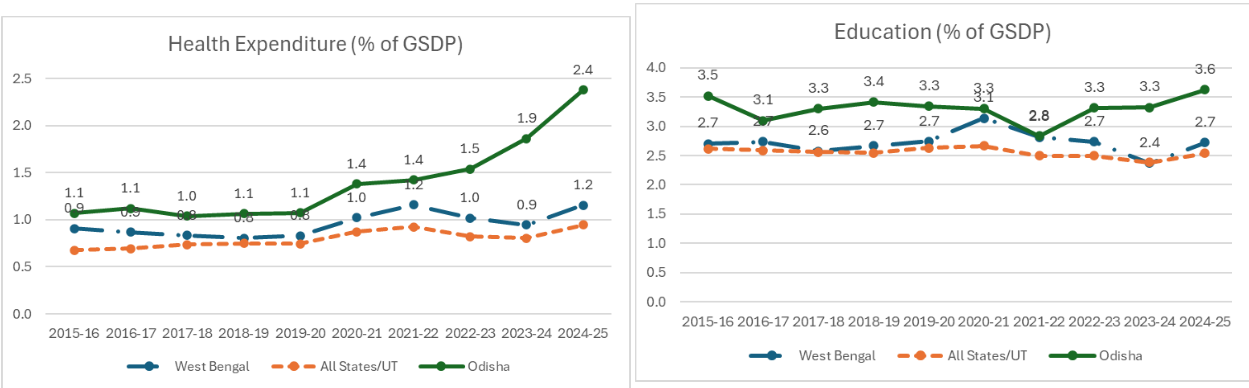


Figure 6B: Health and Education Expenditures as a Percentage of GSDP: West Bengal, All States, and Odisha



Source: Developed from RBI (2026). State Finances: A Study of Budgets, 2025-26.
***Note**:* Revised Estimates for FY 2024-25 have been used for GSDP.

There are, however, three major areas of concern.

First, a substantial proportion of West Bengal's total expenditure is devoted to revenue expenditure, averaging 14.7 percent of GSDP during the study period (Figure 7 A). This is largely driven by a high level of committed expenditure, which averaged 7.2 percent of GSDP (Figure 7B). Committed expenditure comprises spending on wages and salaries, pensions, and interest payments, all of which have remained at elevated levels, although they have fluctuated over the period from 2015–16 to 2024–25. In comparison, the level of committed expenditure in the All-States average is marginally lower.

Figure 7A: Revenue Expenditure as a Percentage of GSDP: West Bengal, All States, and Odisha

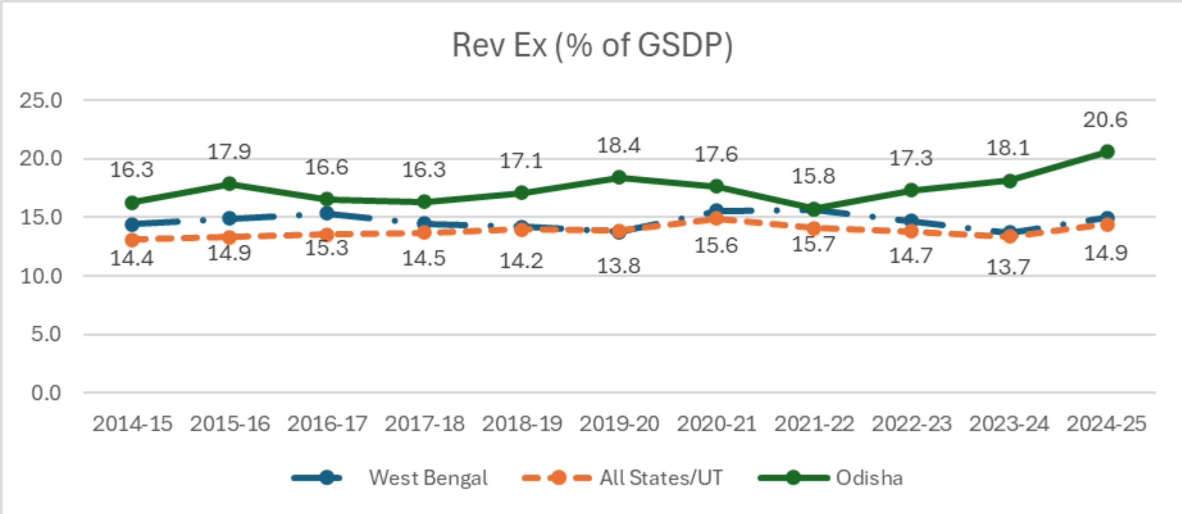
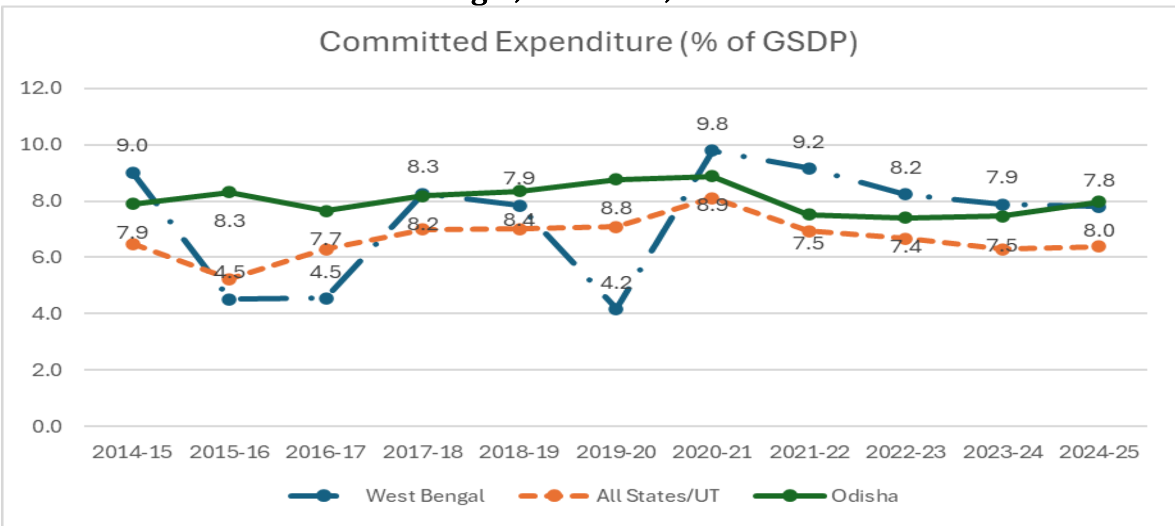


Figure 7B: Committed Expenditure as a Percentage of GSDP: West Bengal, All States, and Odisha



Source: Developed from RBI (2026). State Finances: A Study of Budgets, 2025-26.
Note: Revised Estimates for FY 2024-25 have been used for GSDP.

Second, West Bengal bears a relatively high subsidy burden compared with Odisha (Figure 8). Subsidies accounted for 7.0 percent of the state's total expenditure in 2024–25, a level close to the All-States average but more than double Odisha's corresponding share of 3.4 percent. The relatively high subsidy burden further constrains the state's fiscal flexibility.

Third, a disproportionately large share of West Bengal's expenditure is devoted to current expenditure, accounting for between 86.4 and 92.1 percent of total expenditure during the period from 2015–16 to 2024–25. Consequently, only a limited share of resources is available for capital formation. As noted earlier, the state's fiscal space is constrained by high committed expenditure and a relatively large subsidy burden, limiting its ability to increase capital outlays. As a result, capital outlay averaged only 1.6 percent of GSDP during the study period, compared with 2.3 percent for the All-States average and 4.6 percent for Odisha (Figure 9). This low level of capital investment raises concerns about the state's long-term growth potential and infrastructure development.

Figure 8: Expenditure on Subsidies as a Percentage of Total Expenditure: West Bengal, All States, and Odisha

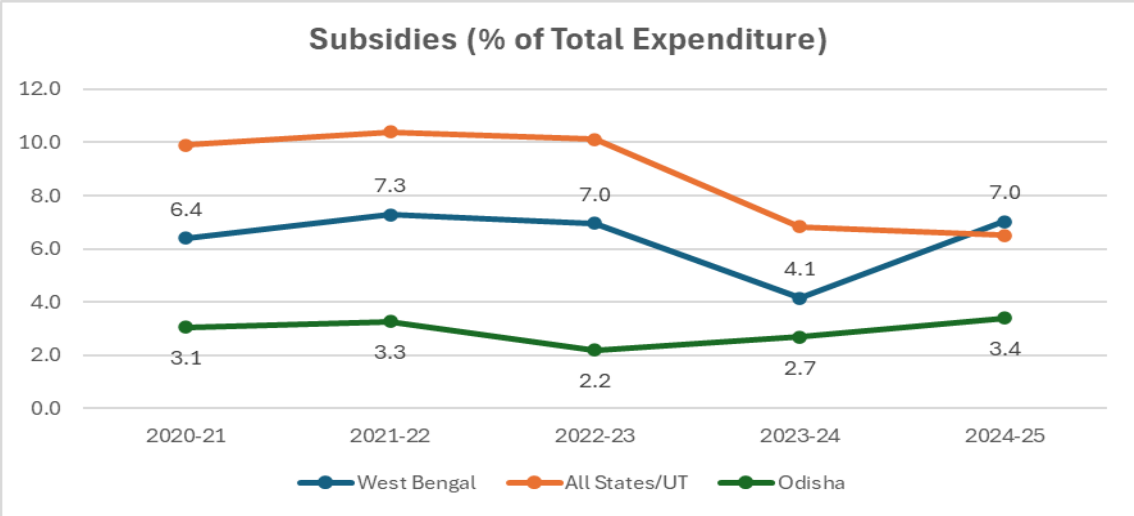
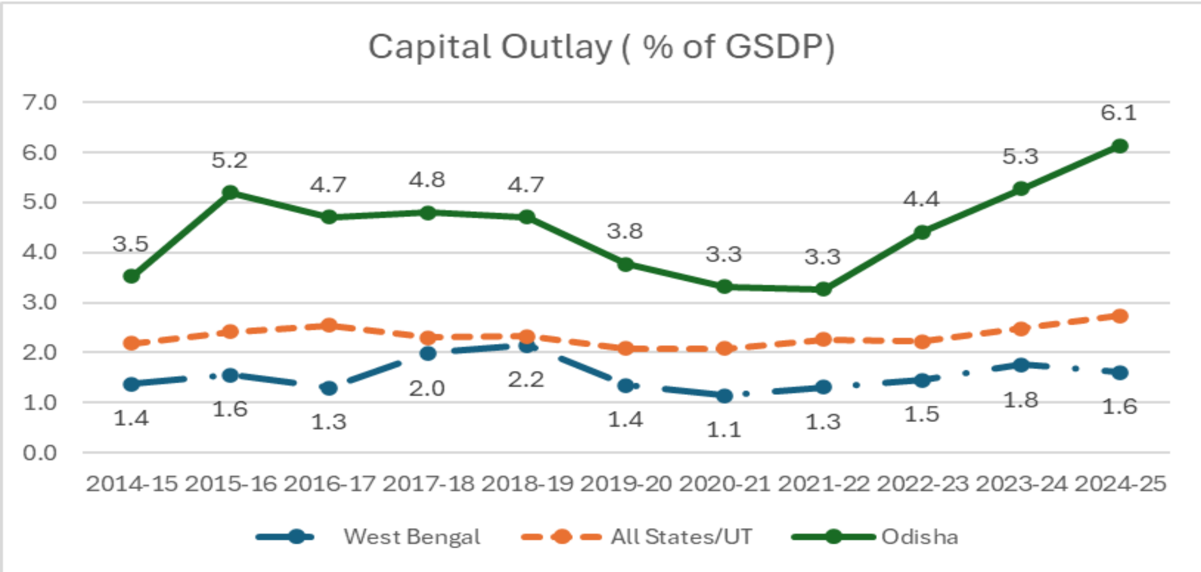


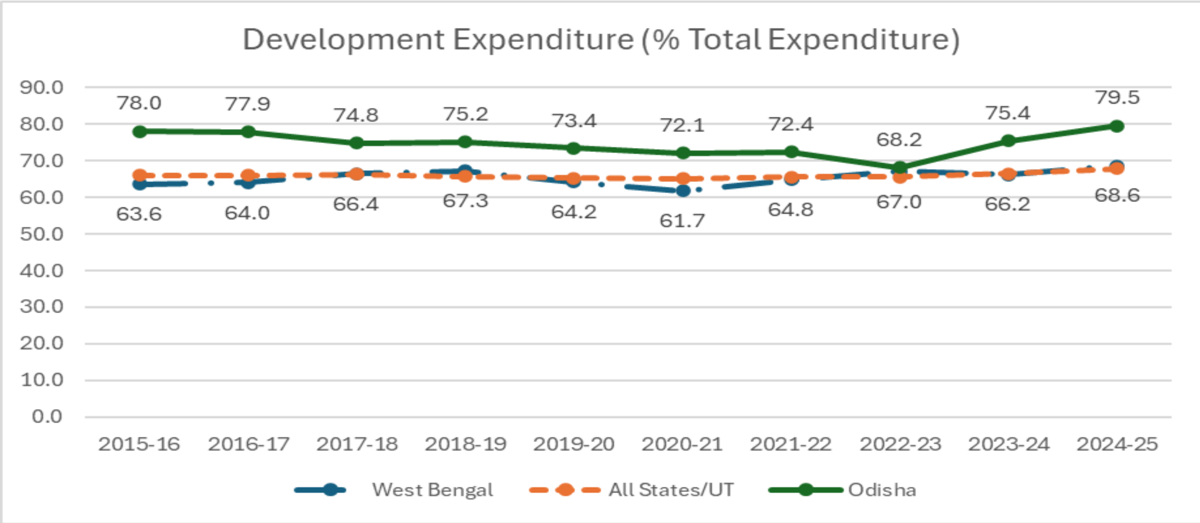
Figure 9: Capital Outlay as a Percentage of GSDP: West Bengal, All States, and Odisha



Source: Developed from RBI (2026). State Finances: A Study of Budgets, 2025-26.
Note: Revised Estimates for FY 2024-25 have been used for GSDP.

Also, the overall quality of expenditure in West Bengal remains underwhelming as between 61.7 and 68.6% of total expenditure was directed towards developmental activities during the study period (Figure 10), broadly comparable to the All-States average, although significantly lower than Odisha. Social services—including health, water supply and sanitation, urban development, education, and social welfare—constituted a substantial share of total expenditure, accounting for 51 to 57.8% during the study period. This is significantly higher than both the All-States average and Odisha, reflecting the state's strong emphasis on social sector spending.

Figure 10: Development Expenditure as a Percentage of Total Expenditure: West Bengal, All States, and Odisha



Source: Developed from RBI (2026). State Finances: A Study of Budgets, 2025-26.

4. Fiscal Prudence - Deficits and Outstanding Liabilities

A state's overall fiscal health depends on the sustainability of its fiscal position. Two key dimensions are particularly important in this regard.

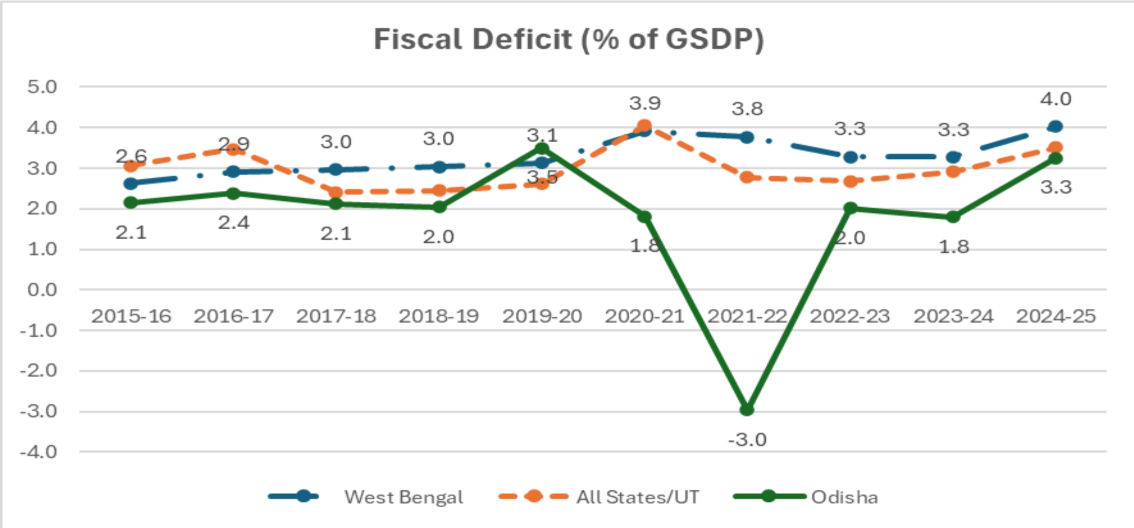
First, fiscal prudence refers to the state's ability to finance its regular operations through its own revenues while maintaining manageable fiscal deficits. A state that consistently generates revenue surpluses and keeps fiscal deficits within prudent limits has greater fiscal space for development expenditure. In contrast, persistent revenue deficits point to underlying structural weaknesses and indicate greater reliance on borrowing to finance routine expenditure.

Second, the level of outstanding liabilities and the cost of servicing it, are critical determinants of fiscal sustainability. High levels of outstanding and elevated debt-servicing costs reduce a state's fiscal flexibility, limiting its ability to undertake the capital investments needed to support economic growth and broader developmental priorities.

4.1 Fiscal and Revenue Deficits

West Bengal's fiscal deficit has remained consistently above the all-states average for most of the period from 2015–16 to 2024–25, reaching 4.0 per cent of GSDP in 2024–25 (Figure 11). Although the pandemic led to a sharp deterioration in fiscal balances across most states, West Bengal's fiscal consolidation has been limited and considerably slower than that of many other states. In contrast, Odisha has maintained a strong fiscal position, even recording a fiscal surplus in 2021–22. The persistence of relatively high fiscal deficits in West Bengal indicates a continued reliance on borrowings, increasing the vulnerability of the state's public finances.

Figure 11: Fiscal Deficit as Percentage of GSDP:
West Bengal, All States, and Odisha

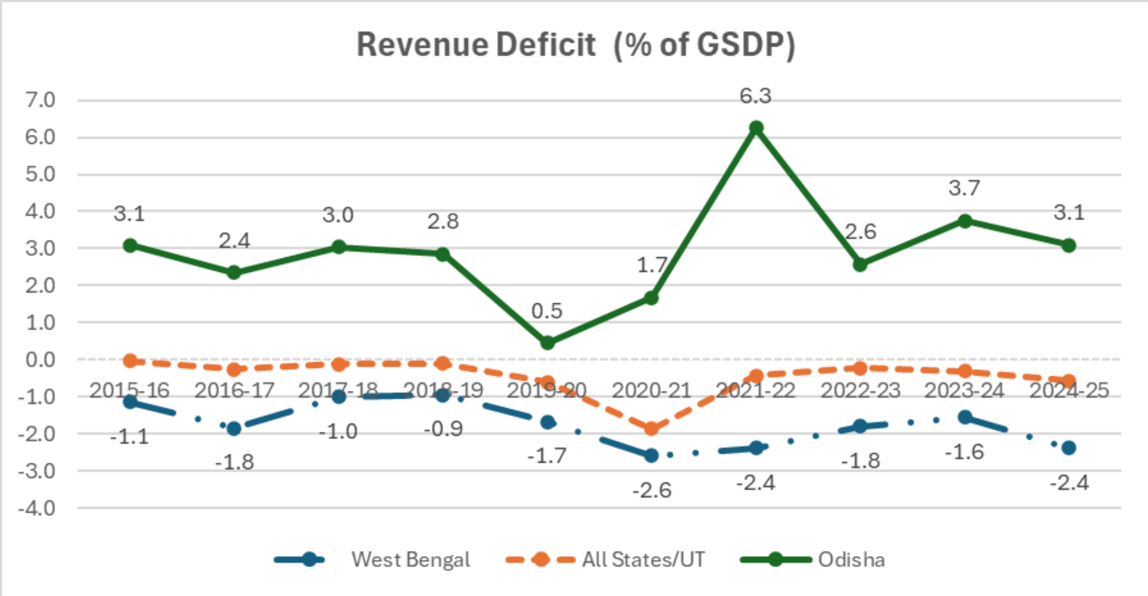


Source: Developed from RBI (2026). State Finances: A Study of Budgets, 2025-26.
Note: Revised Estimates for FY 2024-25 have been used for GSDP.

A similar pattern is evident in the state's revenue balance. West Bengal has recorded revenue deficits throughout the entire period under review, implying that a portion of its current expenditure continues to be financed through borrowings. The revenue deficit widened significantly during the pandemic and has remained well above the all-states average, reaching 2.4 per cent of GSDP in 2024–25 (Figure 12). While the all-states average also shows persistent revenue deficits over this period, these have remained substantially lower. In contrast, Odisha consistently recorded revenue surpluses, peaking at around 6.3 per cent of GSDP in 2021–22. This reflects a much stronger revenue position and provides the state with greater fiscal space to finance development expenditure.

As discussed in Section 3, West Bengal's capital outlay averaged only 1.6 per cent of GSDP during the study period, significantly lower than both the all-states average and Odisha. Taken together with the persistent revenue deficit, this suggests that a substantial share of the state's borrowings is being used to finance current expenditure and service existing liabilities rather than to support growth-enhancing capital investment. This pattern raises concerns about the long-term sustainability and quality of the state's fiscal adjustment.

Figure 12: Revenue Deficit as a Percentage of GSDP: West Bengal, All States, and Odisha



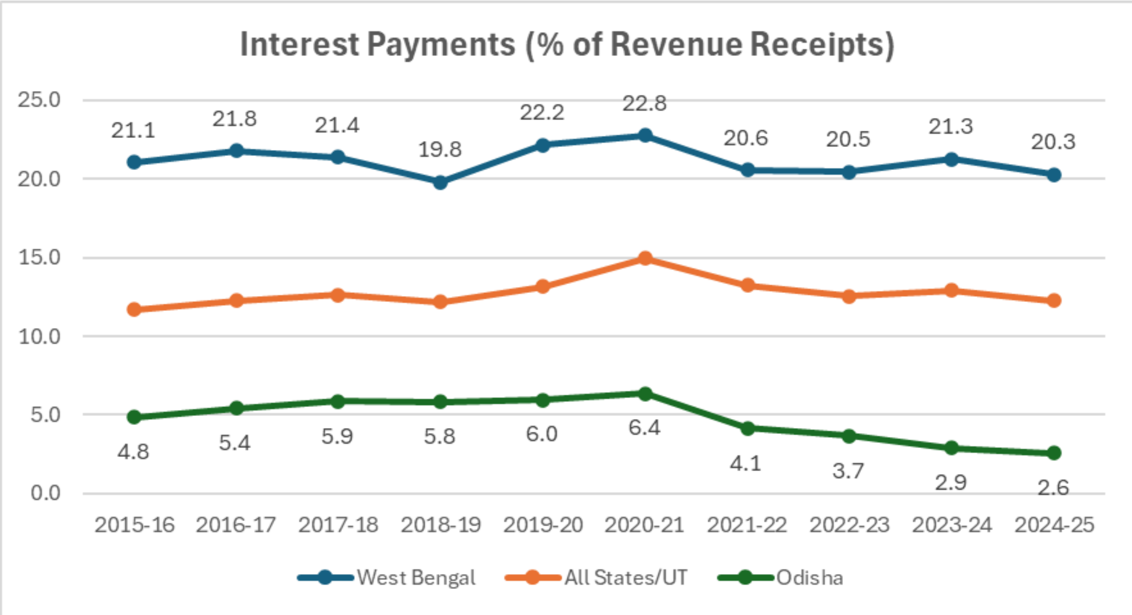
Source: Developed from RBI (2026). State Finances: A Study of Budgets, 2025-26.
Note: Revised Estimates for FY 2024-25 have been used for GSDP.

4.2 Interest Payments and the Burden of Liabilities

The interest payments-to-revenue receipts ratio measures the share of a state's revenue receipts that is absorbed by interest payments on outstanding liabilities. A high ratio indicates that a larger proportion of current revenues is being used to service past borrowings, reducing the fiscal space available for developmental and other priority expenditures.

West Bengal performs significantly worse on this indicator than both the all-states average and Odisha. During the period from 2015–16 to 2024–25, the state devoted, on average, about 21 per cent of its revenue receipts to interest payments. In comparison, the corresponding average for all states was 12.8 per cent, while Odisha spent only 4.8 per cent of its revenue receipts on interest payments (Figure 13). The high interest burden reflects the cumulative effect of sustained borrowing and further constrains the state's fiscal flexibility.

Figure 13: Interest Payments as a Percentage of Revenue Receipts: West Bengal, All States, and Odisha

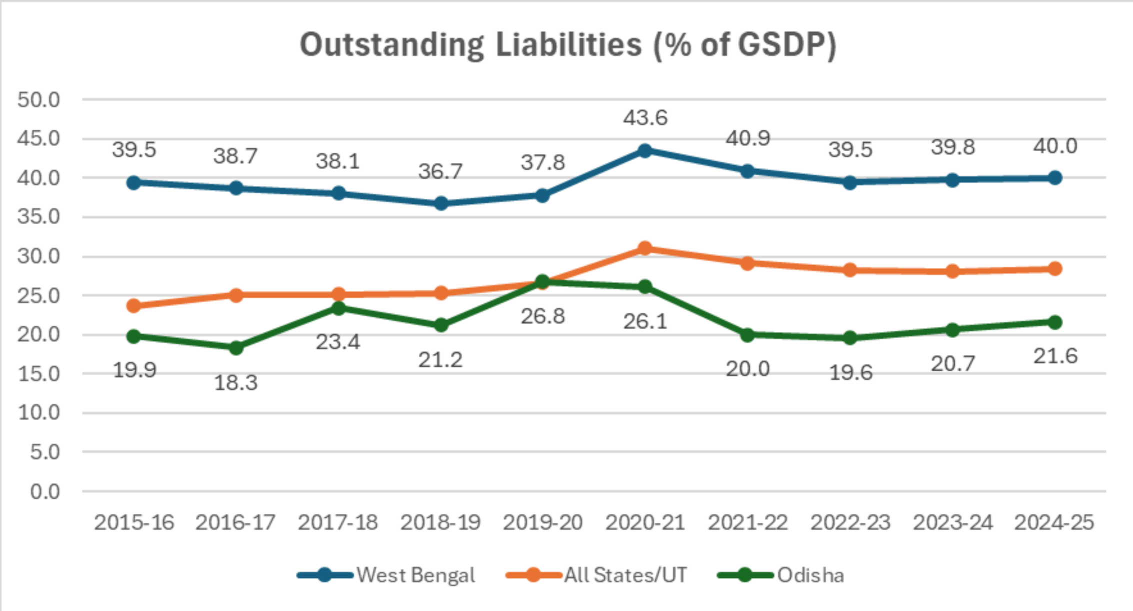


Source: Developed from RBI (2026). State Finances: A Study of Budgets, 2025-26

These trends are also reflected in West Bengal's debt profile. As fiscal and revenue deficits are financed through borrowing, the outstanding liabilities-to-GSDP ratio provides an important indicator of the sustainability of public finances and the long-term debt burden. Throughout the study period, West Bengal's outstanding liabilities-to-GSDP ratio remained consistently higher than both the all-states average and Odisha, reflecting the cumulative impact of persistent fiscal and revenue deficits. Although outstanding liabilities ratios increased across most states during the pandemic, West Bengal's outstanding liabilities remained close to 40 per cent of GSDP, substantially above the all-states average of 28.4 per cent and Odisha's 21.6 per cent (Figure 14). Odisha's significantly lower burden of outstanding liabilities reflects its more prudent borrowing strategy, supported by sustained revenue surpluses and stronger overall fiscal balances.

One mitigating factor is that West Bengal's contingent liabilities have remained relatively low throughout the study period. As of 2024–25, they stood at only 0.9 per cent of GSDP, compared with the all-states average of around 3 per cent. This suggests that the state's fiscal risks arising from guarantees and other contingent obligations are relatively limited, even though its direct burden of outstanding liabilities remains high.

Figure 14: Total Outstanding Liabilities as a Percentage of GSDP: West Bengal, All States, and Odisha



Source: Developed from RBI (2026). State Finances: A Study of Budgets, 2025-26.
Note: Revised Estimates for FY 2024-25 have been used for GSDP.

While the preceding analysis highlights the magnitude of West Bengal's outstanding liabilities burden relative to its economic and revenue base, an examination of the composition of liabilities provides additional insight into the nature of the state's indebtedness. The composition of outstanding liabilities is important because different borrowing instruments have distinct implications for borrowing costs, refinancing risks, and long-term fiscal sustainability.

West Bengal's liabilities are overwhelmingly dominated by internal debt, which consistently accounted for around 80 per cent of total outstanding liabilities during the study period (Figure 15A). Other components—including loans and advances from the Centre, provident funds, reserve funds, and deposits—constituted only a small share of the liability profile. This indicates that the state's debt dynamics are driven primarily by domestic borrowing rather than intergovernmental lending.

Within internal outstanding liabilities, market borrowings through State Development Loans (SDLs) have become the dominant source of financing (Figure 15B).. Their share increased steadily over time, accounting for more than 90 per cent of internal debt by 2025, while the shares of National Small Savings Fund (NSSF) liabilities and other borrowing instruments declined. This shift reflects the growing importance of market-based financing in West Bengal's debt management strategy. Consequently, borrowing costs, market interest rates, and investor demand for SDLs have become increasingly important determinants of the state's debt sustainability. The declining share of NSSF liabilities is also consistent with the broader shift in state financing following reforms to NSSF lending arrangements and the greater reliance on market borrowings after the Fourteenth Finance Commission.

Figure 15A: Composition of Outstanding Liabilities (% shares of Total Debt): West Bengal, All States, and Odisha

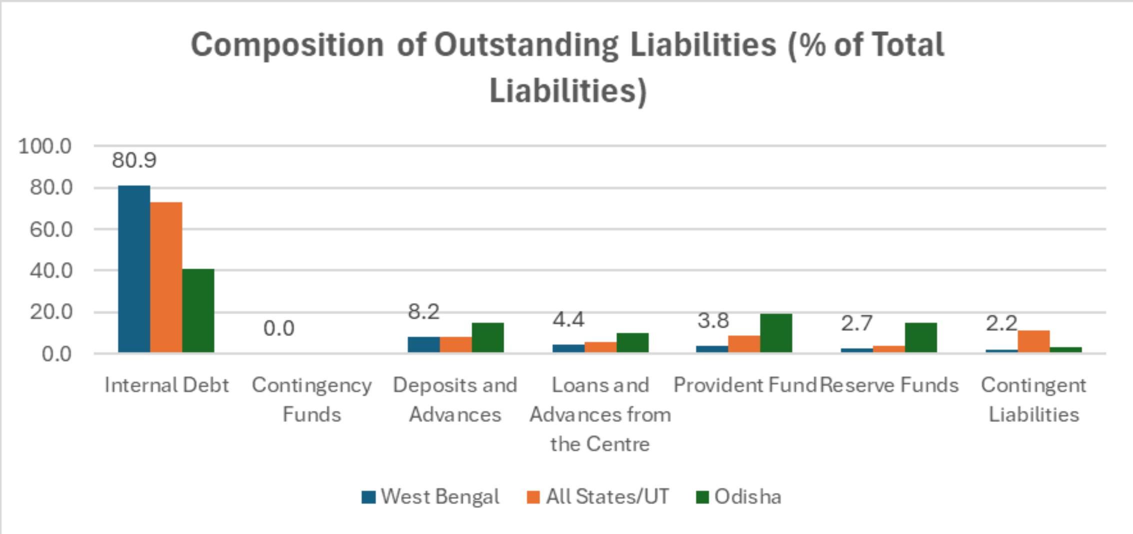
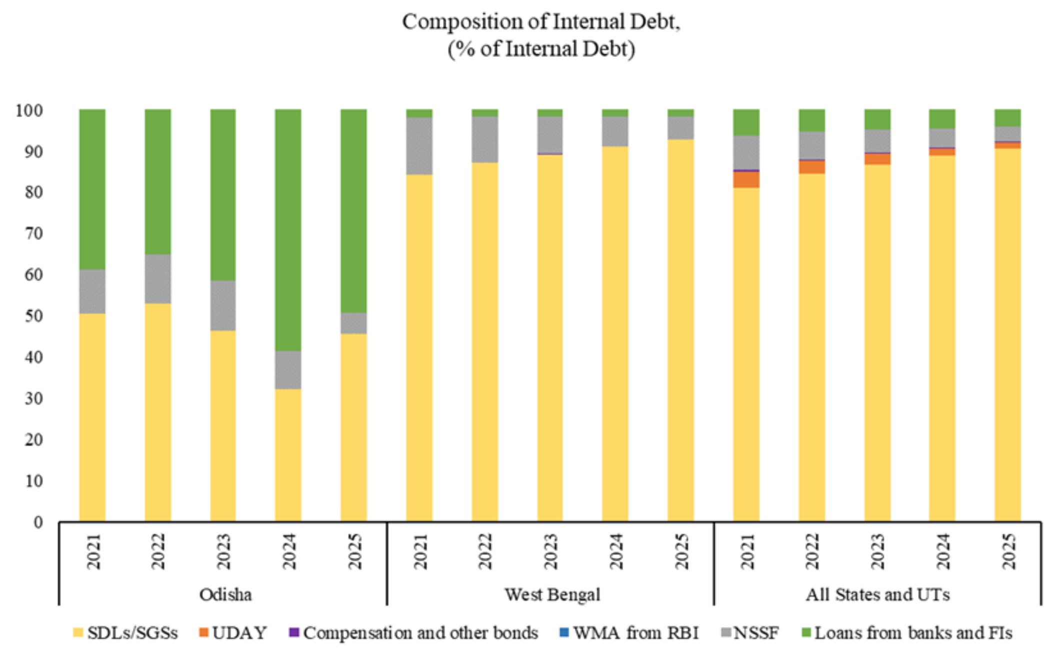


Figure 15B: Composition of Outstanding Liabilities (% shares of Internal Liabilities): West Bengal, All States, and Odisha



Source: Developed from RBI (2026). State Finances: A Study of Budgets, 2025-26.

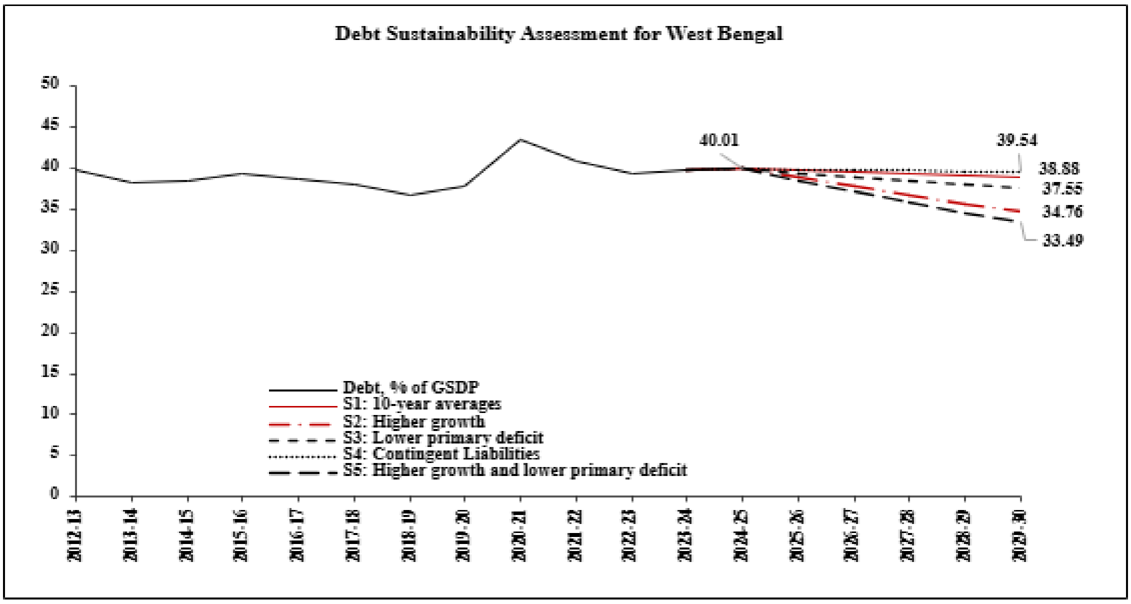
Odisha exhibits a markedly different debt profile. Although SDLs have become increasingly important there as well, loans from banks and financial institutions continue to account for a substantial share of the state's internal debt. These institutional borrowings are dominated by loans from NABARD, which accounted for about 62 per cent of aggregate loans from banks and financial institutions in 2025. This highlights the importance of development- and project-linked financing in Odisha's debt structure. By contrast, institutional borrowing constitutes only a small component of West Bengal's internal debt and is concentrated largely in the residual category of "other financial institutions," with relatively limited borrowing from NABARD, LIC, and other major public financial institutions.

The dominance of internal debt is also evident when debt is assessed relative to the state's economy and overall public debt stock. Throughout the study period, West Bengal maintained a higher ratio of internal debt to GSDP than both the all-states average and Odisha. Internal debt also accounted for nearly 80 per cent of the state's total public debt, underscoring its heavy reliance on domestic market borrowing. In contrast, Odisha's substantially lower reliance on internal debt reflects its stronger fiscal position, lower borrowing requirements, and greater fiscal space.

4.3 Debt Sustainability Assessment

The Debt Sustainability Assessment for West Bengal predicts a decreasing trajectory for Outstanding Liabilities-to-GSDP ratio over the next five years from 2024-25 to 2029-30 provided there is higher growth or primary deficit gets reduced or a combination of both lower primary deficit and higher growth (Figure 16).[5] Even if the state absorbs its outstanding contingent liabilities, Outstanding Liabilities to GSDP ratio is predicted to be on the same path because the level of contingent liabilities is very low.

Figure 16: Debt Sustainability Assessment: West Bengal



Source: Author's calculations based on framework developed by Eichengreen and Gupta (2023).
Note: In Scenario 2, half a standard deviation of 10-year average of real GDP growth rate is added as a positive growth shock. In Scenario 3, half a standard deviation of 10-year average of primary deficit is removed as a positive fiscal shock. In Scenario 4, 0.20 percentage points of Contingent Liabilities are assumed to be taken on by the government in each fiscal year.

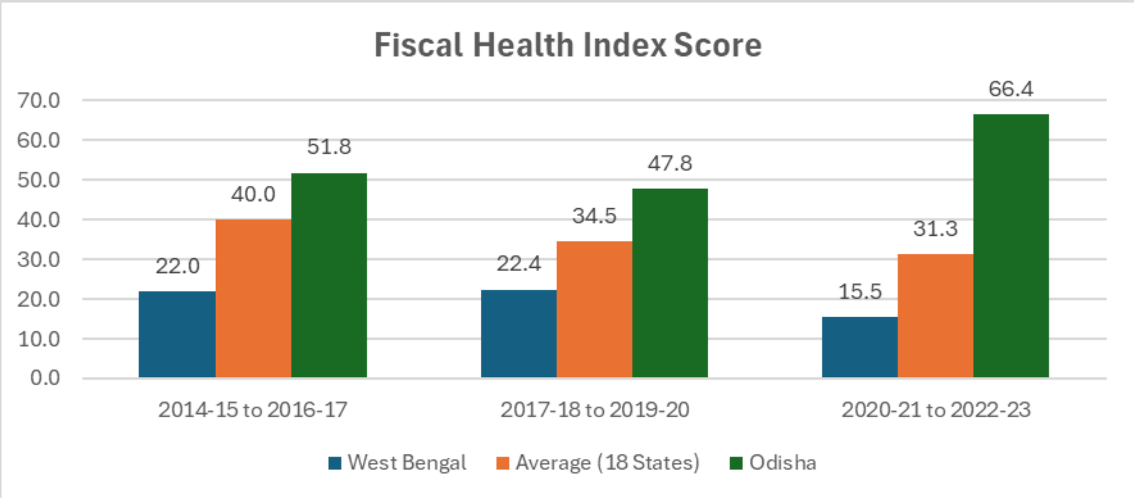
[5] The five scenarios considered for assessing debt sustainability include - Baseline Scenario 1: 10-year averages (2015-16 to 2024-25); Scenario 2: Higher growth (increasing growth by half a standard deviation over baseline); Scenario 3: Lower Primary Deficit (reducing primary deficit by half a standard deviation over baseline); Scenario 4: Contingent Liabilities in 2020-21 are absorbed 20% in each year; and Scenario 5: Lower Primary Deficit and Higher Growth.

4.4 Overall Fiscal Health Index

As per the Fiscal Health Index for FY 2023–24 published by NITI Aayog, West Bengal ranked 16th among the 18 major states, remaining in the category of fiscally stressed states. Its low overall score reflects persistent fiscal and revenue deficits, a rising debt burden, and limited revenue-generating capacity. According to the report, the State ranked 13th in the Quality of Expenditure Index, 17th in the Revenue Mobilisation Index, 13th in the Fiscal Prudence Index, and 17th in the Debt Index, placing it in the lowest category of 'Aspirational States'. In contrast, Odisha was placed in the highest category of 'Achiever States'. In fact, there has been no change in the ranking of West Bengal overtime, it has remained among the states at the bottom during all three periods – 2014-15 to 2016-17; 2017-18 to 2019-20; and 2020-21 to 2022-23 (figure 17).

These findings are consistent with the foregoing analysis, which shows that West Bengal continues to face persistent revenue and fiscal deficits, elevated debt levels averaging around 40% of GSDP; committed expenditure amounting to approximately 7.2% of GSDP during the study period; and, a high interest payment burden averaging about 21% of revenue receipts. Furthermore, the State's developmental expenditure remains relatively low, averaging 69% of total expenditure, compared with approximately 80% in Odisha.

Figure 17: Overall Fiscal Health Index: West Bengal and Odisha



Source: Developed from NITI Aayog's Fiscal Health Index (2026).

5. FRBM Compliance

5.1 Fiscal Responsibility and Fiscal Discipline

Following the recommendations of the 12th Finance Commission, the Government of West Bengal enacted the West Bengal Fiscal Responsibility and Budget Management (WBFRBM) Act, 2010, in line with the provisions of the Union Fiscal Responsibility and Budget Management (FRBM) Act, 2003. Since its enactment, the WBFRBM Act has been amended five times—in 2011, 2020, 2021, 2022, and 2024—reflecting successive recalibrations of the State's fiscal consolidation framework in response to evolving macroeconomic conditions and major economic shocks over the past two decades.

At the time of its enactment in 2010, the Act mandated the elimination of the revenue deficit within five financial years, i.e., by 31 March 2015, followed by the maintenance of a revenue surplus thereafter. It also prescribed a fiscal deficit ceiling of 3 per cent of GSDP to be achieved by 2013–14.

The first amendment, enacted in 2011, retained the target date for eliminating the revenue deficit but extended the deadline for achieving the fiscal deficit ceiling of 3 per cent of GSDP by one year, to 2014–15. It also introduced a debt reduction target, requiring the State to progressively reduce its outstanding debt-to-GSDP ratio to 34.3 per cent by 2014–15.

The 2020 amendment marked a significant departure from the original fiscal framework. It omitted the revenue deficit targets and relaxed the fiscal consolidation path by permitting a one-time fiscal deficit of 3.34 per cent of GSDP for 2019–20. In response to the fiscal pressures arising from the COVID-19 pandemic, the 2021 and 2022 amendments further relaxed the fiscal deficit ceiling to 5 per cent of GSDP. Subsequently, the 2024 amendment restored the fiscal deficit limit to 3.5 per cent of GSDP for 2023–24.

5.2 Fiscal Discipline

According to the State Finances Audit Reports of the Comptroller and Auditor General (CAG) of India, West Bengal's compliance with the fiscal targets prescribed under the WBFRBM Act remained limited during the five-year period from 2016–17 to 2020–21 (Table 2). The State was unable to eliminate the revenue deficit in any of the five years. It succeeded in keeping the fiscal deficit within the statutory limit in only two years (2019–20 and 2020–21). Similarly, the target for containing total outstanding liabilities (as a percentage of GSDP) was achieved in only one year (2018–19).

Comparable CAG data are not available beyond 2020–21. However, the analysis presented in Section 4 indicates that the State's fiscal position has remained under stress during the subsequent period. Between 2021–22 and 2024–25, the fiscal deficit ranged from 3.3 to 4.0 per cent of GSDP, while the revenue deficit remained between 1.6 and 2.4 per cent of GSDP. These trends suggest that the State has continued to fall short of its fiscal consolidation objectives. During the same period, the outstanding liabilities-to-GSDP ratio remained persistently high, fluctuating between 39.5 and 40.9 per cent, substantially above the debt levels envisaged under the WBFRBM framework.

Table 2: FRBM Compliance (As per CAG Reports)

Fiscal Parameters	**Fiscal targets set in the Act**	**Achievement (in Rs. crore)**				
		2016-17	**2017-18**	**2018-19**	**2019-20**	**2020-21**
Revenue Deficit (-) / Surplus (+) (in Rs. crore)	As stated in the MTFPS 2016-17 & 2018-19 and WBFRBM (Amendment) Acts 2020 & 2021	-16,086	-9,807	-10,399	-19,661	-29,527
		✗	✗	✗	✗#	
Fiscal Deficit (-)/ Surplus (+) (in Rs. crore) (as per cent of GSDP)		-25,386 (-2.91)	-28,930 (-2.97)	-33,485 (-3.04)	-36,831 (-3.05)	-44,688 (-3.43)
		✗	✗	✗	✓	✓
Ratio of total outstanding debt to GSDP (in per cent)		38.70	37.03	35.68	35.89	37.05
		✗	✗	✓	✗	✗

***Source**:* MTFPS (2016-17 and 2018-19), WBFRBM (Amendment) Acts 2020 & 2021 and Finance Accounts (2016-21).

***Note**:* # As no targets for RD were prescribed in the MTFPS and WBFRBM (Amendment) Acts for 2019-21, 13th FC's recommendation (elimination of RD by 2014-15) were followed.

6. Way Forward

(i) Tax Revenue Mobilisation:

The analysis shows that West Bengal collects significantly lower tax revenues than Odisha as a share of GSDP, resulting in a weaker resource base. Over the medium to long term, the most sustainable way to strengthen the state's finances is to expand its economic base by accelerating growth in sectors such as manufacturing, logistics, food processing, leather and textiles, tourism, electronics assembly, information technology, and business services. At the same time, tax compliance and administration can be strengthened by digitising property records, improving stamp duty collection, reducing leakages through better data analytics and compliance support, and modernising municipal property taxation.

(ii) Boosting Non-Tax Revenues:

Compared with Odisha, West Bengal has been less successful in mobilising non-tax revenues. There is considerable scope to enhance these revenues through more appropriate pricing of government services, improved management and monetisation of state-owned land, commercial development of underutilised public assets, and higher dividend receipts through greater operational efficiency and better governance of state public enterprises.

(iii) Rationalising Subsidy Expenditure:

To improve the quality of public expenditure and create greater fiscal space for development spending, West Bengal needs to rationalise its subsidy expenditure, which currently accounts for a disproportionately large share of the budget. This can be achieved by better targeting of beneficiaries, eliminating duplication across schemes, replacing universal benefits with income-based support where feasible, and expanding the use of Direct Benefit Transfers (DBTs) where appropriate. Such measures would preserve essential social protection while improving efficiency and releasing resources for higher capital investment. In addition, regular performance audits of state-owned enterprises, restructuring or closing persistently loss-making entities, and expanding well-designed public-private partnerships could further improve resource allocation and operational efficiency.

(iv) Managing Committed Expenditure to Expand Capital Investment:

The analysis indicates that a substantial share of West Bengal's revenue expenditure is absorbed by committed liabilities, particularly salaries, pensions, and interest payments. Containing the growth of these expenditures through prudent fiscal management is essential to create additional fiscal space for capital investment. A gradual rebalancing of expenditure towards productive capital outlays would strengthen infrastructure, enhance productivity, and support sustained long-term economic growth.

(v) Strengthening Fiscal Prudence:

West Bengal needs to strengthen fiscal discipline by containing the growth of outstanding liabilities and reversing the rising debt trajectory to restore long-term fiscal sustainability. The analysis suggests that the state's fiscal position remains under considerable stress and compares unfavourably with Odisha across key indicators of fiscal prudence. To improve fiscal management, the state should publish a medium-term fiscal strategy with credible projections, adopt a comprehensive liability management framework, and institutionalise outcome-based budgeting to strengthen expenditure effectiveness, improve transparency, and enhance investor confidence. The state could also consider refinancing higher-cost debt when market conditions are favourable, and maintaining fiscal credibility to reduce borrowing costs over time. Collectively, these measures would improve fiscal resilience and create greater capacity to finance future development priorities.

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