

State Fiscal and Economic Health Assessment

WEST BENGAL



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State West Bengal

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Abbreviations

BE	Budget Estimates
CAG	Comptroller and Auditor General of India
CAGR	Compound Annual Growth Rate
CBGA	Centre for Budget and Governance Accountability
CPI	Consumer Price Index
CEDA	Centre for Economic Data and Analysis (Ashoka University)
CPWD	Central Public Works Department
CWS	Current Weekly Status
DA	Dearness Allowance
DPIIT	Department for Promotion of Industry and Internal Trade
DFC	Dedicated Freight Corridor
EC-JRC	European Commission – Joint Research Centre
FC	Finance Commission
FDI	Foreign Direct Investment
FRBM	Fiscal Responsibility and Budget Management
FRI	Fiscal Resilience Index
GDP	Gross Domestic Product
GFD	Gross Fiscal Deficit
GIS	Geographic Information System
GSS	Grid Sub-Station

GSDP	Gross State Domestic Product
GSVA	Gross State Value Added
GVA	Gross Value Added
GST	Goods and Services Tax
IILB	Integrated Industrial Land Bank
IIPS	International Institute for Population Sciences
IT	Information Technology
JNPT	Jawaharlal Nehru Port Trust
JSA	Jan Swasthya Abhiyan (People's Health Movement)
KIADB	Karnataka Industrial Areas Development Board
KSSIDC	Karnataka State Small Industries Development Corporation
LFPR	Labour Force Participation Rate
MAITRI	Maharashtra Industry, Trade and Investment Facilitation
MGNREGA	Mahatma Gandhi National Rural Employment Guarantee Act
MoSPI	Ministry of Statistics and Programme Implementation
MSME	Micro, Small and Medium Enterprises
NDRF	National Disaster Response Fund
NFHS	National Family Health Survey
NITI Aayog	National Institution for Transforming India
NLC	NLC Bharat
OECD	Organisation for Economic Co-operation and Development
PLFS	Periodic Labour Force Survey

PM-ABHIM	Pradhan Mantri Ayushman Bharat Health Infrastructure Mission
pp	Percentage Points
PSU	Public Sector Undertaking
R&D	Research and Development
RBI	Reserve Bank of India
RD	Revenue Deficit
RE	Revised Estimates
RIICO	Rajasthan State Industrial Development and Investment Corporation
ROPA	Revision of Pay and Allowances
SEZ	Special Economic Zone
SGST	State Goods and Services Tax
SMP	Syama Prasad Mookerjee Port
SOTR	State Own Tax Revenue
SSC	School Service Commission
TFP	Total Factor Productivity
WBIDC	West Bengal Industrial Development Corporation

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Executive Summary

West Bengal's economic profile is characterised by a concentration in the logistics and services sectors, reflecting its role as a multi-modal corridor for South and South-East Asia. While maritime, rail, and road networks support high trade volumes, the economic structure at present is more concentrated in transit-related activity than in value-added manufacturing. From a policy perspective, this distinction is critical because manufacturing generates the employment density and broad tax base necessary for sustainable public finance.

To understand this pattern, it is important to examine the factors that have shaped industrial development in the state. Industrial expansion in the region has been shaped by land-use frameworks and acquisition processes that are often complex and time-consuming. These factors have reduced the predictability of projects and slowed the flow of long-term capital investment. In addition, several industrial zones are located away from established labour pools and supplier networks, which increases operating costs for firms.

Moreover, the structure of the existing industry also limits outcomes. The petrochemical cluster in Haldia generates high output, but its capital-intensive nature restricts its capacity to generate large-scale employment. On the other hand, traditional sectors such as textiles and jute face a different constraint. They have limited access to specialised technical training, which slows down workforce expansion and makes it harder for firms to achieve economies of scale.

The agricultural sector also shapes the state's fiscal capacity. The primary sector contributes 21% of total economic output but employs 38.7% of the workforce, indicating low labour productivity and the presence of disguised unemployment. Since agricultural income is exempt from taxation in India, a significant share of economic activity lies outside the direct tax base. However, agriculture does contribute indirectly to tax revenues through GST on inputs, processing, and supply chains. The tax gap is therefore primarily a direct tax phenomenon rather than a complete absence of fiscal contribution from the sector.

Currently, the state's dependency ratio¹ stands at 41.2, lower than the national average of 47.5, indicating that West Bengal is in a mature phase of its demographic dividend. Annual decadal population growth has slowed to 0.59% over 2015–2025. The window for labor-supply-driven growth is narrowing. Without a shift towards manufacturing expansion and productivity-led industrial growth, the state risks entering an ageing phase without having built a strong production base. Services-led and transit-driven growth may sustain output in the short term, but without industrial deepening, it cannot deliver the employment intensity, wage growth, and fiscal strength required for sustained high growth in the decades ahead.

A. West Bengal Fiscal Health Snapshot

Category	Indicator	Evidence	Implication / Risk
Overall Health Status	Fiscal Health Rating: Vulnerable ²	Fiscal Resilience Index score 24.149 (2024–25)	Economic size is large but the state's fiscal capacity remains limited relative to its expenditure commitments
Major Vulnerability	Revenue Deficit as Structural Constraint	Revenue deficit 1.76% of GSDP, compared to 0.31% nationally. Between 2020–21 and 2024–25, cumulative revenue deficit reached ₹1.49 lakh crore, equal to 55.9% of total capital expenditure. Revenue expenditure accounts for nearly 80% of total spending.	High Risk: Persistent revenue deficit limits fiscal space for capital investment and infrastructure spending.
	Weak Revenue Mobilisation Relative to Economic Size	In 8 out of 9 years (2016–17 to 2024–2025), West Bengal recorded the lowest State Own Revenue to GSDP ratio among all states	High Risk: Economic growth is not translating into adequate tax collection or fiscal capacity
	Structural Growth–Fiscal Disconnect	Manufacturing contributes 12.56% of GSVA and employs 10.1% of the workforce. Agriculture employs 38.7% of workers but contributes 21% of output	Medium–High Risk: The economy grows through trade and demand linked sectors rather than production linked manufacturing. This reduces formal employment, productivity gains and tax buoyancy.
Trajectory Assessment	Overall Direction	Cyclical improvement in growth without correction in fiscal structure	Fiscal performance improves temporarily during growth phases but underlying fiscal pressures remain.
Forward Outlook (2–3 years)	Fiscal Outlook	Population growth slowing to 0.59%, and the demographic dividend approaching maturity.	Long term fiscal stability depends on expanding the manufacturing base, improving tax mobilisation and shifting expenditure towards productive investment.

Table 1: Fiscal Health and Risk Assessment Summary

B. Structural Drivers of West Bengal's Growth-Fiscal Paradox

West Bengal's fiscal outcomes are closely linked to underlying structural features of its economy. Factors such as the scale of industrial activity, the degree of enterprise formalisation, the nature of export growth, labour market composition, and institutional capacity shape the state's ability to generate stable revenues and sustain productive employment. The following sections highlight key structural drivers that influence West Bengal's economic base and, in turn, its long-term fiscal trajectory. A detailed analysis of these mechanisms is presented later in the report (Refer to Section VII).

Structural Driver	Key Evidence	Implication for Fiscal Outcomes
Institutional Capacity: Scale and Clustering of Industrial Activity	West Bengal has 17 industrial parks, compared with 638 in Andhra Pradesh, 527 in Maharashtra, 460 in Rajasthan, and 384 in Karnataka	Smaller industrial ecosystems reduce economies of scale, limit large-firm formation, and constrain the expansion of formal enterprises that generate durable tax revenues and employment.
Formalisation: GST Penetration and Enterprise Visibility	The state shows lower GST penetration and enterprise formalisation relative to peer states, reflecting the dominance of small and informal firms that remain outside tax and regulatory systems.	A smaller formal enterprise base weakens GST buoyancy, narrows the taxable economy, and reduces the state's ability to convert economic activity into stable own-source revenues.
Trade Integration: Manufacturing-Linked Freight Generation	Manufacturing-linked freight movement and logistics activity remain relatively limited compared with leading industrial states, suggesting weaker integration into national and global production networks.	Weak logistics and supply-chain integration restrict industrial expansion and export competitiveness, limiting the growth of high-value manufacturing and associated tax bases.
Innovation and Upgrading: Startups and Patents	Startup formation and patent activity remain significantly lower than innovation leaders such as Karnataka and Maharashtra, indicating limited technology-driven industrial upgrading.	Weak innovation ecosystems reduce productivity growth and the emergence of high-value sectors that could expand income tax, GST collections, and high-skill employment.

Structural Driver	Key Evidence	Implication for Fiscal Outcomes
Cumulative Implication: Why Similar Manufacturing Shares Yield Divergent Outcomes	Although West Bengal's manufacturing share of GSDP appears comparable to some states, its industrial base is dominated by small-scale MSMEs with limited value-chain integration, producing lower value-added output.	Lower productivity per worker and smaller firm size reduce tax intensity and wage growth, weakening the fiscal multiplier normally associated with industrialisation.
Foreign Direct Investment in West Bengal: Levels and Constraints	FDI inflows remain small and volatile, lacking the large manufacturing investments that anchor export-oriented industrial ecosystems in peer states.	Limited foreign investment constrains technology transfer, large-scale manufacturing employment, and export growth, thereby limiting expansion of the state's long-term revenue base.
West Bengal's Export Story: Big Numbers, Weak Foundations	Export performance is driven disproportionately by sectors such as gems and jewellery, while traditional industrial employers like textiles and jute remain largely absent from major export categories.	When exports are dominated by capital- or skill-intensive sectors disconnected from employment, export growth fails to generate broad-based income expansion or strong fiscal spillovers.
Employment Story of West Bengal	Labour distribution shows 38.7% in agriculture, 10.2% in manufacturing, and 51.1% in services, with services largely concentrated in informal, low-productivity activities such as retail trade and transport.	Employment concentrated in low-productivity sectors generates weak taxable incomes and limited formal payroll growth, forcing the state to rely increasingly on welfare transfers to sustain consumption.
Migration as a Pressure Valve, Not a Solution	Large-scale labour out-migration masks domestic employment constraints; the return of over 1.2 million migrant workers during the pandemic exposed limited local job absorption capacity.	Dependence on migration suppresses domestic wage growth and local consumption, weakening the state's internal economic base and increasing reliance on fiscal transfers to stabilise demand.
Public Sector Employment Fragility and Fiscal Implications	Institutional disruptions such as the cancellation of over 25,000 SSC teacher appointments and ₹40,000 crore in pending Dearness Allowance arrears illustrate governance and wage-management stress.	Employment-related institutional failures create contingent fiscal liabilities, litigation costs, and deferred wage obligations that intensify revenue rigidity and crowd out productive expenditure.

Table 2: Structural Drivers of the Growth-Capacity Mismatch

1. Introduction

West Bengal's fiscal puzzle begins with its geography. The state links mainland India to the North Eastern states and shares borders with Bangladesh, Nepal and Bhutan, with maritime access through the Bay of Bengal. It functions as a key corridor for the movement of goods, people and trade between eastern India, the North East and neighbouring countries.

The scale of activity reflects this position. In FY 2024–25, India's 12 major ports handled roughly 855 million tonnes of cargo, of which the Syama Prasad Mookerjee Port in West Bengal accounted for about 66.4 million tonnes, close to 8% of the total. Ongoing cross border rail links and multimodal transport corridors are set to deepen this role. The Bay of Bengal is also becoming more important for regional trade and energy flows. In principle, this combination of location, infrastructure and trade intensity should translate into strong and stable public revenues.

Based on comparable transit economies and peer states with similar trade volumes, one might expect Own Tax Revenue of 6 to 7% of GSDP (PRS Legislative Research, 2025) and self-financing of at least half of total expenditure. West Bengal's own revenue at 5.98% of GSDP and self-financing of only 32.33% of total expenditure therefore represents an underperformance relative to its peers rather than a structural ceiling.

In contrast, West Bengal's own revenue stands at 5.98% of GSDP and finances only 32.33% of total expenditure from its own sources. Capital outlay remains limited at about 1.98% of GSDP. The state's strategic advantages and fiscal outcomes are not fully aligned. Although it handles substantial trade volumes and serves as an important transit corridor, the resulting fiscal gains have remained limited.

This pattern points to a structural feature of the state's growth process. Economic activity is

not limited, but its composition affects fiscal outcomes. While the economy continues to expand, a significant share of growth occurs in sectors that generate relatively limited tax revenue and weaker fiscal linkages. As a result, increases in output do not translate proportionately into revenue mobilisation or fiscal capacity.

The state's industrial base is shaped by land acquisition policies, limited industrial clustering, and low levels of active GST registrations. Economic expansion is more closely associated with transit-based trade, involving the movement of goods through the state, than with production-linked activity that generates local value addition and employment. Consequently, the development of dense networks of formal manufacturing enterprises remains limited, which in turn affects the capacity for sustained revenue growth.

This economic structure also affects labour market outcomes. Much of the workforce remains concentrated in agriculture (38.7%) and informal services (significant portions of the 51.1% in services), sectors characterised by low value added per worker and unstable incomes. Manufacturing employs only about 10% of the workforce, far below the threshold needed to drive structural transformation. Women's employment, in particular, remains largely informal and low-paid, representing a significant underutilisation of the state's demographic potential.

These constraints are not imposed by geography or inherited institutional limitations. West Bengal's strategic location (connecting mainland India to the Northeast, bordering Bangladesh, Nepal, and Bhutan, with maritime access through the Bay of Bengal) provides genuine advantages. The Syama Prasad Mookerjee Port alone handles nearly 8% of India's major port cargo. Railway density and connectivity infrastructure are comparable to

national leaders.

Rather, the observed constraints are largely the outcome of cumulative policy choices and administrative decisions that have shaped incentives, spending priorities, and the structure of economic activity over time. These include choices regarding industrial land policy, the design and scale of social provisioning programmes, the prioritisation of revenue versus capital expenditure, and the level of enforcement in tax administration.

Recognising these patterns raises a deeper analytical challenge. If fiscal stress stems from structural policy choices rather than temporary shocks, then improvements observed during favourable economic conditions may not represent genuine consolidation. This shifts the focus from tracking whether fiscal indicators improve in any given year to assessing whether those improvements persist when conditions normalise.

Existing fiscal assessments of West Bengal have largely been confined to tracking annual deficit levels, revenue growth rates, and debt ratios, with most analyses ending around 2016 to 2017. While these metrics provide useful snapshots, these metrics have an important limitation: they conflate cyclical fluctuations with structural change.

Annual fiscal indicators respond mechanically to economic conditions. Growth years typically show deficit reduction and revenue buoyancy improvements, whilst shock years (such as the pandemic) show sharp deterioration. As a result, fiscal performance can appear strong or weak depending on the reference year chosen for evaluation. A state may post lower deficits during a boom, only to see deficits re-emerge when growth moderates. Similarly, revenue mobilisation may improve temporarily due to base effects or one-time receipts, masking deeper weaknesses in tax administration or economic formalisation.

These year-to-year movements do not answer the critical question: Do improvements endure once favourable conditions fade, or does fiscal

stress reappear when growth slows? Headline fiscal indicators reflect a point in time and conflate cyclical fluctuations with structural changes.

To address these limitations, this study adopts a structured fiscal health framework to examine West Bengal's fiscal performance across time rather than at isolated reference points.

The framework assesses four core dimensions:

- **Fiscal Prudence** – the balance between revenue and expenditure, and the sustainability of deficit financing
- **Revenue Mobilisation** – the state's capacity to generate own-source revenues relative to economic size and spending needs
- **Debt and Debt Sustainability** – the burden of accumulated liabilities and the state's ability to service them
- **Quality of Expenditure** – the composition of spending between consumption and investment, and between developmental and non-developmental uses

The framework is applied in a phase-wise manner, dividing the 2016 to 2017 to 2024 to 2025 period into distinct phases shaped by major economic events (pre-pandemic stability, pandemic shock, post-pandemic recovery). This approach allows the study to distinguish between improvements that persist across phases (indicating structural change) and those that reverse when conditions shift (indicating cyclical responsiveness).

Whilst this approach is conceptually aligned with the multi-dimensional framework used by NITI Aayog's Fiscal Health Index, this study extends the analysis in two important ways:

- **Temporal depth:** The analysis covers a longer and more recent time horizon (through 2015 to 2025), capturing the full post-pandemic adjustment period that most existing studies do not cover.

- **Analytical focus:** Rather than producing relative rankings, the study emphasises durability assessment (identifying which fiscal improvements are sustained across phases and which constraints remain binding regardless of economic conditions).

The central objective is to identify the binding fiscal constraints (the specific weaknesses that prevent temporary improvements during growth phases from translating into sustained fiscal consolidation). By tracing the persistence or reversal of fiscal indicators across multiple phases and economic conditions, the study seeks to distinguish between surface-level fluctuations and deep structural impediments, thereby providing a clearer foundation for understanding why West Bengal's geographic and economic advantages have not yet translated into durable fiscal autonomy.



2. State Profile and Context

2.1 Demographic and Geographic Overview

Indicator	State Value	Year	Natonal Average	Ranking Among States
Total Population (StatisticTimes, 2026)	10 Crore	2025 (Projected)	141.75 Crore	4th of 28 ³
Decadal Growth Rate (%)	0.59%	2015-2025	1.12%	24th of 28 ⁴
Literacy Rate (%) (2025)	82.6%	2023	80.9%	19th of 28 ⁵
Sex Ratio (per 1,000 males)	1049	2021	1020	7th of 28 ⁶
Labor Force Participation Rate (15–59 years) (%) (2023)	66%	2024	64.3%	16th of 28 ⁷
Dependency Ratio	41.2	2024	47.5	5 th of 28 ⁸

Table 3: Key Demographic Indicators

With a projected population of 10.26 crore in 2025, West Bengal remains the fourth most populous state in India, implying a large potential labor force and tax base. In fiscal terms, such conditions should translate into stronger revenue mobilisation through higher consumption, labor participation, and formal economic activity. In addition, the state’s lower dependency ratio implies fewer dependents per worker, which would typically reduce pressure on social spending and create fiscal space for investment in human capital and infrastructure. However, the ratio : social provisions as a share of GSDP has increased by 11.82% between 2016–17 and 2023– 24, even alongside favourable demographic indicators.

This pattern reflects the role of social provisioning in supporting household consumption and income stability in a context of limited employment generation and weak formalisation. In the absence of sufficient growth in stable and formal jobs, social provisions have contributed to

smoothing consumption and maintaining basic living standards. As a result, welfare expansion appears to have complemented gaps in labour market outcomes, rather than being driven solely by demographic pressures.

Employment remains concentrated in low-productivity sectors with limited wage growth: agriculture absorbs 38.7% of the workforce while contributing only about 21% of GSVA; manufacturing employs just 10.1% of workers; and services account for 51.1% of employment, of which a significant share (around 14.3%) is concentrated in informal services that generate little taxable income. West Bengal faces a significant structural challenge in its industrial composition. The state's manufacturing base is heavily weighted towards two extremes: capital-intensive petrochemicals and labor-intensive textiles and jute. West Bengal's manufacturing base is heavily weighted towards two extremes: capital-intensive petrochemicals and labour-intensive textiles and jute. Petrochemical hubs like Haldia require massive investment and specialised technical expertise, while textile and jute industries demand specific artisan skills. Both ends of this spectrum absorb limited numbers from the general workforce. Broader industrial diversification has been constrained by policy barriers, particularly around land acquisition, which has deterred new manufacturing entrants. Without a growing and diversified industrial base, there has been insufficient demand for general industrial skills, and without that demand, workers have had little incentive or opportunity to acquire them. The skills gap observed today is therefore a consequence of limited industrial investment rather than its cause.. (2021) This creates a skills gap that prevents surplus workers in the primary sector (agriculture) from transitioning into secondary (manufacturing) or tertiary (services) roles. Consequently, the state struggles with persistent disguised unemployment, where millions remain tethered to low-productivity farming because they lack the specific path needed to enter the industrial workforce.

As a result, revenue expenditure now accounts

for nearly 79.79% of total expenditure, leaving only about 20% for capital expenditure. West Bengal's revenue expenditure of 80% is higher than the national average of 75.65% and significantly exceeds that of industrialised states like Gujarat (66.93%) and Maharashtra (77.60%). Even the large, populous state of Uttar Pradesh maintains a better ratio at 73.32%. This limitation is reflected in the state's inability to convert a relatively high literacy rate of 82.6% into higher productivity employment and value-added economic activity, particularly in manufacturing, thereby constraining growth in State Own Tax Revenue from high-productivity sectors.

Furthermore, despite the state's favourable sex ratio of 1049 females per 1000 males (7th among 28 states), female labor force participation remains at just 39.6%, compared to male participation of 92.2% (CEDA, 2024). This gender gap of 53.3 (Ministry of Statistics and Programme Implementation, 2024) percentage points exceeds the national average of 37.1 percentage points

Illustrative Scenario

To quantify this underutilisation: West Bengal's total population of 10 crore, with a sex ratio of 1049 females per 1000 males, yields approximately 5.1 crore females. Based on projected population characteristics for West Bengal, the working age population (15 years and above) as a share of total population ranged from 72.9% in 2011 to 79% in 2021 (National Commission on Population, 2019). By taking midpoint estimates, we assume of 75% women are of working age (15+ years), this gives 3.8 crore working-age women. At the current female LFPR of 39.6%, only 1.5 crore are in the labor force. If West Bengal merely matched the national female LFPR of 41.7%, the labor force would be 1.58 crore, representing a gap of 8 lakh women. If the state's gender gap narrowed to the national level of 37.1 percentage points (implying a female LFPR of 45.6%), the labor force would be 1.73 crore, representing a gap of 23 lakh women. Thus, 8-22 lakh women remain underutilised.

If 30% of the upper bound estimate of 22 lakh underutilised women entered formal sector employment at average monthly salaries of Rs 15,000-20,000, the total additional wage income generated would be between Rs 11,880 crore and Rs 15,840 crore annually.

Instead, a significant share of expenditure is directed towards income support and social programmes, while limited formal employment constrains the expansion of direct tax and GST revenues. This creates a structural fiscal dynamic in which a large share of spending is absorbed by revenue expenditure (79.79%), leaving a smaller portion for capital investment (20.21%). Lower levels of capital investment, in turn, affect the pace of infrastructure development and formal job creation, including opportunities for greater female workforce participation. As a result, demographic advantages are used more to support basic household consumption than to expand stable and higher-income earning opportunities.

2.1.1 Key Implications for Economic Policy

a. Productivity Realignment of the Tertiary

Sector: While the services sector is the dominant driver of West Bengal's GSDP, there is a stark divergence in productivity. High-value, tradable services like IT and Financial Services contribute significantly to the economy but employ a relatively small fraction of the workforce. The majority of the 66% working-age population is currently absorbed into low-productivity, informal "Other Services" such as retail trade, unregulated transport, and personal services. Without a policy pivot towards formalising these micro-enterprises and scaling the high-end IT corridor, the state risks the workforce remaining trapped in an informal loop that fails to generate the tax buoyancy needed to close the fiscal deficit.

b. The "Quality over Quantity" Fiscal Pivot:

West Bengal has transitioned into a mature demographic dividend phase, characterised by a declining dependency ratio (41.2) and stagnant population growth

(0.59%), which signals that the era of labor-supply-driven expansion has effectively plateaued. To avoid losing out on the "demographic dividend window", the state must pivot towards high-yield capital outlays in digital infrastructure, employability, and education quality. This shift towards Total Factor Productivity (TFP), (modeled by $Y = A^\alpha KL^{1-\alpha}$) is a fiscal necessity; since the labor pool (L) is no longer expanding, growth (Y) must now be driven by technological efficiency (A) and capital investment (K). By transforming the existing workforce into higher-income, high-tax-yield contributors, the state can create a sustainable fiscal loop to support an aging population before the demographic window closes permanently.

c. Leveraging the "Gender Dividend" for

Fiscal Resilience: West Bengal's favorable sex ratio is a latent economic engine. However, the fiscal health of the state is currently associated with high "care-economy" expenditures which act as a substitute for low Female Labor Force Participation. Policy frameworks that prioritise mobility and safety may support women's entry into the formal workforce. Integrating this untapped demographic into the productive economy is one possible pathway to expanding the State's Own Tax Revenue and reducing the current reliance on debt to fund recurring consumption.



2.2 Economic and Sectoral Structure

2.2.1 Sector-wise GVA

Sector	GVA (₹ Lakhs) (Current Prices)	% of GSVA	5-Yr CAGR (%)
Primary Sector	33926024	21%	6.1%
Secondary Sector	35630770	20.73%	8.7%
Tertiary Sector	100169950	58.27%	11.9%
Total GSVA	171902427.4	100.0%	-

Table 4: Economic and Sectoral Structure GVA (Refer to Annexure I, Table 1.1 for Detailed Analysis)

West Bengal's economic structure is characterised by a services-dominated GVA base, with relatively lower contributions from manufacturing and a still-significant dependence on the primary sector. The sectoral composition reflects structural constraints in value addition and employment-intensive activity, resulting in an uneven growth pattern.

2.2.2 Key Economic Drivers

a. Primary Driver: Tertiary Sector

The tertiary sector dominates the state economy, accounting for approximately 58.3% of GSVA. Within services, trade, hotels, and restaurants (17.12%) and real estate (13.47%) form the largest components, both exhibiting strong growth. Transport and storage also show robust expansion, reflecting the state's role as a logistical and trading hub. However, the relatively modest share and growth of financial services (5.25%, 9.06% CAGR) indicate that high-value, productivity-enhancing services are not expanding at the same pace as consumption- and property-linked services.

b. Secondary Driver: Primary Sector

The primary sector contributes around 21% of GSVA, driven overwhelmingly by Agriculture, Forestry, and Fishing, which alone accounts for 20.08% of GSVA. Despite its large share, agriculture records a moderate 5-year CAGR of 6.1%, indicating limited acceleration in productivity or value addition. Mining and quarrying remain marginal at less than 1% of GSVA, though its higher growth rate reflects expansion from a low base rather than structural transformation. Overall, the size of the primary sector points to continued reliance on low-productivity activities, which has implications for income growth and fiscal capacity.

c. Stagnant Force: Secondary Sector

West Bengal's secondary sector, at just 20.73% of GSVA, represents a critical structural

weakness. Manufacturing accounts for merely 12.56% of the economy and grows at 7.47%, significantly slower than low-productivity services like trade (14.29%) and real estate (11.25%). This reflects structural inertia: manufacturing's share remains at levels typically seen in pre-industrial economies, well below the 25-30% threshold associated with successful development paths. With construction (6.53% of GSVA) growing at 11.00% and utilities contributing a negligible 1.64%, the secondary sector lacks the scale and dynamism to drive sustained productivity growth or meaningfully expand formal employment. The consequence is premature tertiaryisation (Rodrik, 2016): the economy shifts towards services (58.27% of GSVA) before building the industrial foundation necessary for high-wage employment. This creates a structural mismatch: the state produces educated workers through its relatively high literacy rate (82.6%), but the fastest-growing sectors (such as Trade and Real Estate) are precisely those that neither require nor reward higher education, leaving educated workers either unemployed or underemployed in informal trade and services.

2.2.3 Vulnerability Assessment:

- a. **Structural Implication:** West Bengal's two largest sectors by share of economic activity are Trade (17.12%) and Real Estate (13.47%). Neither sector generates tax revenue in proportion to its size. Trade activity that moves goods through the state rather than producing them locally contributes limited GST and no manufacturing-linked levies. Real estate generates revenue primarily through stamp duty and registration fees, which are one-time transactions rather than a recurring tax base.

Stamp duty and registration fees contribute approximately 7 to 10% of State Own Tax Revenue, amounting to around Rs. 7,300 crore in 2024-25 (NLC

Bharat,2024). The problem with depending on this source is that it moves sharply with property market cycles rather than with the broader economy. In 2020-21, stamp duty collections fell by 8.3% while total SOTR fell by only 0.6%. In other words, stamp duty fell at more than thirteen times the rate of overall tax revenue during that single year. The following year saw a 33.3% surge, after which collections declined again by 6.7% and then 5.5% in consecutive years (CBGA, 2021), (CBGA, 2022) , (Government of West Bengal ,2023) This kind of movement makes it difficult to plan expenditure reliably. On average, stamp duty fluctuates by 13.2% year on year, compared to 11.5% for overall SOTR. A tax base that swings this sharply is not a stable foundation for recurring public spending. The result is that West Bengal's SOTR as a share of GSDP sits at approximately 5.4%, below the levels recorded by more industrialised states.

This directly limits what the state can spend on building and maintaining public assets. Capital outlay in 2024-25 is targeted at Rs. 35,866 crore (PRS Legislative Research, 2024), which is 10.6% of total expenditure. Gujarat, by comparison, directs approximately 23% of its expenditure to direct asset creation. Within West Bengal's capital budget, roads and bridges receive Rs. 5,108 crore, or 14.2% of capital outlay. The composition of this spending matters because not all capital expenditure creates the same kind of employment. A 2014 RBI study (Reserve Bank of India, 2014) found that every 10% increase in manufacturing capital stock is associated with a 4 to 5% increase in formal employment, an elasticity of 0.4 to 0.5. Road and urban construction projects tend to create jobs during the building phase, but those jobs do not persist once construction ends. Without a deliberate allocation towards industrial infrastructure, West Bengal misses the opportunity to transition workers from informal services into formal manufacturing employment.

- b. **Concentration Risk :** While the individual

growth of Trade and Real Estate is positive, their combined dominance creates a high degree of sectoral concentration. Because Trade, Hotels, and Real Estate together drive nearly 31% of the total GVA, the state economy is disproportionately vulnerable to "demand-side shocks." For example, a rise in national interest rates or a dip in urban consumer confidence hits these two sectors simultaneously. Unlike a diversified economy that might rely on a mix of export-oriented manufacturing or high-end financial services to balance such a downturn, West Bengal's current structure lacks these "counter-cyclical" buffers.

This concentration also creates a fiscal floor risk. These sectors are directly linked to stamp duties and consumption taxes. When combined with Transport & Storage (7.31%) and Public Administration (4.75%), approximately 43% of the economy is concentrated in demand-sensitive, non-tradeable sectors. Any slowdown in this 'core' immediately threatens the state's ability to fund its fixed costs. This creates a brittle economic profile where a minor national macroeconomic slowdown can lead to a major local fiscal gap, as there are no alternative high-growth sectors of sufficient scale to offset the loss.

- c. Sectoral Volatility:** Sectoral growth patterns suggest uneven volatility across the economic structure. Mining & Quarrying, despite accounting for less than 1% of GVA, exhibits the highest five-year CAGR (14.77%), indicating high volatility driven by a small base and external factors. Within larger sectors, Trade, Hotels & Restaurants (14.29%), Construction (11.00%), and Real Estate (11.25%) display relatively high growth rates, reflecting cyclical sensitivity to income growth, urban demand, and public investment. In contrast, Agriculture (5.83%) and Public Administration (6.72%) show lower growth and greater stability, providing a partial counterbalance to volatility but limiting upside momentum.

2.3 Historical Growth Context

Period	GSDP Growth (%)	National Growth (%)	Relative Performance
FY 2016-17 to 2017-18	7.20%	6.80%	Outperformed by 0.4 pp
FY 2017-18 to 2018-19	6.36%	6.45%	Outperformed by 0.09 pp
FY 2018-19 to 2019-20	6.32%	3.87%	Outperformed by 2.45 pp
FY 2019-20 to 2020-21	3.10%	-5.78%	Outperformed by 2.61 pp
FY 2020-21 to 2021-22	-7.58%	9.69%	Underperformed by 17.27 pp
FY 2021-22 to 2022-23	11.64%	7.61%	Outperformed by 4.03 pp
FY 2022-23 to 2023-24	5.76%	9.19%	Underperformed by 3.43 pp
FY 2023-24 to 2024-25	6.09%	6.49%	Underperformed by 0.4 pp

Table 5: Growth Trajectory

2.3.1 Growth Trends

During the early part of the period, between FY 2016–17 and FY 2019–20, the state consistently outperformed national growth, albeit by varying margins. GSDP growth ranged between 6.3% and 7.2%, exceeding national averages in each year, indicating relatively stable economic momentum driven by services-led expansion and steady domestic demand. Even as national growth decelerated in FY 2018–19 to FY 2019–20, West Bengal maintained a growth premium of around 2.45 percentage points, suggesting a degree of resilience in its economic structure prior to the pandemic.

The onset of the COVID-19 pandemic marked a sharp inflection in the growth trajectory. Between FY 2019–20 and FY 2020–21, West Bengal's GSDP growth moderated to 3.1%, outperforming the national contraction, before registering a significant contraction of 7.6% in the subsequent period. This contraction was sharper than the national rebound in FY 2021–22, reflecting the interaction of a nationwide pandemic shock with a state-specific natural disaster. While mobility restrictions disrupted economic activity across India, the impact in West Bengal was amplified by Super Cyclone Amphan, which caused extensive damage to agriculture, housing, and urban infrastructure, further compressing output and livelihoods. The contraction was particularly severe because the state's economy is disproportionately dependent on contact-intensive services, informal employment, and MSME-led local activity, sectors that experienced abrupt shutdowns and could not transition to remote operations, unlike IT and export-oriented industries in other states. The relative absence of these remote-compatible sectors meant West Bengal lacked economic shock-absorbers during mobility restrictions. Although activity rebounded as restrictions eased and reconstruction commenced, the absence of a strong manufacturing or export-led recovery engine meant that the state's rebound lagged the national recovery, resulting in relative underperformance rather than sustained growth acceleration.

The post-pandemic recovery phase demonstrates a partial but uneven normalisation of growth. In FY 2021–22 to FY 2022–23, West Bengal recorded a strong rebound with GSDP growth of 11.6%, outperforming national growth by over 4 percentage points. However, this momentum was not sustained. Growth moderated again in FY 2022–23 and FY 2023–24, with the state underperforming the national average in both periods. By FY 2024–25, growth converged closely with the national rate, reflecting stabilisation rather than renewed acceleration. This pattern suggests that while West Bengal has demonstrated the capacity for rapid recovery following shocks, growth remains sensitive to cyclical conditions and lacks sustained outperformance in the post-recovery phase.

2.3.2 Major Shocks

a. Covid-19 Pandemic (2019-20 to 2020-21)

The COVID-19 pandemic constituted the most severe economic shock to West Bengal during the period, leading to a sharp disruption in economic activity through mobility restrictions, supply-chain breakdowns, and a collapse in demand for contact-intensive services. While the state initially exhibited relative resilience in FY 2019–20 to FY 2020–21, with GSDP growth remaining positive at 3.1% and outperforming the national contraction, the full impact of the shock manifested with a lag. In FY 2020–21 to FY 2021–22, West Bengal recorded a 7.6% contraction, significantly underperforming national growth, reflecting delayed stress in informal employment, urban services, trade, transport, and small enterprises. Although a strong rebound followed in FY 2021–22 to FY 2022–23, the pandemic left behind persistent fiscal and structural effects, including elevated public expenditure commitments and weakened revenue buoyancy, which constrained the durability of the post-recovery growth phase.

b. Amphan (2020) : Cyclone Amphan hit

West Bengal in May 2020 and caused large-scale damage to homes, farms, small businesses, and basic infrastructure. The state's loss assessment put total damages at around ₹1.02 lakh crore (The Hindu,2020), including major hits to MSMEs/industry (~₹26,790 crore) and agriculture (~₹15,860 crore) (NDTV,2020), which directly reduced output and incomes in the affected districts. The disruption was worsened by severe infrastructure damage, including about 4.5 lakh electric poles and ~5,000 substations, which delayed the restart of manufacturing, trade, and services. The fiscal burden was also significant: West Bengal said it spent about ₹6,350 crore on relief and rehabilitation, while the Centre approved ₹2,707.77 crore of additional NDRF support and released ₹1,000 crore in advance for immediate relief (The New Indian Express,2020).

2.4 Major State Policies and Reform Outcomes

The selection of major State policies and analytical reforms mentioned in this section is guided by a framework designed to evaluate their multi-dimensional impact on the State's fiscal architecture and macroeconomic dynamism. Rather than a comprehensive census of all governmental interventions, this study purposely selects flagship initiatives based on a three-fold criteria (Refer to Annexure I, Table 1.2 for Detailed Policy Analysis).

2.4.1 Fiscal Magnitude and Expenditure Rigidity

Schemes are selected based on the scale of their budgetary allocation and their propensity to introduce "committed expenditure" into the revenue account. The analysis focuses on policies that increase expenditure rigidity, as these effectively narrow the State's discretionary fiscal space by creating permanent, non-discretionary financial obligations. By prioritising these high-commitment initiatives, the study

assesses the degree to which current policy choices constrain future budgetary flexibility.

2.4.2 Productivity and Growth Multipliers

Policies are evaluated for their potential to generate counter-cyclical fiscal space or long-term structural returns. This framework distinguishes between consumption-oriented welfare transfers, which provide immediate social stabilisation effects, and capital-intensive infrastructure projects. The latter are assessed for their higher long-term growth multipliers, estimated to reach as high as 4.80 over the longer term, and their capacity to enhance future tax buoyancy through the creation of durable public assets.

2.4.3 Risk Profile and Contingent Liabilities

The assessment prioritises reforms that alter the State's risk exposure, particularly those involving off-budget financing mechanisms or external multilateral support. These interventions are analysed to evaluate fiscal solvency, defined as the State's long-term ability to meet its financial obligations without precipitating a structural debt trap. This includes monitoring the expansion of public liabilities beyond headline debt figures.

By situating these policies within a broader economic growth model, the analysis transcends isolated budgetary indicators. Each selected intervention is cross-referenced with five primary fiscal dimensions: Revenue Mobilisation, Quality of Expenditure, Fiscal Prudence, Debt Index, and Debt Sustainability. This integrated approach determines whether the current development trajectory is fiscally self-sustaining or increasingly dependent on continuous public support and external borrowing.



2.4.4 Fiscal Analysis of Major Welfare Schemes

a. Total Fiscal Cost: West Bengal's welfare schemes together represent a significant and growing share of the state's budget. Lakshmir Bhandar alone accounts for 9.6% of revenue receipts (BE) in 2025-26 (₹26,000 crore), growing at 47% annually since inception (2021-22)⁹. Adding Kanyashree (0.5%), Rupashree (0.3%), Manabik (0.3%), Jai Bangla Pension (1.9%), and Taruner Swapno (0.4%), the cumulative cost of these schemes exceeds 13% of revenue receipts. This is on top of a committed expenditure burden of 55.2% on salaries, pensions, and interest, leaving extremely limited fiscal space for capital investment (PRS, 2025).

b. Cost Per Beneficiary: Comparison with Peer States

West Bengal and Odisha spend roughly similar amounts per beneficiary. However, Odisha runs this scheme while maintaining a revenue surplus of 3% of GSDP, with committed expenditure at only 28% of revenue receipts and an Own Tax Revenue base of 6.5% of GSDP. West Bengal, by contrast, finances a comparable per-beneficiary outlay from an Own Tax Revenue base of only 5.4% of GSDP while running a persistent revenue deficit of 1.7% of GSDP.

c. Opportunity Cost: Welfare vs Infrastructure

The fiscal trade-off becomes most visible when welfare spending is compared against infrastructure allocation. West Bengal allocates 13.9% (PRS, 2025) of total expenditure to social provisions and nutrition, nearly double the national state average of 7.6%. The infrastructure consequences are direct and measurable. West Bengal spends only 2.2% (PRS, 2025) of expenditure on roads and bridges against a national state average of 4.3%, and only 1.2% (1914 crore) (Government of West Bengal, Finance Department, 2025) on energy against a national average of 4.7%. Odisha, which runs a comparable

women's transfer scheme, allocates 26% more than West Bengal on capital outlay year on year and still maintains a revenue surplus. This suggests the constraint is not the existence of welfare schemes per se, but West Bengal's inability to fund them from a growing revenue base, forcing a trade-off that more fiscally robust states avoid.

d. Outcome Assessment Beyond Enrolment

The table currently documents reach, meaning the number of beneficiaries, but does not capture impact. Independent evaluation of Kanyashree's impact on female school retention is difficult to establish given that multiple policy changes were happening concurrently. The programme did receive the UNESCO Mahatma Gandhi Prize in 2017, which reflects international recognition of its design and reach rather than a measured outcome. For Krishak Bandhu, the death benefit component has reached 1,01,457 families, but there is no published data on whether the assured financial assistance component has improved agricultural investment or productivity. This absence of outcome data beyond enrolment figures is itself a finding worth noting.

e. Structural Fiscal Implication

Taken together, West Bengal's social provisions architecture is a response to low manufacturing presence and weak private sector employment growth in the state. The fiscal problem is not the architecture itself but that the state has been financing these transfers without a corresponding growth in its own revenue base, effectively borrowing to fund consumption expenditure.



3. Methodology

This study evaluates West Bengal's fiscal health using a multi-dimensional framework adapted from the NITI Aayog Fiscal Health Index. The framework assesses fiscal performance across five pillars that together capture revenue capacity, expenditure efficiency, fiscal prudence, and debt sustainability. The selection of these dimensions is grounded in their consistent prioritisation within India's fiscal policy architecture, particularly under the Fiscal Responsibility and Budget Management Act framework and successive Finance Commission of India recommendations, which emphasise deficit management, debt sustainability, and revenue augmentation as core indicators of fiscal health. In addition, the study incorporates complementary aspects such as fiscal transparency and the treatment of off-budget liabilities to provide a more comprehensive assessment beyond conventional budgetary metrics. (Refer to Annexure II for Detailed Analysis)

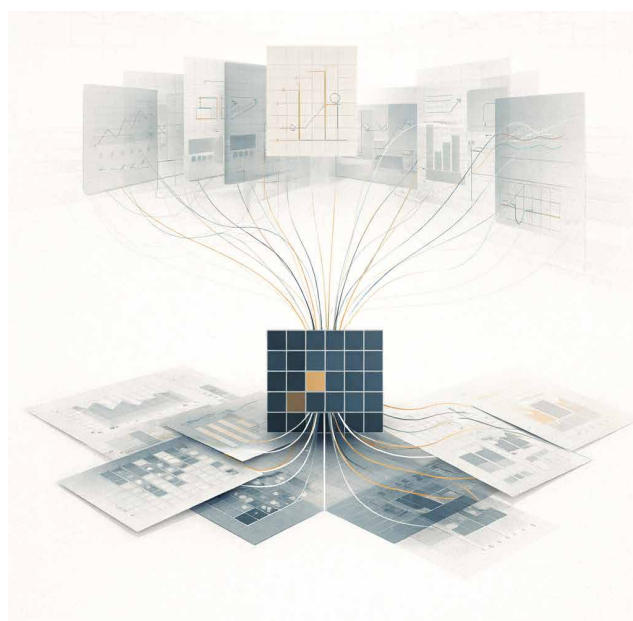
- a. Fiscal Prudence:** Evaluates the sustainability of fiscal management through deficit indicators and the balance between routine income and expenditure.
- b. Debt Index:** Captures the burden of accumulated liabilities and the extent to which debt servicing constrains fiscal flexibility.
- c. Revenue Mobilisation:** Measures the State's ability to generate its own revenues relative to the size of its economy and expenditure requirements.
- d. Quality of Expenditure:** Assesses how effectively public spending is directed towards development and capital formation that support long-term

economic growth.

- e. Debt Sustainability:** Examines whether economic growth is sufficient to sustain debt obligations over time.

The index is constructed by normalising key fiscal ratios and aggregating them into pillar scores and a composite index, referred to as Fiscal Resilience Index. Each pillar is assigned equal weight in the composite index, consistent with the approach adopted by the NITI Aayog Fiscal Resilience Index. The methodology broadly follows the NITI Aayog Fiscal Resilience Index framework, with adaptations to construct a consistent time series for the period 2016-17 to 2024-25.

Beyond index construction, the study adopts a diagnostic analytical approach that examines fiscal behaviour over time through phase-wise analysis, identifies the dominant fiscal ratios shaping each pillar, and evaluates whether observed improvements reflect structural changes or cyclical effects. This approach enables the identification of key constraints and policy priorities affecting the State's long-term fiscal stability.



4. Dimension I: Fiscal Resilience Assessment

Across the nine years from 2016-17 to 2024-25, five indicators, fiscal prudence, revenue mobilisation, quality of expenditure, debt sustainability, and the debt index, tell the same story from different angles. West Bengal spends more on salaries, pensions, interest, and subsidies than it collects in revenue every single year, and that gap is what drives the weakness across all five. Because so much money goes to recurring commitments, fiscal prudence has remained weak and any improvements reversed quickly once expenditure pressures returned. Revenue mobilisation has not kept pace with economic growth, meaning the state's own tax income has grown more slowly than its economy for most of this period, leaving the government proportionately less able to fund itself each year. To cover the shortfall, the state borrows, but that borrowing raises interest obligations in subsequent years, keeping the debt index under persistent pressure and pushing West Bengal's interest payments to 20% of revenue receipts against a national average of 12 per cent. With so much revenue pre-empted by interest and recurring costs, quality of expenditure has suffered, capital investment has remained compressed at around 1.76 per cent of GSDP (Phase 3) against a national average of 2.63%, and spending has gone towards consumption rather than assets. Debt sustainability has therefore depended entirely on the economy growing fast enough to outpace interest costs, and when growth slowed even modestly, as it did during the pandemic, the sustainability score collapsed. Until the gap between what the state collects and what it commits to recurring spending is closed, none of these five indicators will improve in a way that lasts. (Refer to Annexure III for detailed phase-wise analysis for each pillar).

West Bengal is benchmarked against Telangana as a primary peer given their similar position in the GSDP distribution and comparable economic scale. The analysis also includes Madhya Pradesh to test the robustness of findings, as it lies close to the quartile boundary and shares similar demographic size and sectoral composition. This allows the comparison to capture both direct peers and structurally comparable states just outside the quartile.



Pillar	2024-25 Score	Trend Direction (2016-17 → 2024-25)	Comparison with National Average (Post-COVID Comparison)	Key Insight
Fiscal Prudence	9.39	Persistent weakening, with only temporary post-COVID improvement.	RD/GSDP: WB 1.76% vs India 0.31%; GFD/GSDP: WB 3.55% vs India 3.09%	The state's revenue expenditure has grown faster than its tax income every year since 2016. This has produced a persistent revenue deficit, and that deficit is the binding constraint on everything else.
Debt Index	32.39	Debt stock remained broadly stable across all years, but the state's capacity to service that debt deteriorated sharply during the pandemic as revenues weakened, and has not fully recovered since.	Interest Payments/Revenue Receipts: WB 20% vs India 12%; Outstanding Liabilities/GSDP: WB 39.43% vs India 28.20%	West Bengal's interest burden, at 20% of revenue receipts against a national average of 12 per cent, is the binding constraint in this pillar. The issue lies less in the interest rate and more in the size of the debt relative to a revenue base that has not expanded at a comparable pace.
Revenue Mobilisation	13.71	Broadly flat, with two temporary increases arising from accounting reclassifications rather than underlying revenue expansion, followed by a decline in Own Revenue to GSDP in the final year.	State's Own Revenue/GSDP: WB 5.82% (Phase 3) vs India 7.90%; State's Own Revenue/Total Expenditure: WB 31.86% vs India 42.26%	West Bengal has ranked last among comparable states on Own Revenue to GSDP for eight out of nine years. With a tax buoyancy ratio of 0.92, the state's tax income grows slower than its economy, meaning the gap widens automatically every year without any policy change.
Quality of Expenditure	29.18	Post-COVID improvement, then moderation	Capital Outlay/GSDP: WB 1.76% (Phase 3) vs India 2.63%; Development Expenditure/Total Expenditure: WB 59.86% vs India 60.39%	Improvements in expenditure quality are evident; however, capital investment remains modest relative to the level required to influence the growth trajectory.

Pillar	2024-25 Score	Trend Direction (2016-17 → 2024-25)	Comparison with National Average (Post-COVID Comparison)	Key Insight
Debt Sustainability	36.11	The score has recovered from its lowest point of 10.03 in 2022-23 to 35.62 in 2024-25, but this is still well below the pre-pandemic peak of 59.41 and below the Phase 1 starting point of 47.55. The state has stabilised at a weaker equilibrium, not recovered to its previous position.	Interest Payment Growth: WB 7.28% vs India 9.68%; GDP Growth: WB 10.66% vs India 11.92%	West Bengal's debt sustainability has been shaped more by GSDP growth relative to interest payment growth than by sustained fiscal consolidation. This dynamic is becoming less favourable. The state, which previously outpaced national growth before the pandemic, has since grown more slowly than India by 1.26 percentage points. At the same time, a persistent revenue deficit continues to add to the debt stock to finance routine expenditure, while interest costs remain elevated following pandemic-related borrowing. In this context, a slowdown in growth could place additional pressure on debt sustainability indicators.

Table 6: Pillar Wise Fiscal Resilience Snapshot¹⁰

4.1 Fiscal Prudence

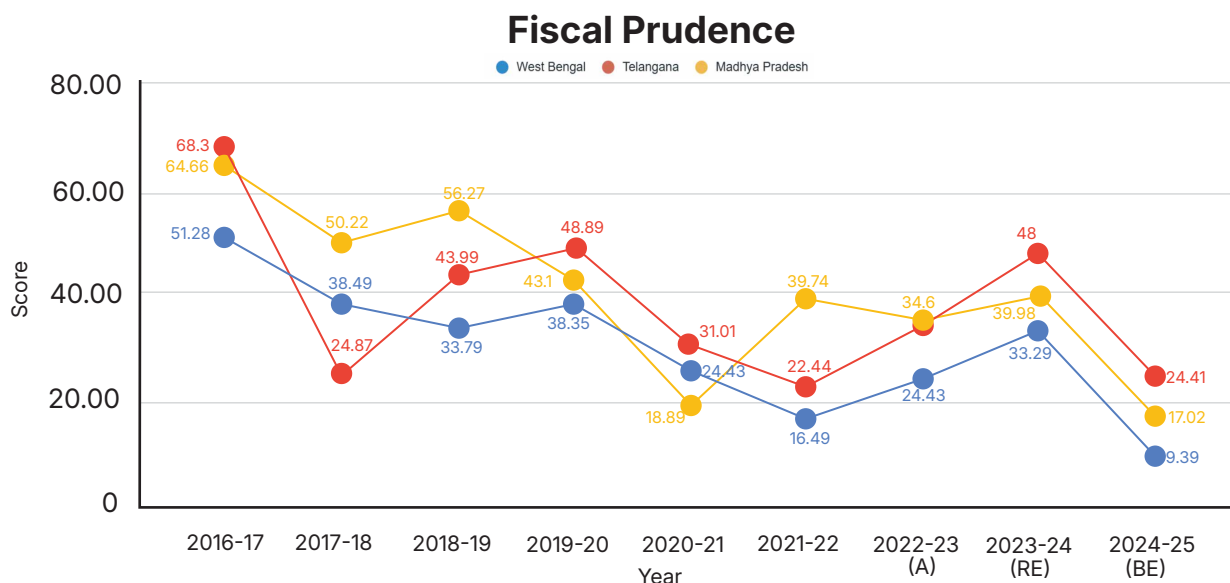


Figure 1: Fiscal Prudence, West Bengal, 2016-17 to 2024-25

Indicator of Fiscal Prudence

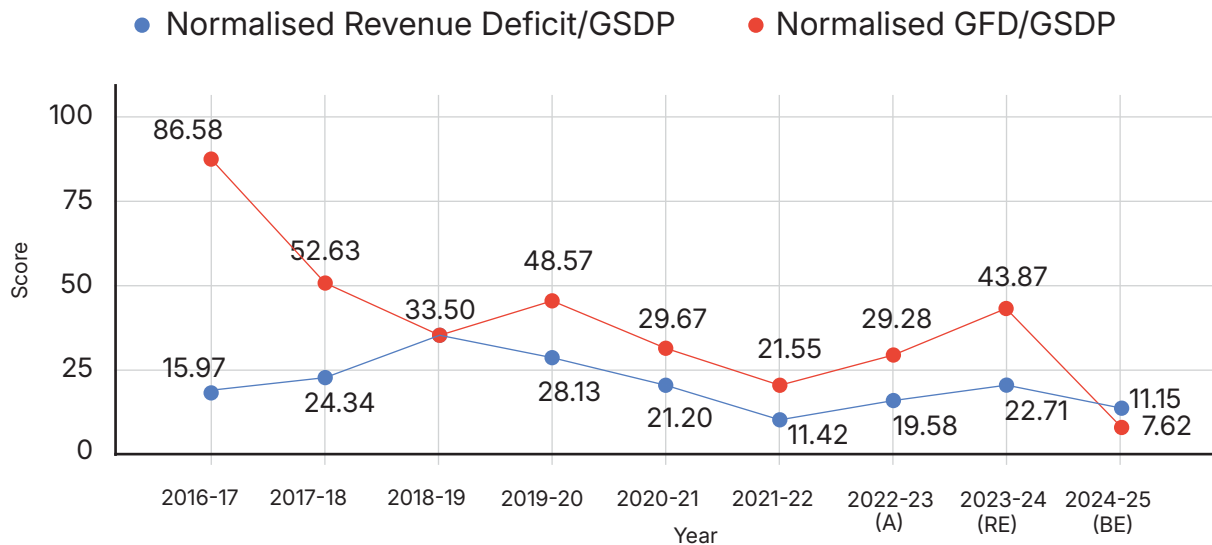


Figure 2: GFD/GSDP & Revenue Deficit/GSDP, West Bengal , 2016-17 to 2024-25

4.1.1 Key Findings

State	Fiscal Prudence score (2016-17 → 2019-20)	GFD/GSDP (2016-17 → 2019-20)(Actual Ratios)	Revenue Deficit/ GSDP (2016-17 → 2019-20)(Actual Ratios)
West Bengal	51.28 → 38.35	2.91% → 3.12%	1.84% → 1.66%
Telangana	68.30 → 48.89	2.81% → 2.84%	-0.32% → 0.67%
Madhya Pradesh	64.66 → 43.10	2.43% → 3.00%	-0.67% → 0.30%

a. Phase 1 (2016-17 to 2019-20): Borrowing Grew Faster Than the Economy

Fiscal Prudence declined across all three states, but West Bengal's score fell to 38.35, staying below Telangana at 48.89 and Madhya Pradesh at 43.10. The difference comes down to how the two deficit ratios moved. West Bengal reduced its Revenue Deficit/GSDP by 9.8% and its GFD/GSDP by 7.2%. Although the revenue deficit improved by a larger percentage, West Bengal's Gross Fiscal Deficit in absolute terms stood at ₹36,861 crore, higher than both Telangana at ₹26,514 crore and Madhya Pradesh at ₹32,970 crore (RBI, 2025). This meant that the improvement in revenue balance could not sufficiently offset the weight of a larger fiscal deficit on the overall index. In this phase, therefore, GFD/GSDP was the factor that held West Bengal's fiscal prudence score down.

State	Fiscal Prudence score (2016-17 → 2019-20)	GFD/GSDP(2020-21 → 2021-22)(Actual Ratios)	Revenue Deficit/ GSDP (2020-21 → 2021-22) (Actual Ratios)
West Bengal	25.43 → 16.49	3.91% → 3.77%	2.58% → 2.38%
Telangana	31.01 → 22.24	3.37% → 4.36%	2.36% → 0.83%
Madhya Pradesh	18.88 → 39.74	5.27% → 3.40%	1.94% → -0.44%

b. Phase 2 (2020-21 to 2021-22): Revenue Deficit Widens as Peers Move into Surplus

Fiscal Prudence declined for West Bengal and Telangana in this phase, falling to 16.49 and 22.24 respectively, while Madhya Pradesh bucked the trend, improving sharply from 18.88 to 39.74. In this phase, the binding constraint for West Bengal was Revenue Deficit/GSDP. Telangana reduced its Revenue Deficit/GSDP by 62.7% and Madhya Pradesh by 77.3%, moving into a revenue surplus by 2021-22, whereas West Bengal managed only a 7.7% reduction. This limited improvement in revenue balance weighed heavily on West Bengal's fiscal prudence score, placing it below both peer states. West Bengal's revenue deficit in 2020-21 stood at ₹29,527 crore, higher than Telangana at ₹ 22,298 crore and Madhya Pradesh at ₹18,356 crore (RBI,2025), which further explains why the gap in fiscal prudence widened in this phase despite broadly similar or even better GFD/GSDP movement.

State	Fiscal Prudence score (2022-23 → 2023-24 → 2024-25)	GFD/GSDP (2022-23 → 2023-24 → 2024-25) (Actual Ratios)	Revenue Deficit/ GSDP (2022-23 → 2023-24 → 2024-25) (Actual Ratios)
West Bengal	29.68 → 33.29 → 9.39	3.53% → 3.59% → 3.76%	1.63% → 1.71% → 1.76%
Telangana	39.91 → 48.00 → 24.41	2.96% → 2.23% → 3.01%	0.30% → -0.11% → -0.00%
Madhya Pradesh	44.85 → 39.98 → 17.02	4.09% → 4.02% → 4.16%	0.00% → -0.00% → -0.01%

c. Phase 3 (2022-23 to 2024-25): Base Effect-Driven Recovery with Rising Absolute Deficits

West Bengal's fiscal prudence rose to 33.29 in 2023-24 before falling sharply to 9.39 in 2024-25. West Bengal's GSDP had contracted by 3.17% in 2019-20, sharper than the national contraction of 1.2%, which created a low base off which subsequent nominal GSDP growth appeared strong. This pushed down the GFD/GSDP and Revenue Deficit/GSDP ratios, making the fiscal position look better than it actually was, because the denominator was growing faster than the numerator rather than the numerator actually falling. In absolute terms, the deficit was still rising. Revenue Deficit grew from ₹28,253 crore (BE) to ₹31,952 crore (BE) between 2023-24 and 2024-25 (RBI,2025), a 13% increase. Meanwhile, Telangana and Madhya Pradesh had already moved into revenue surplus by this phase, meaning both states were fully covering their day-to-day expenditure from their own receipts, while West Bengal continued to borrow to meet its.

d. Comparison with National Average: This comparison reinforces what the phase-wise analysis already shows: West Bengal's fiscal stress is not episodic but structurally embedded in its revenue account. Across all three phases, the state's GFD/GDP consistently exceeds the national average, but the more important divergence lies in Revenue Deficit/GDP, where West Bengal remains several multiples above India even in recovery years. In Phase 1, West Bengal's ratio (1.37%) was over five times the national average (0.26%). During the pandemic phase, the gap narrowed but remained more than double (2.49% vs 1.15%). Crucially, in the recovery phase (Phase 3), while India reduced its revenue deficit to 0.31%, West Bengal remained at 1.76% , nearly 5.7 times the national level. This aligns directly with the internal finding that improvements in fiscal prudence were repeatedly reversed whenever revenue expenditure growth outpaced capital surplus. While India used post-pandemic recovery to compress revenue deficits towards balance, West Bengal's persistent gap confirms that its fiscal prudence weakness is driven by rigid, recurring expenditure commitments rather than temporary shocks, validating why revenue deficit emerges as the binding constraint in this dimension. (Refer to Table Annexure III, Table 1.5)

4.1.2 Durability and Fiscal Assessment

- a. While headline fiscal indicators improved after the pandemic, the quick reversal of the trend shows that the improvement was only reflecting a temporary easing of fiscal pressure rather than a structural change.
- b. **Index-Level Conclusion:** Across the full period, capital surplus¹¹ increased in most years. Fiscal outcomes worsened primarily in years where the growth in revenue deficit exceeded the growth in capital surplus, leading to deterioration in both GFD/GSDP and Revenue Deficit/GSDP. This pattern reflects a repeated trade-off: increases in capital surplus were often achieved by restraining capital expenditure, while revenue expenditure continued to rise. (Refer to Annexure III, Table 1.4)
- c. Between 2020–21 and 2024–25 alone, West Bengal incurred a cumulative revenue deficit of ₹1.49 lakh crore, equivalent to nearly 55.9% of the state's total capital expenditure during the same period (₹2.7 lakh crore). In effect, a substantial share of fiscal space that could have financed infrastructure and long-term asset creation was absorbed in funding current expenditure.
- d. Using national average unit-cost benchmarks to illustrate scale, this magnitude is comparable to approximately 4,800 km of fully delivered national highways (civil works plus land acquisition), or about 3,460 PM-ABHIM 100-bed critical care hospital blocks, or nearly 10,900 senior-secondary school buildings (based on National Building Code area norms and CPWD Plinth Area Rates)¹².
- e. In this framework, the revenue deficit carries more weight than the fiscal deficit because it measures the gap between routine income and day to day expenditure, whereas fiscal deficit also includes capital borrowing which can be productive.
- f. The opportunity cost of this pattern has been twofold:
 - i. Foregone capital expenditure, which could have supported long-term growth.
 - ii. Higher interest payments, arising from borrowing to finance the portion of the revenue deficit not covered by capital surplus. As a result, the binding constraint throughout the period remains the revenue deficit, which repeatedly translated into higher borrowing requirements and weakened fiscal prudence.



4.2 Revenue Mobilisation

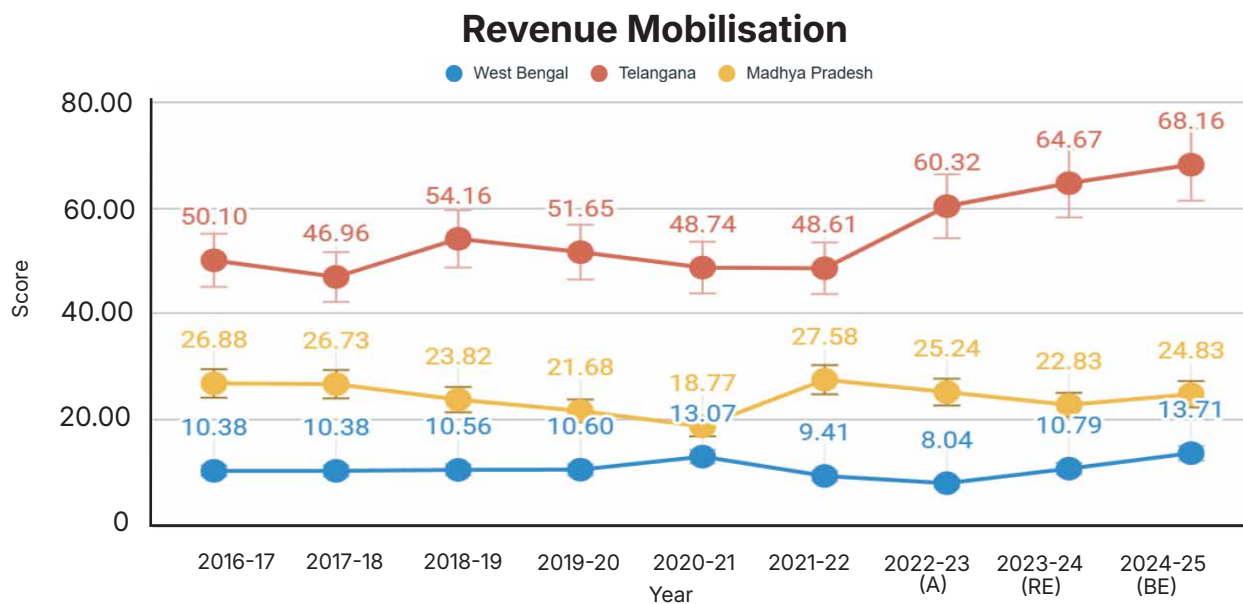


Figure 3: Revenue Mobilisation, West Bengal, 2016-17 to 2024-25

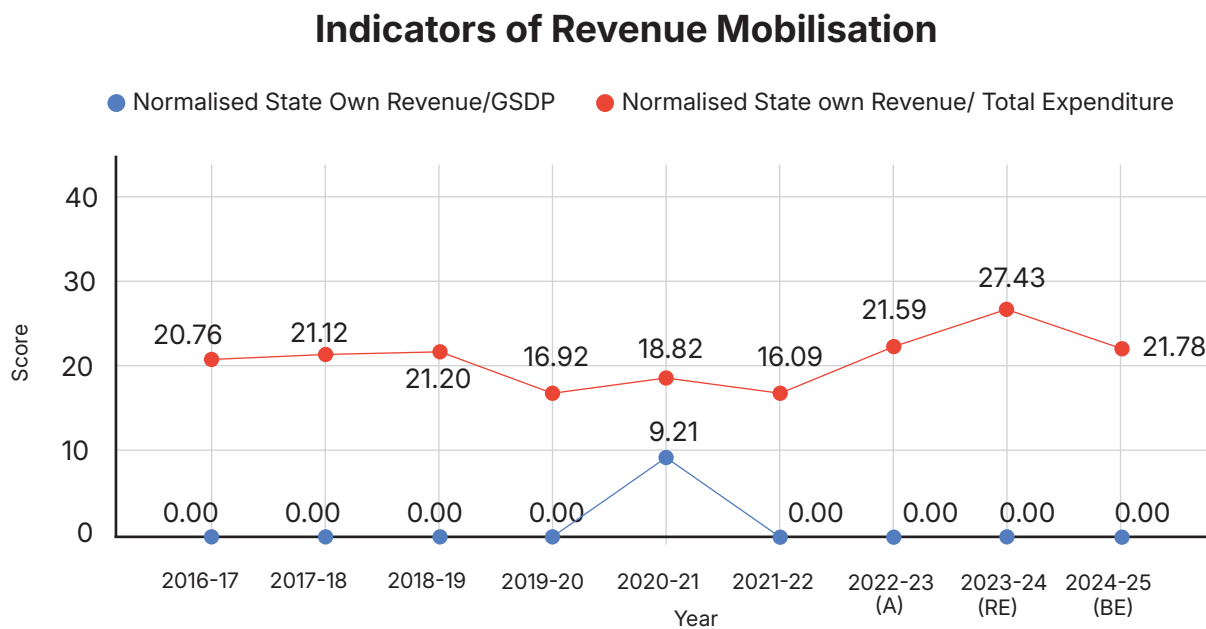


Figure 4: State Own revenue/Total Exp & State Own Revenue/GSDP, West Bengal, 2016-17 to 2024-25

4.2.1 Key Findings

State	Revenue Mobilisation Score (2016-17 → 2019-20)	State's Own Revenue/GSDP (2016-17 → 2019-20) (Actual)	State's Own Revenue/Total Expenditure (2016-17 → 2019-20) (Actual Ratios)
West Bengal	10.38 → 10.60	5.55% → 5.42%	30.73% → 31.26%
Telangana	50.10 → 51.65	8.84% → 7.89%	47.82% → 52.47%
Madhya Pradesh	31.52 → 23.35	8.20% → 7.13%	34.00% → 34.56%

a. Phase 1 (2016-17 to 2019-20): Stagnant Own Revenue Against a Growing Economy

West Bengal's Revenue Mobilisation score barely moved from 10.38 to 10.60, remaining well below Telangana at 51.65 and Madhya Pradesh at 23.35. Both ratios explain this. Revenue/GSDP fell from 5.55% to 5.42% because State's Own Revenue stagnated at around ₹63,882 crore (Table 2.2) in 2019-20 while the economy continued to grow. The stagnation was driven by a decline in Sales Tax from ₹7,813 crore to ₹7,161 crore and a sharp fall in Interest Receipts from ₹806 crore to ₹320 crore (Government of West Bengal, 2020-21), (Government of West Bengal, 2021-22) Throughout this period, West Bengal was covering only around 31% of its spending from its own resources, against Telangana's 52% and Madhya Pradesh's 35%.

State	Revenue Mobilisation Score (2020-21 → 2021-22)	State's Own Revenue/GSDP (2020-21 → 2021-22)	State's Own Revenue/Total Expenditure (2020-21 → 2021-22) (Actual Ratio)
West Bengal	13.07 → 9.41	5.73% → 5.43%	30.89% → 27.97%
Telangana	48.74 → 48.61	7.71% → 8.91%	46.18% → 54.72%
Madhya Pradesh	20.55 → 27.17	6.80% → 7.41%	30.78% → 33.95%



b. Phase 2 (2020-21 to 2021-22): Expenditure Surge Outpaces Revenue Recovery

West Bengal's Revenue Mobilisation score fell from 13.07 to 9.41 during the pandemic phase, while Telangana held steady at 48.61 and Madhya Pradesh improved to 27.17. Both ratios deteriorated. State's Own Revenue/GSDP fell from 5.73% to 5.43% as Non-Tax Revenue collapsed from ₹5,198 crore in 2020-21 to ₹1,690 crore in 2021-22, as Interest Receipts fell from ₹2,823 crore to ₹305 crore. State's Own Revenue/Total Expenditure fell from 30.89% to 27.97% as total revenue expenditure rose sharply, driven by spending on Social Provisions which jumped to ₹1,02,475 crore in 2021-22 from ₹76,204 crore in 2020-21. West Bengal was covering less than 28% of its spending from its own resources by 2021-22, against Telangana's 55% and Madhya Pradesh's 34%. (Government of West Bengal, 2020-21), (Government of West Bengal, 2021-22).

State	Revenue Mobilisation Score (2022-23 → 2023-24 → 2024-25)	Revenue/GSDP (2022-23 → 2023-24 → 2024-25) (Actual Ratios)	Revenue/Expenditure (2022-23 → 2023-24 → 2024-25) (Actual Ratios)
West Bengal	8.04 → 10.79 → 13.71	5.66% → 5.81% → 5.99%	31.18% → 32.06% → 32.33%
Telangana	60.32 → 64.66 → 68.16	9.65% → 9.28% → 10.57%	61.85% → 58.70% → 59.57%
Madhya Pradesh	26.07 → 26.66 → 27.01	7.57% → 7.74% → 8.16%	34.42% → 32.69% → 34.85%

c. Phase 3 (2022-23 to 2024-25): Gradual Improvement but Gap with Peers Remains Large

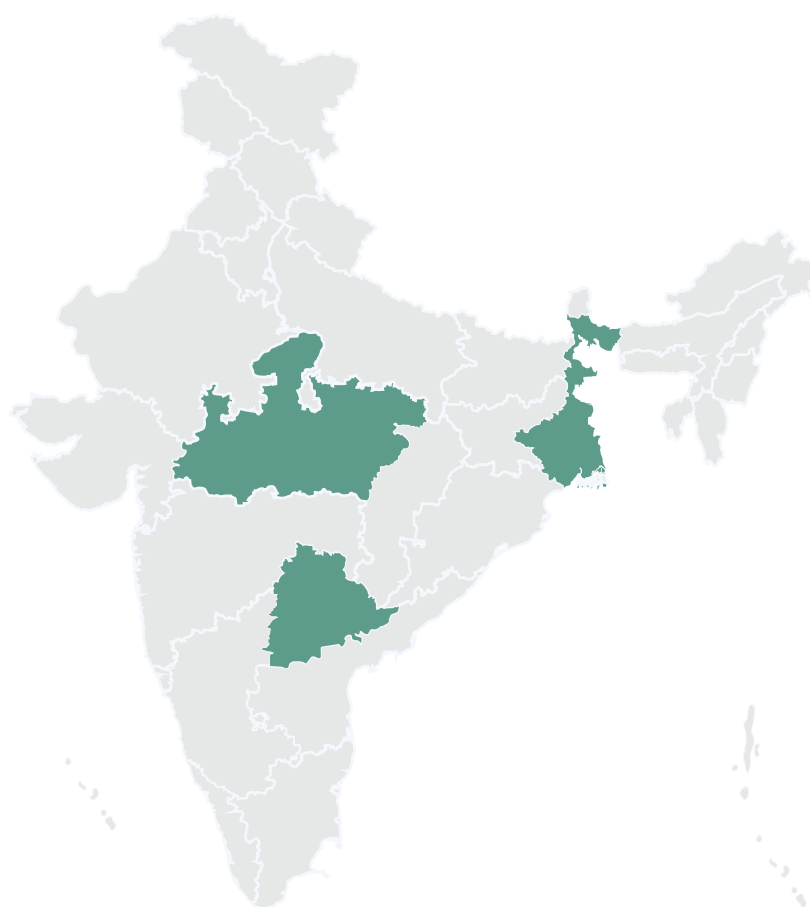
West Bengal's Revenue Mobilisation improved steadily in the post-COVID phase, with the score rising from 8.04 to 13.71, driven by both ratios moving in the right direction. SGST collections grew from ₹37,967 crore in 2022-23 to ₹40,900 crore in 2023-24. Despite this, West Bengal covered only 32% of its spending from its own resources in 2023-24, against Telangana's 59% and Madhya Pradesh's 33%, indicating that while the direction of travel is right, the gap with peers remains large (Government of West Bengal, 2024-25), (Government of West Bengal, 2025-26).

d. Comparison with National Average: West Bengal's Revenue/GSDP averaged 5.79% in Phase 1, 5.58% in Phase 2, and 5.82% in Phase 3, against the national average of 7.47%, 7.04%, and 7.90% respectively. The gap has not narrowed across any phase. Similarly, West Bengal's Revenue/Expenditure averaged 32.06%, 29.44%, and 31.86% across the three phases, against the national average of 42.84%, 38.55%, and 42.36%. The persistence of both gaps across COVID and recovery suggests the underperformance is not cyclical. (Refer to Annexure III, Table 2.5)



4.2.2 Durability and Fiscal Assessment

- a. The recovery is real but partial, and it will last only if revenue grows faster than expenditure.
- b. **Index-Level Conclusion:** Across all three phases, movements in the revenue mobilisation index are largely driven by changes in State's Own Revenue relative to Total Expenditure. However, the binding constraint over the past decade has consistently been normalised State's Own Revenue/GSDP, which remains at 0 in eight out of nine years, indicating that West Bengal has been the worst-performing state for most of the period on this metric.
- c. Tax buoyancy analysis confirms this structural weakness. Calculated as the ratio of percentage change in tax revenue to percentage change in GSDP, West Bengal's simple average tax buoyancy over 2016-25 stands at 0.92, meaning every 1% growth in GSDP yields only 0.92% growth in tax revenue. This is significantly below the nationally recommended range of 1.2-1.5 required for sustained fiscal expansion. In practical terms, West Bengal's economy grows faster than its ability to tax that growth, widening the structural gap between economic activity and revenue generation year on year.
- d. This low buoyancy is driven by two structural factors: the state's heavy dependence on agriculture (21% of GSVA), which is untaxed; dominance of informal trade and services in economic growth, which are difficult to tax. These factors explain why normalised State Own Revenue/GSDP ratio remains at 0 (worst performing) for almost the entire period, confirming that West Bengal's economy is structurally unable to translate economic growth into proportional revenue growth.



4.3 Debt Index

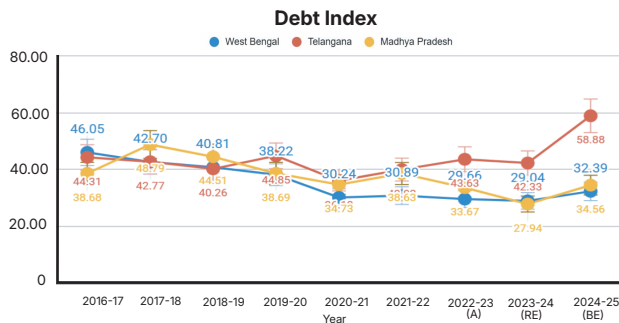


Figure 5: Debt Index, West Bengal, 2016-17 to 2024-25

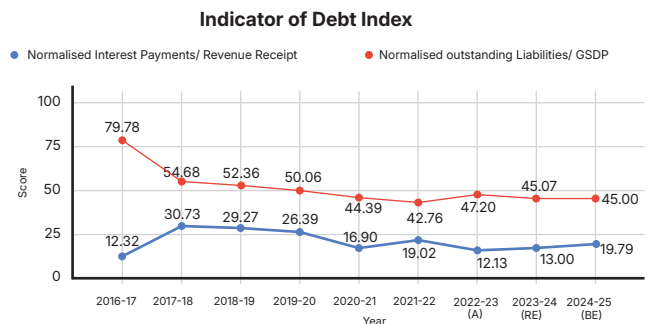


Figure 6: Outstanding Liabilities/GSDP & Interest Payments/Revenue Receipts, West Bengal, 2016-17 to 2024-25

4.3.1 Key Finding

State	Debt Index (2016-17 → 2019-20)	Outstanding Liabilities/GSDP (2016-17 → 2019-20) (Actual Ratios)	Interest/Revenue Receipts (2016-17 → 2019-20) (Actual Ratio)
West Bengal	46.05 → 38.22	38.69% → 37.81%	21.81% → 22.16%
Telangana	44.31 → 44.85	15.66% → 23.73%	10.40% → 14.03%
Madhya Pradesh	67.16 → 65.40	24.02% → 22.79%	7.36% → 9.63%

a. Phase 1 (2016-17 to 2019-20): A Large Debt Stock Weighs on the Index Despite Stable Ratios

West Bengal's Debt Index fell from 46.05 to 38.22 in the pre-COVID phase. Both West Bengal and Madhya Pradesh kept outstanding liabilities growth below GSDP growth. West Bengal's liabilities grew 32.1% against GSDP growth of 35.1%, and Madhya Pradesh's liabilities grew 35.5% against GSDP growth of 42.8%. Telangana, by contrast, saw liabilities grow 175.5% against GSDP growth of 44.3%. Despite this, West Bengal's Debt Index was lower than Telangana's. Similarly, West Bengal's Interest Payments/Revenue Receipts ratio barely moved, from 21.81% to 22.16%, because its interest payments grew by only ₹5,965 crore, from ₹25,703 crore to ₹31,668 crore and yet West Bengal's debt index is lower than its peer states. This is because, since West Bengal's interest burden was already the largest among peers in absolute terms, this small increase left it carrying ₹31,668 crore in interest payments against Telangana's ₹14,388 crore and Madhya Pradesh's ₹14,217 crore, and with a Liabilities/GSDP ratio of 37.81% against Telangana's 23.73% and Madhya Pradesh's 22.79%, making its overall debt position the most constrained among the three states.

State	Debt Index (2020-21 → 2021-22)	Outstanding Liabilities/GSDP (2020-21 → 2021-22) (Actual Ratios)	Interest/Revenue Receipts (2020-21 → 2021-22) (Actual Ratios)
West Bengal	30.24 → 30.89	43.55% → 40.91%	22.77% → 20.58%
Telangana	36.13 → 40.02	28.76% → 28.01%	16.69% → 15.03%
Madhya Pradesh	55.10 → 55.66	30.74% → 29.53%	10.87% → 9.92%

b. Phase 2 (2020-21 to 2021-22): Ratios Improve but Absolute Debt Burden Remains the Highest Among Peers

West Bengal's Debt Index was broadly stable, moving marginally from 30.24 to 30.89 during the pandemic phase, even as both underlying ratios improved. Liabilities/GSDP fell from 43.55% to 40.91% as GSDP grew by 17.4%, from ₹114,179,789 lakh to ₹134,003,023 lakh, faster than outstanding liabilities which grew 10.2%, from ₹4,97,266 crore to ₹5,48,236 crore. Telangana's Liabilities/GSDP improved by 0.75 percentage points and Madhya Pradesh's by 1.21 percentage points, against West Bengal's improvement of 2.64 percentage points, but both peers started from a base of around 29-31%, against West Bengal's 43.55%, meaning even a larger absolute improvement left West Bengal's normalised score relatively unchanged. Interest/Revenue Receipts also improved from 22.77% to 20.58%, but West Bengal's interest payments at ₹36,672 crore remained nearly double Telangana's ₹19,161 crore and Madhya Pradesh's ₹18,446 crore in absolute terms.

State	Debt Index (2022-23 → 2023-24 → 2024-25)	Liabilities/GSDP (2022-23 → 2023-24 → 2024-25) (Actual Ratio)	Interest/Revenue Receipts (2022-23 → 2023-24 → 2024-25) (Actual Ratio)
West Bengal	29.66 → 29.04 → 32.39	39.48% → 39.67% → 39.35%	20.47% → 20.26% → 19.16%
Telangana	43.63 → 42.33 → 58.88	26.68% → 26.90% → 26.95%	13.69% → 13.80% → 8.01%
Madhya Pradesh	55.15 → 50.60 → 48.76	29.95% → 30.44% → 31.99%	9.54% → 10.35% → 10.40%

c. Phase 3 (2022-23 to 2024-25): Interest Payments Continue to Constrain Fiscal Space

West Bengal's Debt Index moved from 29.66 to 29.04 to 32.39 in the post-COVID phase, dipping in 2023-24 before recovering in 2024-25 BE. Between 2022-23 to 2023-24, Liabilities/GSDP remained broadly flat at around 39.5%, as outstanding liabilities grew 8.9% from ₹5,98,354 crore to ₹6,51,747 crore, nearly identical to GSDP growth of 8.96%. Interest Payments/Revenue Receipts continued to improve, from 20.47% to 20.26%, as interest payments grew 5.6% from ₹40,018 crore to ₹42,275 crore. Both Telangana and Madhya Pradesh saw their Liabilities/GSDP worsen as liabilities grew faster than GSDP, yet their scores remained higher than West Bengal's because their absolute debt levels remain significantly lower, with outstanding liabilities of ₹3,93,287 crore and ₹4,12,132 crore respectively against West Bengal's ₹6,51,747 crore, and interest payments of ₹23,337 crore and ₹23,994 crore against West Bengal's ₹42,275 crore.

d. Comparison with National Average: West Bengal's Liabilities/GSDP averaged 37.82% in Phase 1, 42.23% in Phase 2, and 39.43% in Phase 3, against the national average of 25.53%, 30.07%, and 28.20% respectively. The gap has persisted across all three phases. Similarly, West Bengal's Interest/Revenue Receipts averaged 21% in Phase 1, 22% in Phase 2, and 20% in Phase 3, against the national average of 13%, 14%, and 12%. This means, West Bengal spent ₹20 out of every ₹100 of its revenue receipts on interest payments, against the national norm of ₹12-14 out of every ₹100, leaving less room for productive expenditure and borrowing flexibility across all economic conditions (Refer to Annexure III, Table 5.4).

4.3.2 Durability and Fiscal Assessment

a. The improvement in the Debt Index from 2023-24 to 2024-25 is driven by revenue recovery rather than a reduction in the debt stock, making it vulnerable to any slowdown in revenue growth or renewed borrowing pressures, and hence may not be durable in the future.

b. Index-Level Conclusion

- i. Across all phases, Interest Payments as a share of Revenue Receipts emerges as the dominant binding constraint in West Bengal's Debt Index. On average, interest payments account for approximately 20% to 22% of revenue receipts. In comparison, most states operate in the 5% to 15% range, indicating substantially greater fiscal headroom. The 2024-25 (BE) numbers reinforce this structural stress. West Bengal's outstanding liabilities are estimated at roughly ₹7.14 lakh crore, with interest payments of around ₹45,269+ crore.
- ii. The borrowing structure further sharpens this exposure. In 2024-25 (BE) (NLC,2024) total capital receipts amounted to ₹99,862.93 crore, of which ₹79,727 crore (~80%) were market loans. Loans from the Central Government constitute ₹9,330 crore (~9%), loans from other sources ₹2,632 crore (~3%), with the remainder from provident funds and deposits. External borrowing is negligible. This indicates that West Bengal's debt is overwhelmingly market-linked, limiting concessional buffers and increasing sensitivity to domestic interest conditions. The presence of off-budget borrowings alongside budgeted borrowings suggests that effective public sector borrowing exceeds the headline fiscal deficit.

4.4 Quality Of Expenditure

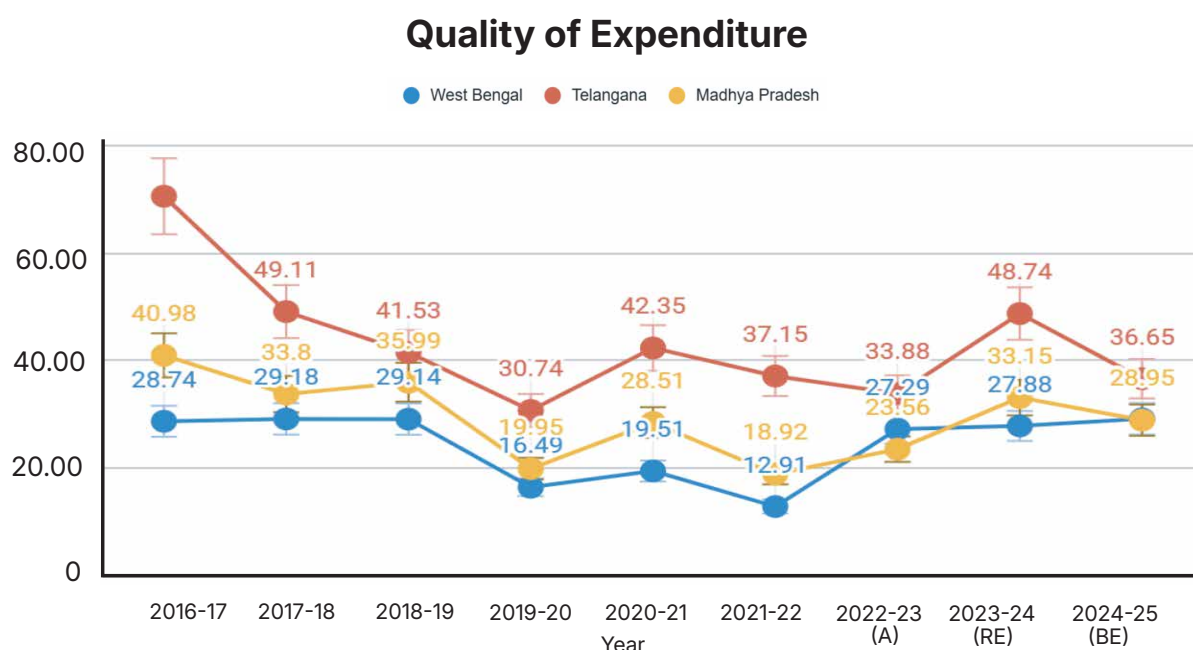


Figure 7: Quality Of Expenditure, West Bengal, 2016-17 to 2024-25

Indicators of Quality of Expenditure

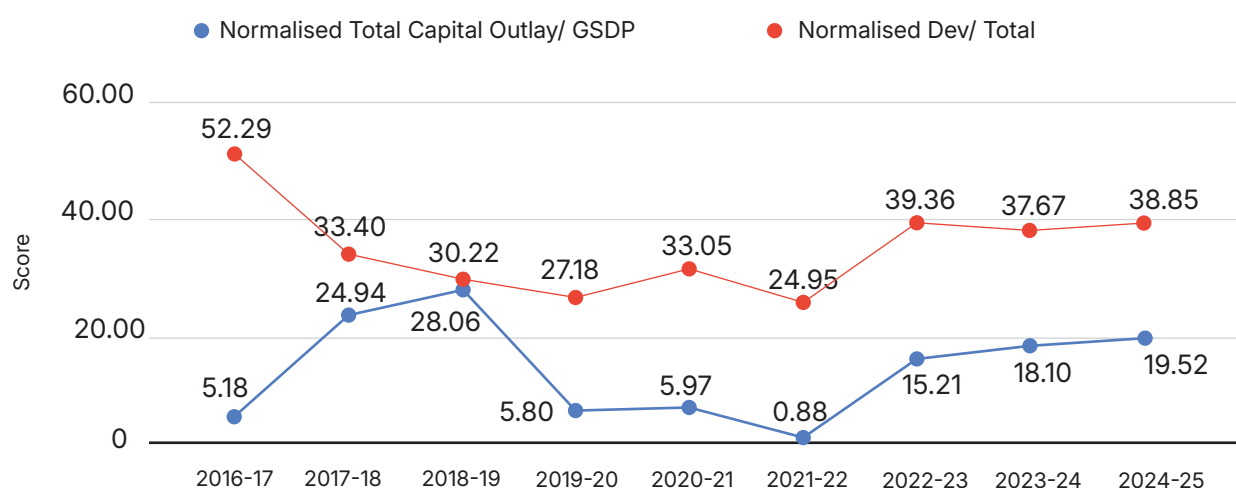


Figure 8: Development Exp/Total Exp & Total Capital Outlay, West Bengal, 2016-17 to 2024-25

4.4.1 Key Findings

State	Quality Of Expenditure score (2016-17 → 2019-20)	Dev Exp / Total Exp (2016-17 → 2019-20) (Actual Ratios)	Capital Outlay / GSDP (2016-17 → 2019-20) (Actual Ratios)
West Bengal	28.74 → 16.49	65.55% → 57.09%	1.30% → 1.35%
Telangana	70.53 → 30.74	69.42% → 68.06%	5.07% → 1.77%
Madhya Pradesh	73.40 → 45.20	75.35% → 69.92%	4.20% → 3.15%

a. Phase 1 (2016-17 to 2019-20): Committed Expenditure Crowds Out Development Spending

West Bengal's Quality of Expenditure Index fell sharply from 28.74 to 16.49 in the pre-COVID phase, the steepest decline among peers. Total expenditure grew 29.7% while development expenditure grew only 13.2%, from ₹1,03,280 crore to ₹1,16,881 crore. Capital Outlay/GSDP remained broadly flat at 1.35%, with absolute capital spending of ₹15,971 crore, against Madhya Pradesh's ₹29,242 crore and Telangana's ₹16,859 crore.

State	Quality Of Expenditure score(2020-21 → 2021-22)	Dev Exp / Total Exp (2020-21 → 2021-22) (Actual Ratios)	Capital Outlay / GSDP (2020-21 → 2021-22) (Actual Ratios)
West Bengal	19.51 → 12.91	61.33% → 57.42%	1.14% → 1.30%
Telangana	42.35 → 37.15	79.34% → 70.35%	1.69% → 2.57%
Madhya Pradesh	40.17 → 47.42	63.78% → 69.72%	3.20% → 3.70%

b. Phase 2 (2020-21 to 2021-22): Madhya Pradesh Expands Development Spending While West Bengal Falls Further Behind

West Bengal's Quality of Expenditure Index fell from 19.51 to 12.91 during the pandemic phase. Total expenditure grew 22.7%, from ₹2,11,966 crore to ₹2,60,093 crore, while development expenditure grew only 14.9%, from ₹1,30,001 crore to ₹1,49,351 crore, compressing Dev Exp/Total Exp from 61.33% to 57.42%. Madhya Pradesh moved in the opposite direction, growing development expenditure by 25.6% against total expenditure growth of 14.9%, which improved its Dev Exp/Total Exp from 63.78% to 69.72% and lifted its score from 40.17 to 47.42. Capital Outlay/GSDP remained the weakest among peers at 1.30% in 2021-22, with absolute capital spending of ₹17,484 crore against Madhya Pradesh's ₹40,733 crore and Telangana's ₹28,874 crore.

State	Quality Of Expenditure score (2022-23 → 2023-24 → 2024-25)	Dev Exp / Total Exp (2022-23 → 2023-24 → 2024-25) (Actual Ratios)	Capital Outlay / GSDP (2022-23 → 2023-24 → 2024-25) (Actual Ratios)
West Bengal	27.29 → 27.88 → 29.19	59.99% → 56.89% → 61.68%	1.45% → 1.85% → 1.98%
Telangana	33.88 → 48.74 → 36.65	69.08% → 70.44% → 69.76%	1.36% → 3.03% → 2.04%
Madhya Pradesh	52.28 → 61.23 → 54.15	68.05% → 64.33% → 68.13%	3.67% → 4.96% → 4.10%

c. Phase 3 (2022-23 to 2024-25): Capital Outlay Rises but Development Share Still Lags Peers

West Bengal's Quality of Expenditure Index improved steadily from 27.29 to 27.88 in the post-COVID phase, driven primarily by a 38.8% increase in capital outlay from ₹22,009 crore to ₹30,537 crore, which lifted Capital Outlay/GSDP from 1.45% to 1.85% in 2023-24. However, Dev Exp/Total Exp fell from 59.99% to 56.89% as total expenditure grew 8.7%, from ₹2,75,181 crore to ₹2,99,083 crore, while development expenditure grew only 3.1%, from ₹1,65,096 crore to ₹1,70,142 crore. The capital outlay gap with peers remains large, with Madhya Pradesh spending ₹67,178 crore and Telangana ₹44,253 crore in 2023-24, against West Bengal's ₹30,537 crore, indicating that while the direction of capital spending is improving, the absolute level continues to lag significantly behind peers.

d. Comparison with National Average: West Bengal's Dev Exp/Total Exp averaged 57.48% in Phase 1, 55.27% in Phase 2, and 59.86% in Phase 3, against the national average of 64.73%, 65.33%, and 60.40% respectively. West Bengal fell below the national average in all three phases, though the gap narrowed in Phase 3. On Capital Outlay/GSDP, West Bengal averaged 1.70% in Phase 1, 1.22% in Phase 2, and 1.76% in Phase 3, against the national average of 2.32%, 2.17%, and 2.63%. Capital spending has consistently remained below the national norm, and the gap has widened in Phase 3 as the national average improved faster than West Bengal's capital outlay.

4.4.2 Durability and Fiscal Assessment

- a. The improvement in Capital Outlay/GSDP in Phase 3 is partly genuine, with real increases in transport and social infrastructure, but its durability is constrained by the fact that public debt repayment absorbed ₹30,351 crore, or 50.5% of total capital expenditure of ₹60,109 crore in 2023-24 (Government of West Bengal, 2025-26). As long as debt servicing continues to absorb half of every rupee allocated to capital expenditure, the state's ability to scale up productive investment remains structurally limited.
- b. **Index-Level Conclusion:** In absolute terms, the state has consistently increased capital outlay over the years and has performed reasonably well on this front. However, when viewed relative to the size of the economy, the Capital Outlay/GSDP ratio has failed to cross 2% over the last six years, while most states typically operate in the 2–2.5% range.
- c. While Capital Outlay/GSDP has remained below 2% in most years, the issue is not merely the level of capital spending but its composition and execution. In 2024-25 (BE), revenue expenditure (₹2.68 lakh crore) is nearly 7.5 times the capital outlay (₹35,866 crore) (PRS Legislative Research, 2024), and committed expenditure alone absorbs 58% of revenue receipts. Although budget allocation estimates (BE) to education (15.6%), health (6.6%), agriculture (7.4%), and rural development (6.2%) exceed the all-state average, capital-intensive sectors such as roads and bridges (1.9% vs 4.6% state average) and energy (1.2% vs 4.7%) remain structurally under-allocated.
- d. Moreover, while social allocations are relatively high, outcomes remain mixed. ASER 2022 shows that fewer than half of Class 5 students in West Bengal can read at Class 2 level (EducationWorld,2022) NFHS-5 reports 32 % of children in West Bengal are stunted, 19% are wasted, and 27% are underweight (IIPS,2021). Agriculture continues to absorb over one-fifth of output with limited structural transformation. The constraint is therefore not only fiscal capacity, but allocation efficiency and outcome per rupee spent.

4.5 Debt Sustainability

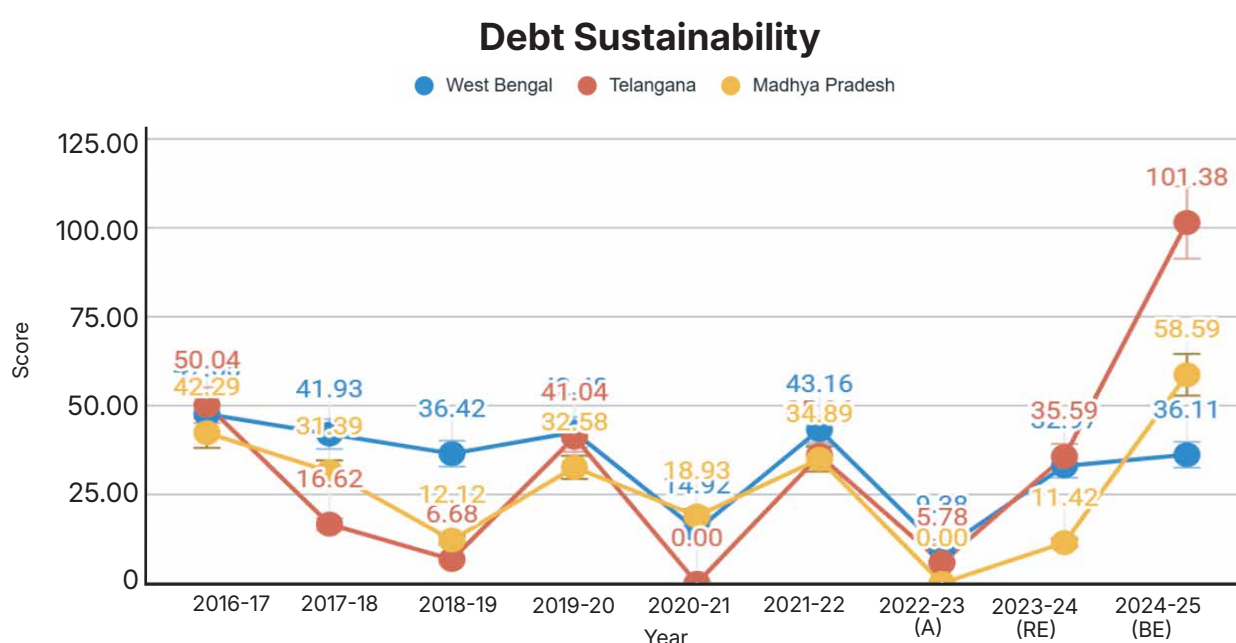


Figure 9: Debt Sustainability, West Bengal, 2016-17 to 2024-25

Indicators of Debt Sustainability

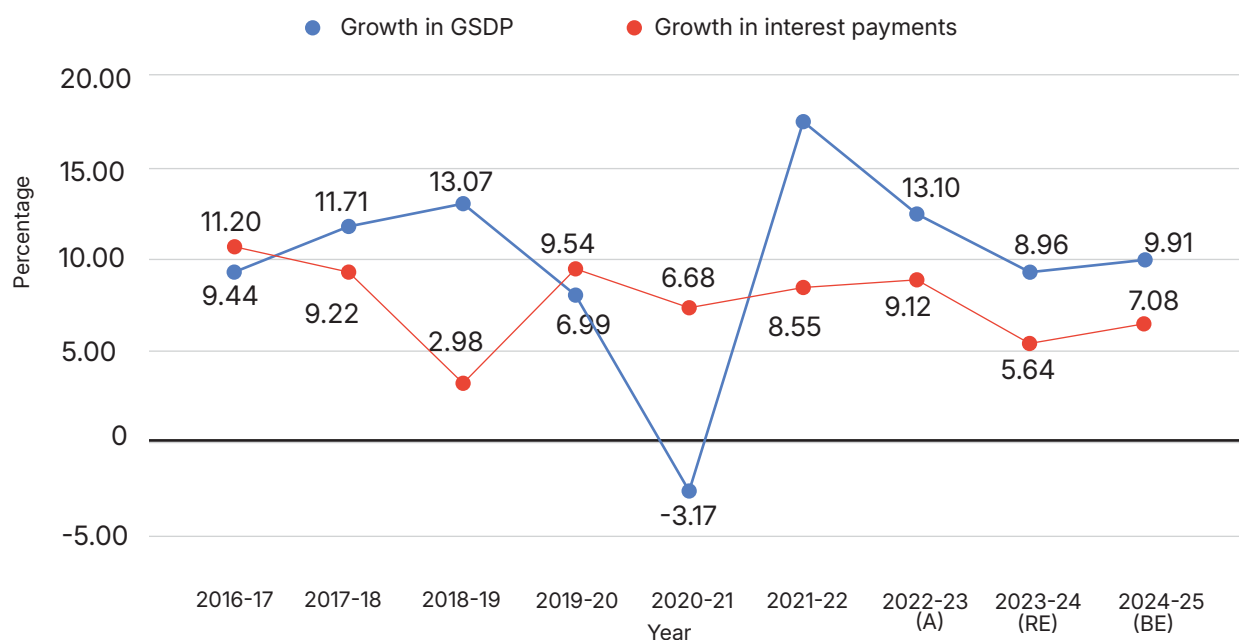


Figure 10: Growth Rate of GSDP & Interest Payments, West Bengal, 2016-17 to 2024-25

4.5.1 Key Findings

State	Debt Sustainability Raw score (2016-17 → 2019-20)	GSDP Growth (2016-17 → 2019-20)	Interest Growth (2016-17 → 2019-20)
West Bengal	3.96 → 2.49 → 10.08 → 10.08	9.44% → 11.71% → 13.07% → 6.99%	11.20% → 9.22% → 2.98% → 9.54%
Telangana	-30.35 → 0.01 → -1.93 → -1.84	13.92% → 13.93% → 14.32% → 10.81%	44.60% → 13.91% → 25.87% → 14.30%
Madhya Pradesh	7.89 → -9.89 → -0.69 → -0.69	20.10% → 11.77% → 14.25% → 11.82%	12.21% → 21.65% → 14.95% → 11.98%

a. Phase 1 (2016-17 to 2019-20): Slowing Interest Payments Drive Genuine Improvement

West Bengal's Debt Sustainability score improved from 3.96 to 10.08 across Phase 1, driven by a sharp slowdown in interest payment growth from 11.20% in 2016-17 to 2017-18 to 2.98% in 2018-19 to 2019-20, while GSDP growth remained broadly stable at around 9-13% across the same period. This meant that by 2019-20, GSDP was growing faster than interest payments by over 10 percentage points, which is what pushed the score to 10.08. Telangana, by contrast, saw interest payments grow at 44.60% in 2016-17 to 2017-18 against GSDP growth of 13.92%, reflecting its rapid fiscal expansion in this phase, while Madhya Pradesh moved from a positive position of 7.89 to negative territory as interest growth outpaced GSDP growth. West Bengal's improvement in this phase was therefore genuine, driven by a real slowdown.

b. Phase 2 (2020-21 to 2021-22): West Bengal experiences the sharpest GSDP contraction.

The recovery in 2021-22 was driven by GSDP rebound across all three states rather than any reduction in interest payment growth, and is therefore not durable. Madhya Pradesh is the most vulnerable, with interest growth of 15.88% nearly matching GSDP growth of 16.38%, leaving almost no buffer. West Bengal and Telangana had larger gaps between GSDP and interest growth, but both entered Phase 3 with interest burdens that had grown faster than GSDP in the preceding year, making the recovery fragile for all three states.

State	Debt Sustainability Raw score (2020-21 → 2021-22)	GSDP Growth (2020-21 → 2021-22)	Interest Growth (2020-21 → 2021-22)
West Bengal	-2.54 → 8.81	-3.17% → 17.36%	6.68% → 8.55%
Telangana	-17.80 → 5.42	-0.74% → 19.19%	17.07% → 13.78%
Madhya Pradesh	-9.85 → 10.49	1.97% → 16.38%	11.96% → 15.88%

c. Phase 3 (2022-23 to 2024-25): Narrowing Buffer as Interest Growth Closes in on GSDP Growth

West Bengal remained the most stable among peers in this phase, with GSDP consistently outpacing interest payment growth. However the buffer is narrowing, with the gap between the two falling from 4.0 percentage points in 2022-23 to 3.32 percentage points in 2023-24, while Madhya Pradesh moved into negative territory as interest payments grew 23.34% against GSDP growth of only 10.80%.

State	Debt Sustainability Raw score (2022-23 → 2023-24 → 2024-25)	GSDP Growth (2022-23 → 2023-24 → 2024-25)	Interest Growth (2022-23 → 2023-24 → 2024-25)
West Bengal	3.98 → 3.32 → 2.83	13.10% → 8.96% → 9.91%	9.12% → 5.64% → 7.08%
Telangana	2.72 → 4.58 → 36.28	16.60% → 11.53% → 12.25%	13.88% → 6.95% → -24.03%
Madhya Pradesh	5.50 → -12.54 → -3.15	10.96% → 10.80% → 11.05%	5.46% → 23.34% → 14.20%

d. Comparison with National Average: West Bengal appears to be managing debt costs better than the national average across all three phases, with interest payment growth consistently 2-4 percentage points below India's average. This figure is accurate in isolation but incomplete as a basis for assessment, for three reasons.

- The growth cushion is shrinking: In Phase 1, West Bengal's GSDP growth (10.30%) actually exceeded the national average (9.94%), meaning the state was growing faster than India while also keeping interest costs lower. This was the state's strongest relative position. By Phase 2, West Bengal's GSDP growth fell to 7.10% against India's 8.81%, a reversal of 2.07 percentage points. By Phase 3, the gap narrowed slightly but West Bengal still lags India's growth by 1.26 percentage points. The state has gone from outperforming India on growth to consistently underperforming, which directly undermines debt sustainability regardless of how interest costs are managed.
- The sustainability gap is widening in real terms :The critical metric is the difference between GSDP growth and interest payment growth, which determines whether a state is growing its way out of debt or falling further behind. Hence, In Phase 1, West Bengal had a positive cushion of 2.07 percentage points while India had a negative cushion of 2.84 percentage points, meaning West Bengal was actually in a stronger relative position than the national average. By Phase 3, West Bengal's cushion of 3.38 percentage points looks healthy in isolation, but India has also moved into positive territory at 2.24 percentage points, and India's absolute GSDP growth rate of 11.92% is significantly higher than West Bengal's 10.66%, meaning India is rebuilding fiscal space faster.

4.5.2 Durability and Fiscal Assessment

- The improvement in debt sustainability in Phase 3 is driven by cyclical GSDP recovery, not by a reduction in the interest burden or any structural change in debt management. A durable improvement would require the outstanding debt-to-GSDP ratio to fall, the revenue deficit to be eliminated, or Own Tax Revenue to expand sufficiently to reduce dependence on nominal growth to service debt. None of these conditions are currently met.
- The revenue side compounds this risk. West Bengal continues to run a persistent revenue deficit of 1.7% of GSDP, meaning new borrowing is being added to an already large debt stock each year simply to fund day-to-day expenditure. Own Tax Revenue has remained structurally flat at 5.4-5.5% of GSDP for several consecutive years, providing no additional fiscal cushion. The Phase 3 recovery to 35.62 should therefore be read as stabilisation at a structurally weaker equilibrium, not a return to the fiscal health of Phase 1. Without a credible path to revenue deficit elimination and Own Tax Revenue expansion, West Bengal's debt sustainability remains one growth slowdown away from renewed deterioration.
- Index-Level Conclusion:** Across all three phases, West Bengal's interest payment growth (averaging 7-8%) has been lower than India's national average (averaging 9-12%), which appears favourable. However, this needs to be read alongside the fact that West Bengal's GSDP growth has also consistently lagged India's growth in Phase 2 and Phase 3. The state is not managing debt costs better than the national average; it is simply growing more slowly, which means the debt sustainability problem will persist even if interest rates moderate. The deeper issue, consistent with everything else in this report, is that West Bengal's debt sustainability is almost entirely dependent on nominal GSDP growth. The state has not used any period of strong growth to structurally expand its tax base, reduce committed expenditure as a share of revenue, or build fiscal buffers. When growth slows, as it has in Phase 3, or shocks occur, as in Phase 2, the state has no cushion. The recovery to 35.62 by 2024-25 should therefore be read as stabilisation at a lower equilibrium, not a return to fiscal strength.

4.6 Fiscal Resilience Index

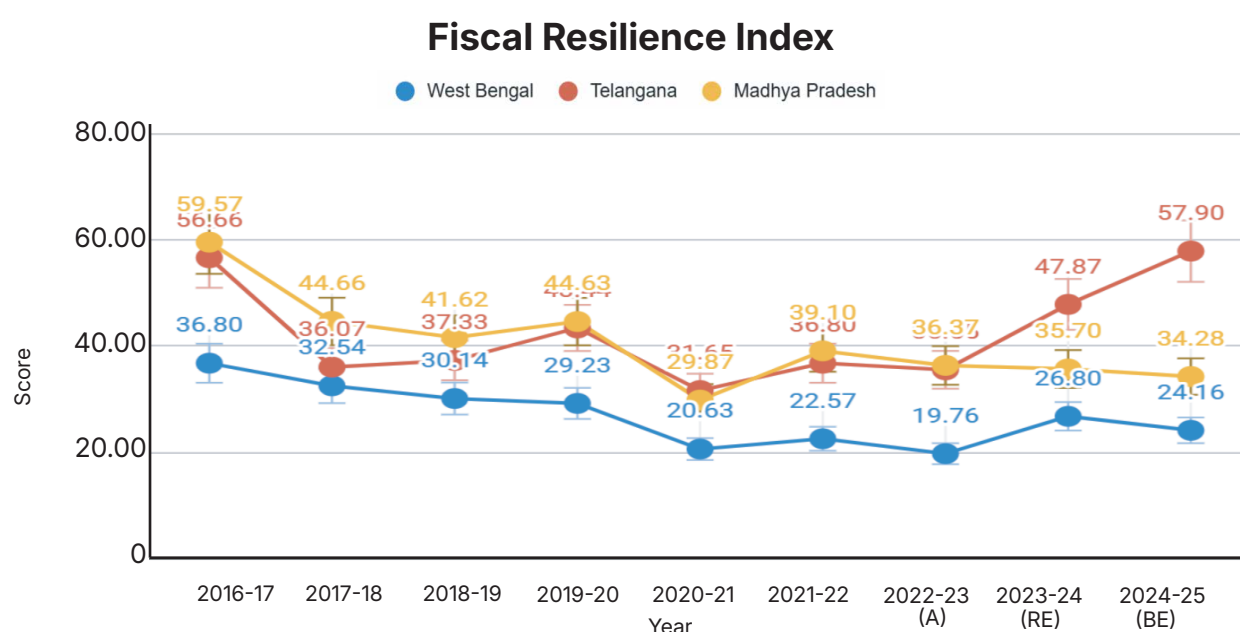


Figure 11 : Fiscal Resilience Index, West Bengal, 2016-17 to 2024-25

4.6.1 Key Findings

- a. West Bengal's fiscal health over the last decade is a story of a state that made progress during calm waters but lacked the underlying strength to withstand a storm. In the first phase, the state's health index decreased from 36.80 to 29.23. Even at its peak, the state ranked 11th out of 17 peers, trailing behind others like Uttar Pradesh and Bihar because it failed to fix its basic tax collection. When the dual shocks of the pandemic and Cyclone Amphan hit in the second phase, this fragile progress collapsed. The index crashed to 20.63 as the revenue deficit jumped by 50%. In the final phase, the state attempted a recovery, but it has proven to be a "revolving door" where gains quickly disappear. While the index touched 26.80, it fell back to 24.16 by 2024–25.
- b. Identification of the Binding Constraint: Reviewing dominant ratios (ratios that are driving the indicator) across sub-indices shows that improvements in capital outlay, debt servicing capacity, and post-shock growth recovery do not consistently translate into higher FRI scores. These gains are repeatedly neutralised by weak performance in fiscal prudence, particularly through persistent revenue deficits and rising committed expenditure that offset improvements elsewhere.
- c. In 2019–20, despite capital reallocation, own tax receipts declined by 0.63% while social services expenditure rose by 7.88%. Most recently, in 2024–25, although capital surplus rose marginally, revenue expenditure grew faster at 13.09%. These recurring revenue pressures prevent improvements in capital outlay or debt metrics from translating into durable fiscal strengthening. Among all dominant ratios, Revenue Deficit/GSDP, which transmits into GFD/GSDP, emerges as the single ratio that caps system performance. Revenue Deficit to GSDP is the ratio that limits overall performance because when the revenue deficit stays high, the state has to borrow just to pay for routine expenses. That

borrowing increases the fiscal deficit and adds to debt. Higher debt then leads to higher interest payments in future years. So even if other indicators improve, a persistent revenue deficit keeps pushing the state into more borrowing. This creates a cycle where debt and interest costs rise, and fiscal improvement does not last. As long as the state is unable to close its revenue gap, improvements elsewhere remain fragile and reversible.



4.6.2 Trade-off Assessment

- a. Revenue Recovery vs Expenditure Rigidity: In West Bengal, periods of revenue recovery have not translated into proportional fiscal improvement because around 58% of revenue receipts is absorbed by rigid expenditure commitments. Salary and pension obligations following ROPA 2019, high interest payments, and recurring scheme expenditures (58% of revenue expenditure) limit the state's ability to use incremental revenue gains to close the revenue deficit. As a result, even when State Own Revenue improves, the revenue deficit persists, forcing continued reliance on borrowing and constraining fiscal prudence.
- b. Capex Acceleration vs Debt Sustainability: West Bengal's capex push improves "quality of expenditure", but it tightens debt dynamics because it is happening alongside a still-high deficit path. PRS reports capital outlay jumping 58% in 2023–24 from 2022–23 (BE) and staying elevated (e.g., ₹35,866 crore proposed in 2024–25, +17% over 2023–24 RE) (PRS Legislative Research, 2024). But fiscal

space is limited because the state is still budgeting a fiscal deficit of 3.6% of GSDP (₹68,250 crore) in 2024–25, which means capex gains are partly riding on borrowing rather than a closed revenue gap. However, the borrowed capex is not translating into productive infrastructure. While development expenditure increased, infrastructure-intensive sectors did not see a matching expansion. Spending on roads and bridges accounted for only 2.3% of total expenditure, well below the 4.3% average across states. This suggests that the increase in development spending was driven more by revenue-heavy and welfare-oriented items than by asset-creating capital outlay.



4.6.3 Assessment of Current Fiscal Position (2024–25)

- a. For 2024–25, West Bengal's fiscal position is best classified as fragile. While the state has moved out of acute shock conditions and achieved partial stabilisation, the absence of sustained improvement in fiscal prudence confirms that recovery is not structural. The binding constraint (persistent revenue imbalance translating into elevated borrowing) remains unresolved, making fiscal health vulnerable to growth slowdowns or expenditure shocks.

4.6.4 Priority Levers for Improving Fiscal Health

- a. Primary lever (binding constraint): Fiscal Prudence is the primary lever because it contains the binding constraint for the Fiscal Health Resilience. Persistent revenue deficits and their transmission into elevated fiscal deficits cap system-wide improvement. Unless the revenue deficit is eliminated and borrowing requirements are structurally reduced, improvements in other indices remain temporary and reversible.

Even if West Bengal were to restructure its debt and reduce interest payments, the revenue deficit would persist because the state's primary deficit, which measures the gap between revenue and expenditure before interest payments are counted, has grown from Rs 857 crore in 2017–18 to Rs 22,981 crore in 2024–25 (Reserve Bank of India, 2025). This means the state is borrowing not to service past debt but to fund its current operations. Debt restructuring would reduce the cost of existing liabilities but would not address the fresh borrowing requirement generated every year by the primary deficit. This is what makes the revenue deficit the binding constraint rather than debt servicing costs, which are a symptom of accumulated past borrowing rather than its cause.



b. Supporting levers:

- i. **Revenue Mobilisation-** It is a supporting lever, not the primary one, because improvements here have occurred but have not translated into fiscal health gains. The dominant ratio - State's Own Revenue relative to Total Expenditure , shows that revenue growth has repeatedly been absorbed by expenditure expansion. Strengthening revenue mobilisation is therefore necessary to support fiscal prudence, but on its own it cannot lift fiscal health unless expenditure growth is restrained.
- ii. **Quality Of Expenditure:** This lever functions as a stabilising lever. West Bengal has demonstrated the ability to improve capital outlay during recovery phases, which supports growth and medium-term revenues. However, capex-led improvements raise borrowing pressures if fiscal prudence is weak. Therefore, quality of expenditure must remain strong in parallel with prudence correction, not in place of it. A critical concern, however, is capital expenditure efficiency. Capital outlay in West Bengal has been highly volatile, falling by 32.66% in 2019-20 (to Rs 15,971crore) before recovering to Rs 22,009 crore in 2022-23. This volatility undermines the effectiveness of capital spending in generating sustained growth. More importantly, the low absolute level of capital outlay as a percentage of total expenditure (ranging from 6.15% in 2020-21 to 10.67% in 2024-25, compared to national averages of 15-20%) means that even when efficiency is reasonable, the scale of capital formation remains insufficient to drive structural transformation. Therefore, while West Bengal can improve capital outlay during recovery phases, the combination of low levels, high volatility, and revenue deficit crowding-out limits the effectiveness of this lever in supporting long-term fiscal consolidation.



5. Dimension II: Economic Dynamism

Economic performance constitutes the foundational layer upon which fiscal outcomes are ultimately realised. While fiscal health reflects the management of revenues, expenditures, and debt within a given period, the sustainability of these fiscal outcomes depends critically on the underlying capacity of the real economy to generate stable, broad-based, and expanding income streams over time. In this context, Economic Dynamism is examined as the second analytical dimension, focusing on whether the structure and trajectory of economic growth are sufficient to support long-term fiscal consolidation and development objectives.

This dimension builds directly on the findings of the Fiscal Resilience Index. Constraints observed in revenue mobilisation, expenditure rigidity, and debt dynamics are not treated as isolated fiscal outcomes but as manifestations of deeper real-economy conditions. The analysis therefore shifts from fiscal aggregates to the mechanisms through which growth translates or fails to translate into fiscal capacity. By examining growth scale, income distribution, employment transmission, investment structure, and sectoral composition, this dimension evaluates whether the State's economic trajectory reinforces fiscal sustainability or perpetuates structural fiscal stress.

GSDP vs Year

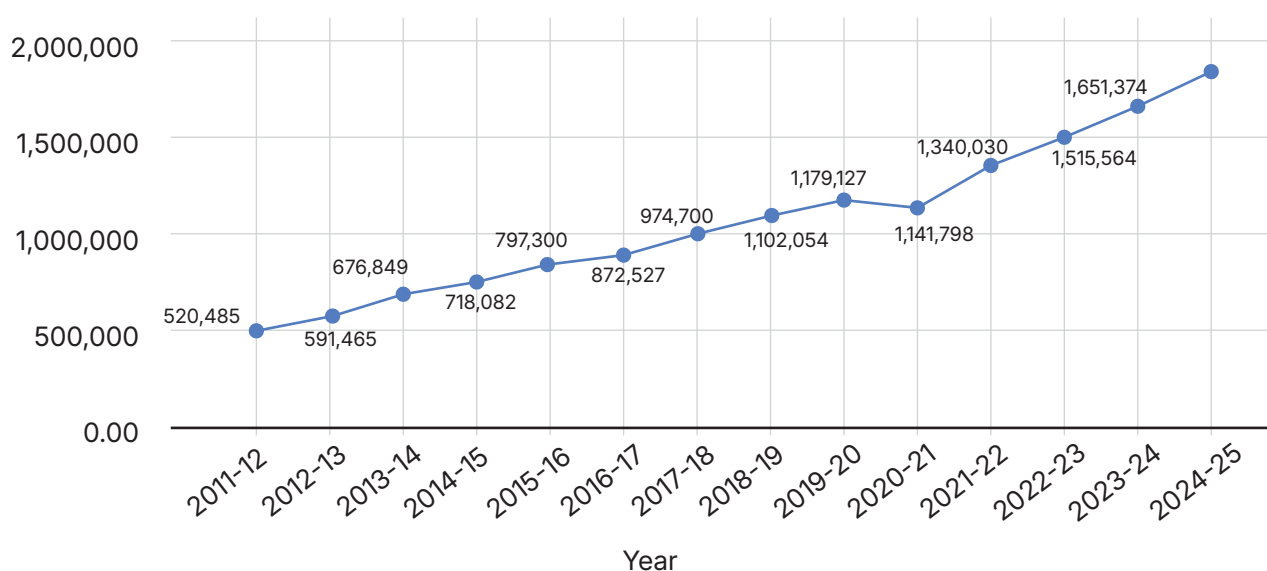


Figure 12: GSDP vs Year

GSDP Per Capita vs. Year

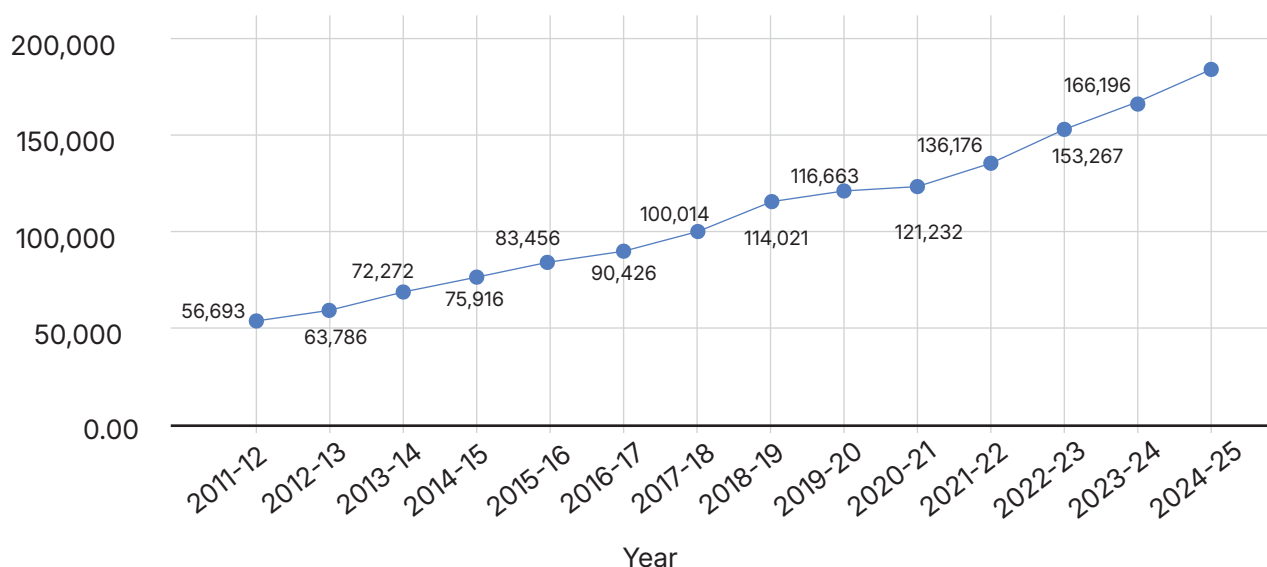


Figure 13: GSDP per capita vs Year

5.1 Growth and Output: Scale versus Quality of Expansion

5.1.1 Trends and Volatility

West Bengal's economic trajectory from 2011 to 2018 was defined by synchronous growth, where state GSDP and per capita income expanded in tandem. This period of stability transitioned in 2018-19 when a revision in population projections used for estimation caused a mechanical reduction in the per capita income figure, as the same total GSDP was now divided across a larger projected population base. This was a statistical recalibration rather than a decline in actual incomes. By 2020-21, the state pivoted towards a fiscal framework focused on stabilizing household consumption through increased social sector spending. This transition utilized market borrowings to fund direct transfers, effectively decoupling individual income levels from the immediate volatility of industrial production.

5.1.2 Fiscal Implications

- a. **Tax Base Expansion:** The Missing "Middle": For a state's tax base to expand, growth must translate into higher personal income and increased consumption. However, In 2021-22, West Bengal's GSDP surged by 20.53%, but Per Capita income rose by only 8.41%.

Fiscal Impact: Because the per capita gains were muted, the number of new taxpayers and the volume of high-value consumption did not expand at the same rate as the economy. State Own Tax Revenue grew by 17.91% against a GSDP growth of 20.53% in 2021-22, and the Tax-to-GSDP ratio actually fell from 5.74% to 5.43%, suggesting that growth did not broaden the taxpayer base proportionately. The tax base remains stuck in a narrow, low-income bracket, making it difficult for the state to tap into the "new wealth" generated by industrial growth

b. Revenue Buoyancy: The Inelastic Exchequers: Revenue Buoyancy measures how tax collection responds to GSDP growth. Ideally, for every 1% of GSDP growth, tax revenue should grow by more than 1% (a buoyancy > 1). According to the CAG Report 2020-21, West Bengal's Revenue Buoyancy with respect to GSDP fell to 0.50 in 2020-21, meaning that for every 1% growth in GSDP, total revenue receipts grew by only 0.50%. The State's Own Revenue Buoyancy was even lower at 0.33, indicating that the state's self-generated revenues were growing at less than a third of the pace of the economy (Comptroller and Auditor General of India, 2022). This indicates that the state's tax system is "inelastic." Since a massive portion of the state's economic activity is now propped up by the informal service sector and agriculture, both the GSDP growth doesn't "leak" into the Government's treasury. When growth doesn't reach households (Per Capita), the Government cannot collect the State GST (SGST) that usually comes from increased discretionary spending.

c. Long-Term Fiscal Space: The Borrowing Burden: Fiscal space is the flexibility a Government has to spend on new infrastructure without risking its financial stability. To protect household income West Bengal significantly increased its Revenue Expenditure. The state's Debt-to-GSDP ratio stands at 39.34%, 11 percentage points higher than the national average.

Fiscal Impact: Because the state is spending a huge chunk of its budget on "interest payments" and "direct transfers" to maintain the Per Capita floor, it has very little money left for Capital Expenditure (roads, bridges, ports).

d. The Vicious Cycle: Without capital investment, the state cannot create the high-paying jobs needed to drive up Per Capita income in the future.

5.2 Inflation Dynamics: The Erosion of Real Income

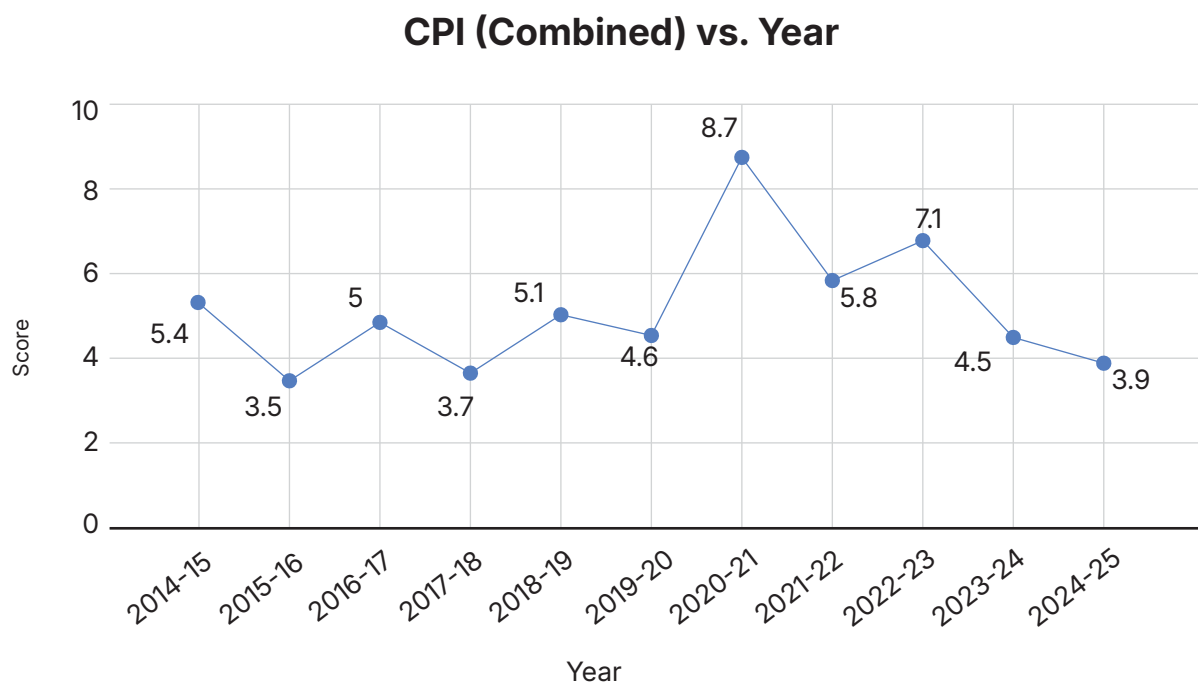


Figure 14: CPI vs Year

5.2.1 Inflation Trends and Volatility (2014–2023)

- a. West Bengal's inflation trajectory reveals a broadly "Two-Track" pattern, where rural areas have experienced structurally higher price levels than urban centres across most of the 2015-2024 period. As shown in Annexure IV, the Rural CPI index has consistently remained above the Urban CPI, with rural inflation outpacing urban inflation in six of the nine years observed. The divergence was sharpest in 2016 (+2.0 pp) and 2018 (+2.33 pp), reflecting the particular vulnerability of rural supply chains to policy shocks such as demonetisation. That said, the gap is not uniform, and urban inflation briefly exceeded rural figures in 2019 and 2021. This suggests that while rural households face a persistently higher price baseline, urban areas are not entirely insulated from acute inflation episodes.
- b. **Volatility:** The primary driver of volatility in the state is Food & Beverages, which accounts for nearly 50% of the rural CPI basket. Small supply shocks in rice or mustard oil cause disproportionate spikes in the state's headline numbers (Press Information Bureau, 2023).



5.2.2 Impact on Real Income and Purchasing Power

The divergence between "Paper Growth" (GSDP) and "Pocket Growth" (Per Capita) is exacerbated by inflation.

- a. **Purchasing Power Erosion:** As of 2021-22, West Bengal's per capita income was 20% below the national average. In a low-income environment, inflation acts as a regressive tax. Even "moderate" inflation translates to a loss of ₹5,000 to ₹6,000 in annual purchasing power for a household earning around the state per capita income of ₹1,00,000 per year. For the bottom 40%, who earn well below this figure, the erosion is proportionally sharper, effectively eliminating any capacity for non-essential consumption.
- b. **Real Income Stagnation:** While nominal GSDP grew significantly (e.g., +20.53% in 2021-22), the real income (adjusted for inflation) grew much slower. For the rural population, the high cost of fuel and transportation meant that even if their crop prices rose, their "disposable income" shrunk.

5.2.3 Fiscal Outcomes: Expenditure, Revenue, and Debt

- a. Erosion of the "Real" Development Budget

The most significant negative impact of inflation is the "crowding out" of real-term growth.

- i. **Capital Expenditure Contraction:** In 2022-23, West Bengal's actual capital outlay was ₹22,009 crore against a budgeted ₹33,144 crore, a shortfall of 34% (PRS Legislative Research, 2022 ;PRS Legislative Research, 2024). This pattern is not new: between 2015-16 and 2021-22, the state's average capital underspending stood at 33%, well

above the national average of 19% for states during the same period. Inflation in raw materials (cement, steel) means that even when the state spends its budgeted amount, it builds fewer roads and schools in "real" terms.

- ii. **The Health Gap:** Jan Swastha Abhiyan (JSA) - People's Health Movement Budget Audit 2025 (Jan Swasthya Abhiyan, 2025), highlights that even when budget allocation on health in India increases by 9.7%, the real term increase is only 3.04% once adjusted for inflation.

b. Strain on Welfare and Committed Costs

West Bengal's fiscal prudence is tested by its high "fixed" costs:

- i. **Committed Expenditure:** The state is estimated to spend ₹1,48,013 crore on salaries, pensions, and interest in 2025-26, accounting for 47% of its revenue receipts (PRS, 2026). Inflation necessitates Dearness Allowance (DA) hikes of approximately ₹40,000 crore (as per 2024-25), which further inflates this non-discretionary spending.

5.3 Labor Market Transmission: Employment and Participation

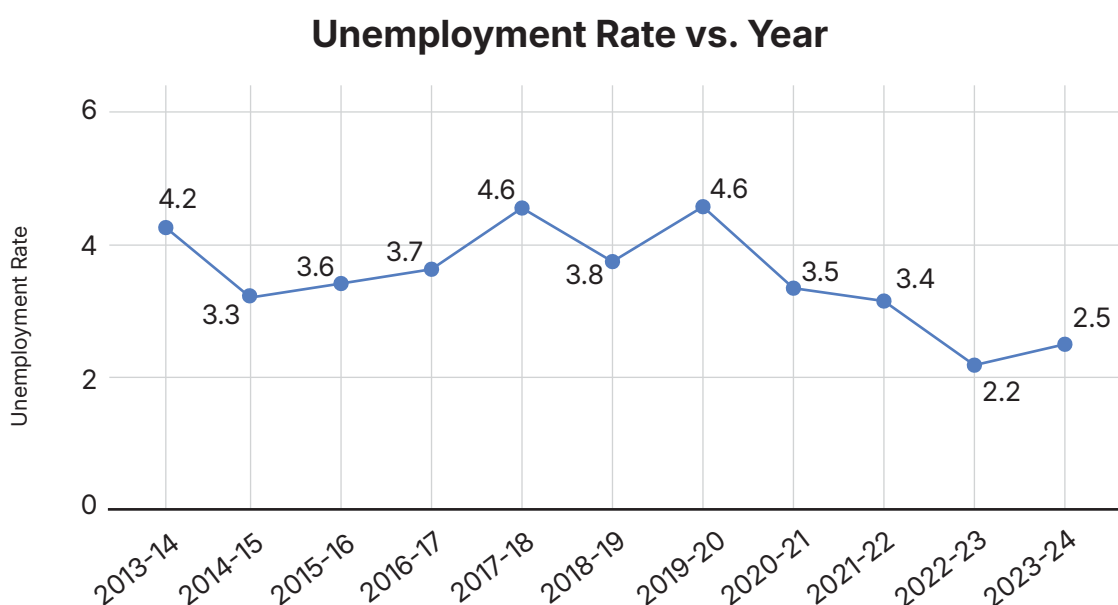


Figure 15: Unemployment Rate vs Year

5.3.1 Trend Analysis:

- a. **The Livelihood Anchor:** By 2014-15, the state maintained a steady workforce participation, with rural areas seeing significant engagement through the MGNREGA. West Bengal was one of the highest spenders on MGNREGA during this period (₹ 4847.9 crore in 2015-16) (Vidyasagar University, n.d.), providing a vital safety net for rural households. This aggressive implementation helped stabilise the unemployment rate as the state began a decade-long shift towards service-oriented growth.
- b. **The Pandemic Pivot:** Unemployment rose slightly to 4.6% in 2019-20 but then began

to decouple from national trends. The state Government diverted significant funds towards social welfare expenditure to act as a "consumption buffer". Programmes like the Aatmanirbhar Bharat Rojgar Yojana (ABRY) and state-specific grants incentivised employers to maintain payrolls despite the lockdown disruptions.

c. The Low Unemployment Paradox:

Agriculture employs 38.7% of workers but contributes only 20% of GSDP, implying that agricultural output per worker is significantly below the state average. Similarly, while services accounts for 51.1% of employment and 57% of GSDP, much of this reflects informal, low-wage self-employment rather than high-value activity. The result is an economy where people are technically employed but generating insufficient income to expand consumption, broaden the tax base, or drive demand-led growth.

5.3.2 Fiscal Implications

- a. Between 2017 and 2021, the state encountered a fiscal trap characterized by persistent unemployment that constrained both revenue generation and expenditure control. Reduced household disposable income cooled private consumption, which directly suppressed Own Tax Revenue, particularly through lower collections in State GST and Excise. Concurrently, the state increased social safety net spending to sustain rural demand, causing a significant rise in revenue expenditure. Consequently, the revenue deficit expanded, necessitating market borrowings to fund recurring consumption and welfare obligations rather than long-term capital assets.
- b. Post-2021, the unemployment rate plummeted to a record low of 2.2% (well below the national average). On

paper, this looks like an economic miracle, but the fiscal data tells a different story.

- c. **The Quality Gap:** The surge in employment is concentrated in informal services (34.8%) and agriculture (38.7%). These are low-productivity, low-income roles that often fall below the professional tax or significant GST-contributing thresholds. Between 2021-22 to 2022-23, approximately 25 to 30 lakh people were added to the "employed" category in West Bengal in that single year (Directorate General of Employment, 2024). Had even half of the 25-30 lakh workers added in 2021-23 entered formal employment rather than informal services and agriculture, the state could have generated an estimated ₹2,500 crore or more in additional annual tax revenue through professional tax and GST contributions alone, equivalent to roughly 3.5% of West Bengal's own tax revenue in 2022-23.

- d. **Revenue Stagnation:** Because these "new jobs" don't generate high taxable income, the state's tax base remains narrow. Own Tax Revenue as a percentage of GSDP has remained sluggish despite the "full employment" status.



5.4 Investment and Trade: Sustainability of Growth Drivers

5.4.1 Investment Composition

- a. Slow and uneven pre-pandemic capital formation Before the pandemic, capital formation in West Bengal expanded gradually rather than strongly. Between 2014–15 and 2018–19, Gross Fixed Capital increased by about 29 % over four years. A 29% rise in Gross Fixed Capital over four years translates to roughly 6.6% annual growth. Since West Bengal's GSDP was growing at 8–11% annually over the same period, capital formation was not keeping pace with the overall economy. This means the investment-to-GSDP ratio was effectively shrinking, suggesting the state was becoming progressively less investment-intensive even as it grew. Furthermore, the bulk of this investment was driven by public capital outlay rather than private enterprise, leaving the state vulnerable to fiscal constraints on growth.
- b. Pandemic-led contraction in investment In 2020–21, Gross Fixed Capital fell by about 7.6%. This reflects a sharp slowdown in new investment during the pandemic period. For West Bengal, this contraction was significant because the investment base was already moderate. The decline delayed capacity creation and weakened the state's medium-term growth pipeline.
- c. Post-pandemic recovery remains measured After 2020–21, capital formation recovered steadily. Between 2020–21 and 2024–25, Gross Fixed Capital rose by roughly 34 %. However, annual growth during this period mostly stayed between 5 and 7 %. This points to a cautious recovery rather than a strong investment surge. Investment confidence has improved, but the data does not indicate a decisive private investment-led expansion.
- d. Link with fiscal stress The gradual nature of investment recovery aligns with West

Bengal's fiscal position. With limited private investment momentum, growth relies more on the agricultural sector or the informal tertiary sector. Both these sectors hamper the growth of State's Own Tax Revenue, which in turn strains the Revenue Mobilisation of the state. Agriculture employs 38.7% of West Bengal's workforce and contributes 20% of GSDP, yet generates only ₹3,173 crore in Land Revenue, which is 3.8% of the state's Own Tax Revenue of ₹83,609 crore in 2022–23 (Actuals). The informal services sector similarly falls below GST and Professional Tax thresholds. Together, these sectors mean that nearly 45% of the state's workforce sits largely outside the formal tax net, keeping Own Tax Revenue stuck at just 5.5% of GSDP in 2022–23.

- e. Volatile foreign investment inflows FDI equity inflows into West Bengal show sharp swings. Inflows more than doubled between 2019–20 and 2020–21, rose marginally in 2021–22, and then fell by nearly 58 % by 2023–24. Although inflows recovered by about 64 % in 2024–25, they remain below earlier peaks. This pattern suggests that foreign investment interest is episodic rather than stable.
- f. Structural constraints in attracting sustained investment The volatility in FDI and the moderate pace of capital formation point to structural constraints. These include limited scale of industrial clusters, execution delays, and cautious investor sentiment. West Bengal allocates only 1.9% of its total expenditure to roads and bridges, less than half the national state average of 4.6%, and just 1.2% to energy against a national average of 4.7%. This infrastructure deficit raises the cost of doing business and discourages large-scale manufacturing investment. Compounding this, committed expenditure on salaries, pensions, and interest consumes 58% of revenue receipts in 2024–25, leaving the state with limited fiscal room to close these infrastructure gaps through public investment. As a result, West Bengal has not yet transitioned

to a self-sustaining private investment cycle.

5.4.2 Trade Performance

- a. Export decline during the pandemic period Exports from West Bengal declined sharply between 2018–19 and 2020–21, falling by around 11% over two years. Export values then stagnated in 2021–22. This period reflects the impact of global disruption and domestic supply constraints. This period reflects the combined impact of COVID-driven collapse in international demand, global shipping disruptions that raised freight costs and delayed consignments, and domestic production disruptions in West Bengal's key export sectors, particularly jute, leather, and textiles, where labor migration and raw material price spikes severely constrained output capacity between 2020 and 2022.
- b. Sharp rebound in 2022–23 In 2022–23, exports increased by 42%. This marks a clear turning point and indicates a strong revival in external demand for goods linked to West Bengal's trade and manufacturing base.
- c. Stabilisation at higher levels Although exports declined by about 9% in 2023–24, they remained well above pre-pandemic levels. In 2024–25, exports grew again by around 8.6%. This suggests that export activity has stabilised at a higher base compared to the pre-COVID period. Surprisingly, despite a 9% export contraction in 2023–24, State GST collections held steady at ₹ 40,900 crore, exceeding the budget estimate by 8%. This suggests domestic consumption remained relatively resilient, but also that the state's tax base is heavily dependent on consumption rather than productive export activity, making it structurally vulnerable to any sustained slowdown in household spending.
- a. Growth drivers remain fragile The combined investment and trade profile indicates that West Bengal's growth drivers are not yet self-reinforcing. Investment is rising slowly, exports have recovered, but neither is strong enough to anchor sustained revenue growth.
- b. Continued reliance on public spending With private investment and FDI remaining uneven, economic momentum relies heavily on public expenditure and welfare support. This supports short-term stability but adds to revenue expenditure and limits fiscal flexibility.
- c. Constraints on revenue buoyancy Moderate investment growth and limited export-led expansion constrain the growth of the state's own tax base. As a result, output growth is not matched by proportional revenue growth, reinforcing the fiscal constraints observed earlier.
- d. Structural imbalance in growth composition West Bengal's growth is supported by activity and trade recovery, but it lacks the scale and diversification needed to reduce dependence on public spending. This structural imbalance keeps fiscal pressures elevated and slows the transition towards a more durable growth path.

5.4.3 Fiscal Implications: Growth with Weak Self-Reinforcement



6. Diagnosing West Bengal's Growth-Fiscal Paradox

West Bengal's peer states based on GSDP are Telangana, Andhra Pradesh and Rajasthan.

However, for this section, the comparison also includes Maharashtra and Karnataka, as it focuses on the manufacturing reality of West Bengal and therefore requires benchmarking against states with comparable manufacturing capacity.



6.1 The Secondary Sector in West Bengal: Comparative Institutional and Performance Deficits

West Bengal's secondary sector underperforms not because manufacturing is absent, but because industrial activity lacks the institutional scale, formalisation, and integration observed in comparable states with similar manufacturing GVA as a share of total GVA. A comparison with states such as Karnataka, Maharashtra, Andhra Pradesh, Rajasthan, and Uttar Pradesh, shows that West Bengal is consistently outperformed across every stage of industrial deepening. The divergence follows a clear sequence: States that build stronger institutional capacity tend to formalise their economies more effectively, which in turn deepens trade integration and ultimately creates the conditions for innovation-led growth.

6.1.1 Institutional Capacity: Scale and Clustering of Industrial Activity

The first divergence emerges at the level of industrial institutional depth especially in its industrial park provisioning. West Bengal has 17 industrial parks, compared with 638 in Andhra Pradesh, 527 in Maharashtra, 460 in Rajasthan, and 384 in Karnataka. The gap is therefore not limited to a single outlier state; West Bengal underprovides industrial clustering infrastructure relative to all major peers. (Indiastat, n.d)

How other states are doing better

The main reason for the difference in economic performance is that states like Karnataka, Maharashtra, Andhra Pradesh, and Rajasthan, have moved to a "cluster-first" strategy. In these regions, the difficult work of land aggregation is handled by state agencies before an investor even arrives.

A prime example is the Karnataka Industrial Areas Development Board (KIADB). Under the KIADB Allotment Rules 2022 (Government of Karnataka, 2022), the state has moved to a 10-year lease-cum-sale model (replacing the old 99-year lease). The rule specifically mandates that if a company implements its project and utilises more than 50% of the land within just two years of starting production, they are entitled to a clear sale deed. This allows businesses to own their property quickly and use it as collateral for loans, which significantly lowers the risk of setting up.

These states also pre-arrange the necessary trunk infrastructure. In Rajasthan, the RIICO Disposal of Land Rules 1979 (Amended up to July 2025) (Rajasthan State Industrial Development and Investment Corporation, 2025) and Building Regulations 2025 require the state to provide "plug-and-play" facilities. Rule 3-AK (on Page 66) defines "developed land" as areas where roads, drainage, water, and power are already in place. Furthermore, Rule 3-G (on Page 17) ensures land is pre-allotted for power grid sub-stations (GSS), while Rule 3-O (on Page 30) mandates that land for fire fighting stations be provided at a token rate of ₹1/- to ensure the cluster is safe from day one.

In contrast, industrial activity in West Bengal is often scattered and fragmented. This is largely because the state maintains a "hands-off" policy where it does not intervene in land acquisition for private projects. This is legally reinforced by Section 14Y of the West Bengal Land Reforms Act 1955 (Government of West Bengal, 2021), which states that any person or company intending to hold land in excess of the standard ceiling (roughly 24 acres) for an industrial purpose must apply for specific, case-by-case permission from the state government. This creates a bottleneck where investors must manually negotiate with multiple small-holding farmers and then wait for government clearance, rather than moving into a pre-cleared state zone.

This institutional thinness directly constrains enterprise formalisation.



6.1.2 Formalisation: GST Penetration and Enterprise Visibility

West Bengal records 815 active monthly GST registrations, compared to 1,571 in Karnataka, 1,483 in Maharashtra and 1144 in Rajasthan¹³. (Goods and Services Tax Network, n.d.) Every comparator state with a similar manufacturing share shows a substantially larger GST-registered enterprise base.

How other states are doing better: Higher GST penetration reflects a manufacturing structure dominated by mid-sized and large firms operating within industrial clusters, where compliance costs are lower and formal market access is essential. In West Bengal, the dominance of small, dispersed units keeps a large share of manufacturing activity outside the GST net. As a result, comparable manufacturing output yields significantly lower SGST buoyancy.

Fixed Capital and Gross Value Added (GVA) jointly serve as strong indicators of firm size and industrial depth. Higher fixed capital reflects larger, more capital-intensive firms with greater capacity for scale, technology adoption, and compliance. Higher GVA indicates stronger value addition and productivity generated from these assets.



State	Percentage Share of Fixed Capital of the manufacturing sector	Percentage Share of GVA of the manufacturing sector
Maharashtra	11.94%	15.95%
Karnataka	6.11%	7.47%
Rajasthan	4.39%	4.15%
West Bengal	3.33%	3.22%

Table 5 : Percentage share of Fixed Capital and GVA of Manufacturing Sector (Ministry of Statistics and Programme Implementation, 2024)

Weak formalisation then feeds into poor trade integration¹⁴.

Feature	MAITRI (Maharashtra)	E-Udyog (Karnataka)	Silpa Sathi (West Bengal)
Legal Status	Statutory authority under MAITRI Act 2023	Statutory under Karnataka Industries (Facilitation) Act 2002.	Administrative portal; lacks a dedicated single-window statute.
Deemed Approval	Yes: Automatic generation of certificates if timeline is breached (Government of Maharashtra, 2023).	Yes: Self-certification triggers deemed rights for 3 years (Government of Karnataka, 2020).	No: Delays are flagged, but approval remains with the department (Government of West Bengal, n.d.).
Land Integration	Fully Integrated with IILB (GIS Land Bank).	Direct link to KIADB/KSSIDC allotments.	GIS data is being onboarded but not yet plot-level ready.
BRAP 2024 Rank	Top Achiever (Score >90%)	Top Achiever (Score >90%)	Aspirer (Score <70%)

Table 6: Single Window System of States (MAITRI, E-UDYOG, Silpa Sathi)

6.1.3 Trade Integration: Manufacturing-Linked Freight Generation

Despite having railway density comparable to national leaders, West Bengal records an inter-state trade movement index of 0.0396, well below 0.1365 in Maharashtra, 0.112 in Karnataka, 0.098 in Andhra Pradesh, and 0.081 in Rajasthan. All comparator states exhibit substantially higher trade intensity (Indian Railways, 2024).

How other states are doing better:

In Maharashtra and Karnataka, industrial clusters are directly embedded in logistics corridors, ports, and freight terminals, ensuring that infrastructure supports production-linked movement of goods, not merely transit. Andhra Pradesh has similarly aligned industrial parks with port-led and mineral-based supply chains. West Bengal's infrastructure, by contrast, primarily supports transit-linked states, designed to move goods from North India to the Northeast/Nepal.

State	SGST Buoyancy
Maharashtra	1.21
Karnataka	1.16
West Bengal	0.86

Table 7 : SGST Buoyancy¹⁴(Finance Commission of India, 2019), (Reserve Bank of India, 2024)

This disparity is reflected in the SGST Buoyancy of the state. West Bengal's SGST buoyancy is lowest among all states because "pass-through" trade is exempt from local SGST, yielding zero tax revenue for the state (Government of India, Ministry of Commerce and Industry, 2013) . As a result, the state's Revenue Mobilisation remains constrained throughout.

6.1.4 Port Proximity vs Cluster Integration

State	Primary Port Hubs	Dominant Industry Types	Industrial Cluster Density
Maharashtra	JNPT (Nhava Sheva), Mumbai	Automobiles, Electronics, Pharma, Textiles, Chemicals	728+ Industrial Parks; 36 Operational SEZs
Andhra Pradesh	Vizag, Krishnapatnam	Pharma, Shipbuilding, Textiles, Refineries	400+ Industrial Parks, 25 Operational SEZs
West Bengal	Haldia, Kolkata (SMP)	Petrochemicals, Jute, Fertilizers, Batteries	14+ Primary Parks, 7 Operational SEZs

Table 8: Trade Integration

Maharashtra, and Andhra Pradesh have moved beyond the traditional port model by focusing on "Discrete Manufacturing" clusters that act as economic multipliers. Unlike the "Process Industries" in Haldia, such as oil refineries and chemical plants that operate through self-contained pipelines with very few local suppliers, discrete manufacturing for cars, electronics, and textiles requires an enormous ecosystem of small-scale workshops and parts providers. In states like Maharashtra, a single factory near the port can support 500 local businesses, creating a "Short-Loop" where every nut, bolt, and component is

taxed locally, keeping the money within the state. Andhra Pradesh has achieved this by clustering massive pharmaceutical and apparel parks within a few kilometres of its coast. West Bengal, by contrast, faces a "transit penalty" because its most significant land banks are 350km inland. While a truck in Maharashtra might move goods from factory to ship in minutes, a truck from West Bengal's interior can spend 15 hours on congested public roads. This geographical gap means the state bears all the costs of road repairs and traffic without capturing the high tax rewards that come from a tightly integrated, port-side manufacturing base.

6.1.5 Innovation and Upgrading: Startups and Patents

West Bengal records 9 monthly recognised startups and 453 patents filed (2022). This compares with 99 startups and 4,566 patents in Maharashtra, 85 startups and 3,222 patents in Karnataka, 40+ startups and 1,800+ patents in Uttar Pradesh, and 30+ startups in Andhra Pradesh (DPIIT, 2025), (Office of the Controller General of Patents, 2024)



6.1.6 How other states are doing better

These states benefit from dense industrial-academic-startup ecosystems, where manufacturing firms are large enough to invest in R&D, collaborate with universities, and pursue incremental innovation. The absence of scale and clustering in West Bengal's manufacturing sector suppresses both the demand for innovation and the capacity to finance it. Innovation gaps are therefore an outcome of earlier institutional failures, not an isolated weakness.

6.1.7 Cumulative Implication: Why Similar Manufacturing Shares Yield Divergent Outcomes

Across all comparator states, the pattern is consistent. Where industrial parks, formal enterprises, and logistics integration are strong, manufacturing output translates into higher GST collections, greater export participation, and sustained capital formation. West Bengal, despite a comparable manufacturing share in GSDP, lacks these transmission mechanisms.

The result is manufacturing without fiscal depth. Output exists, but it is generated through fragmented, low-productivity units that neither formalise nor scale. Consequently, the state relies on welfare expenditure and borrowing to sustain demand, rather than on manufacturing-led revenue expansion.

6.2 Foreign Direct Investment in West Bengal: Levels and Constraints

West Bengal's FDI to GSDP ratio stood at approximately 16.4 available. States such as Karnataka (258.8), Gujarat (259.2), and Maharashtra (432.1) attract FDI at rates between sixteen and twenty-six times higher relative to their economic size. Even Rajasthan, with a broadly similar GSDP,

records a ratio of 21.9 against West Bengal's 16.4. Annual inflows fluctuate sharply and fail to show a sustained upward trend. Even in years of temporary increase, West Bengal's FDI levels remain well below those of peer states, indicating that the state has not been able to attract large, long-term foreign investments capable of transforming its industrial base or employment structure.

The reasons for West Bengal's persistently low FDI are largely structural rather than cyclical. While the state does host large oil refineries and petroleum-related infrastructure, these are capital-intensive, legacy assets with limited scope for incremental foreign investment or employment generation. Beyond petroleum refining, West Bengal lacks large-scale, export-oriented manufacturing clusters that typically anchor sustained FDI. The broader economy is dominated by trade, real estate, small services, and agriculture. These sectors do not attract much foreign investment because they generate lower returns, do not scale easily, and rely more on local demand than global markets. In contrast, states that attract higher levels of FDI typically have strong bases in electronics, automobiles, chemicals, and heavy engineering, which support global supply-chain integration and continuous reinvestment. As a result, most foreign investments in West Bengal remain small, isolated, and short-term, rather than capacity-expanding or ecosystem-building.

The FMCG/Petrochem Anchor:

Petrochemicals and Chemicals remain the only manufacturing sectors in the state that consistently draw global interest.

The Jute/Tea "FDI Desert": West Bengal's industrial base retains a significant presence of jute and tea, sectors with long historical roots in the state's economy. These industries tend to attract limited foreign investment relative to newer manufacturing or technology-oriented sectors.

Second, constraints related to land availability, project execution, and industrial scale weaken investor confidence. Foreign investors place a premium on clear land titles, ready industrial parks, and predictable timelines. In West Bengal, land acquisition remains politically sensitive and large industrial projects often face delays, increasing uncertainty and deterring long-term commitments. This contrasts with competing states that offer pre-approved land banks and faster implementation.

Third, West Bengal suffers from weak industrial spillovers and reinvestment cycles. Because existing foreign investments have not generated strong supplier networks or ancillary industries, new investors do not benefit from agglomeration effects. This prevents FDI from compounding over time and keeps inflows episodic rather than self-reinforcing.

Finally, although the state has geographic advantages and port access, these have not translated into strong export-linked investment pull. Export growth has been uneven and is not driven by high-value manufacturing, reducing the incentive for foreign firms to locate production in the state. As a result, West Bengal remains a transit and consumption economy rather than a manufacturing and export hub in the eyes of global investors.

In summary, West Bengal's low FDI inflows reflect not a lack of economic activity, but a lack of scale, industrial depth, and execution certainty. Until these structural constraints are addressed, FDI is likely to remain limited, volatile, and insufficient to support sustained industrialisation or fiscal strengthening.



6.3 Foreign Direct Investment in West Bengal: Levels and Constraints

District	Exports in 2022-23 (INR Billion)	Exports in 2023-24 (INR Billion)	Percentage Decline
Kolkata	486.57	389.172	20%
Medinipur East	137.50	111.088	19%
Paschim Bardhaman	117.11	103.134	21%
24 Paraganas North	90.41	71.041	30%
Hoogly	66.58	41.788	37%
Kolkata	58.73	40.893	12%

Table 9: Exports of Top Six Districts of West Bengal (Gov. of West Bengal, 2022-23)
(Gov. of West Bengal, 2023-24)

Top 10 Export Commodity	% Share w.r.t. Total Export Value
Gold and Other Precious Metal Jewellery	12.43%
Iron and Steel	11.06%
Products of Iron and Steel	7.25%
Leather Goods	5.55%
Petroleum Products	4.80%
Human Hair Products	4.72%
Marine Products	4.39%
Rice (Other than Basmati)	3.61%
Processed Items	2.01%
Organic Chemicals	1.92%

Table 10: Top 10 Commodities Exported from West Bengal 2023-24
(West Bengal Industrial Development Corporation, 2023-24)

West Bengal's export performance appears stable when viewed through headline numbers, but a closer examination reveals a set of persistent structural weaknesses. The state's exports have not followed a smooth upward trajectory. The sharp rebound in 2021–22 was largely a statistical recovery from the pandemic-induced collapse rather than the result of new competitiveness or diversification. What followed is more telling: exports contracted in both 2022–23 and 2023–24 before a modest recovery in 2024–25. This pattern points to volatility rather than resilience. West Bengal's exports rise when global conditions are favourable and falter when they soften, indicating that the state is responding to external cycles rather than shaping them through strong, embedded manufacturing capabilities.

The most worrying signal emerges at the district level, particularly in 2023–24. Export declines were not confined to one or two locations but spread across nearly all major exporting districts. Kolkata, the state's dominant export hub, recorded a steep fall, and so did industrial districts such as Howrah, Hooghly, Paschim Bardhaman, and North 24 Parganas. When core districts decline simultaneously, the problem is unlikely to be logistical or administrative alone. Instead, it suggests deeper stress within the industrial and manufacturing base that supports exports. The heavy concentration of exports in and around Kolkata further magnifies this vulnerability. When the hub slows, the entire state's export performance weakens, leaving little room for other districts to compensate.

Beneath these spatial patterns lies a more fundamental issue: the mismatch between what West Bengal manufactures and what it exports. The state's export basket is dominated by gems and jewellery, iron and steel, metal products, petroleum-related items, leather goods, and select agri and marine products. These sectors generate export value, but they do not reflect the

structure of manufacturing employment in the state. Many of West Bengal's largest manufacturing employers do not feature meaningfully in the export composition at all. As a result, export performance and manufacturing employment are poorly aligned.

This disconnect is most clearly visible in the case of textiles and jute. West Bengal is widely recognised as India's jute hub and has a long-standing textile and allied manufacturing base that employs a large share of the industrial workforce. Yet textiles and jute are effectively absent from the state's major export categories. This absence implies that these sectors are largely locked into domestic markets, producing low value-added goods with limited export readiness. Weak product upgrading, limited branding, and poor integration into global value chains have prevented them from evolving into competitive export sectors. As a result, they continue to absorb labor without contributing to export dynamism.

At the same time, sectors such as gems and jewellery play a disproportionate role in exports relative to their footprint in manufacturing employment. These activities are typically capital- or skill-intensive, generate high export values, and are highly sensitive to global demand and price fluctuations. When such sectors dominate the export basket, overall export performance becomes more volatile and less connected to broad-based industrial employment or regional development.



6.4 Employment Story of West Bengal

Sector	Employment Share (%)
Agriculture	38.7%
Manufacturing	10.2%
Services	51.1%
Total	100%

Table 11: Employment Share per Sector

Source: Ministry of Statistics and Programme Implementation (MoSPI), Periodic Labor Force Survey (PLFS), July 2023–June 2024. Sector-wise employment distribution for West Bengal is estimated from unit-level microdata using Current Weekly Status (CWS) and survey weights. (Ministry of Statistics and Programme Implementation, n.d.)

6.4.1 The headline is not unemployment, it is where employment sits

West Bengal's labour market challenge is not characterised by high open unemployment but by the structure of employment itself. Using unit-level data from the Periodic Labor Force Survey (PLFS) 2023–24 (Current Weekly Status, rural and urban combined), approximately 38.7% of workers remain employed in agriculture, 10.2% in manufacturing, and 51.1% in services. This distribution immediately points to a structural imbalance. Employment is concentrated in sectors with low productivity, limited wage escalation, and weak fiscal spillovers, rather than in sectors capable of sustaining long-term income growth and revenue buoyancy.

6.4.2 Agriculture as the residual absorber of labor

Agriculture continues to employ nearly two-fifths of the workforce while contributing only about 21% of Gross State Value Added (GSVA). This divergence is structural rather than cyclical. It reflects persistent disguised unemployment and underemployment, where surplus labor remains attached to low-productivity activities due to the absence of viable non-farm alternatives. The continued dominance of agriculture in employment therefore signals not agrarian resilience, but insufficient labor absorption by manufacturing and modern services.

6.4.3 Manufacturing's failure to play the transformation role

Manufacturing employs only around 10% of the workforce, despite being the sector with the greatest potential for productivity growth, formalisation, and sustained wage increases. This weak absorption reflects the nature of West Bengal's industrial base, which is dominated by small-scale, MSME-led units characterised by low capital intensity, limited economies of scale, and weak integration into national and global value chains. Consequently, manufacturing has failed to perform its traditional role as a bridge between agriculture and services, leaving surplus labor largely unallocated rather than productively transformed.

6.4.4 Services dominate employment, but not in the way growth theory assumes

Although services account for a majority (51.1%) of total employment, this dominance is qualitatively fragile. Employment within the service sector is concentrated in low-productivity and largely informal activities such as wholesale and retail trade, transport, personal services, and low-end hospitality. High-productivity segments such as finance, information technology, professional, and technical services tend to absorb only a marginal share of the workforce. As a result, services-led GSVA growth does not translate proportionately into per capita income growth or enhanced revenue mobilisation. The service sector in West Bengal absorbs labor, but it does not systematically upgrade it.

Services Sub-Sector	Share of services employment
Trade (Wholesale & Retail)	31.4%
Public Administration, Education and Health	21.5%
Transport & Storage	16.9%
Other Personal & Informal Services	14.3%
Hospitality (Hotels & Restaurants)	7.2%
IT & Communication	1.7%
Finance & Insurance	3.2%
Professional & Technical Services	1.7%
Total Services	100%

Table 12: Employment Share within Service Sector

(Source: Ministry of Statistics and Programme Implementation (MoSPI), Periodic Labor Force Survey (PLFS) 2023–24. Sectoral employment composition for West Bengal estimated from unit-level microdata (Current Weekly Status), using survey weights.)

If just 5% of workers currently employed in wholesale and retail trade, roughly 3.2 lakh people, were to shift into formal IT and communication roles, the state could generate an estimated ₹560 crore in additional annual tax revenue through professional tax and GST contributions alone, equivalent to roughly 0.6% of West Bengal's Own Tax Revenue in 2023–24¹⁶.

6.4.5 The missing productivity ladder

Across sectors, West Bengal lacks a clear productivity ladder, a sequential pathway through which workers transition from low-productivity agriculture to higher-productivity manufacturing and subsequently into modern services. Instead, labor mobility often

follows a truncated trajectory from agriculture directly into informal services. While this transition raises employment counts, it does not generate commensurate gains in productivity or income. This deviation from the standard Kuznets-style structural transformation process locks the economy into a pattern of employment expansion without corresponding income growth.

6.4.6 Gender dimension: employment potential left untapped:

Despite a favourable demographic profile, female labor force participation remains structurally low. Women's employment is disproportionately concentrated in unpaid family work or low-paid, informal activities. Rather than facilitating women's integration into productive and formal employment, the state increasingly relies on income support mechanisms to address gendered vulnerabilities. While such schemes stabilise household consumption, they do not expand the productive base of the economy, thereby weakening the linkage between employment, income generation, and fiscal capacity.

6.4.7 Migration as a pressure valve, not a solution

West Bengal functions as a labor-exporting state, with out-migration serving as a pressure valve for domestic employment constraints. This externalisation of labor demand masks internal structural weaknesses in job creation. During periods of systemic shock, such as the COVID-19 pandemic, the return of migrant workers exposed the fragility of the state's employment base, forcing policy responses to rely heavily on welfare expenditures rather than productive employment generation. This fragility is empirically documented in the report "Pandemic-induced Return of the Migrant Workers: Response of the State Government (West Bengal)" (Calcutta

Research Group, 2020) by Debashis Aich, which shows that the return of over 1.2 million migrant workers stripped away the state's economic façade and revealed a severe lack of local industrial absorption and a saturated rural labour market. The report finds that the state was largely unable to offer meaningful employment beyond MGNREGA's 100 days of work or low-paid agricultural activities such as jute cutting and manual soil digging. It further documents cases where workers who previously earned ₹15,000–₹21,000 per month in destination states were compelled to accept local daily wages of only ₹200–₹250, this labour market shock translated directly into a sharp contraction in household consumption demand. Migrant workers who earlier earned ₹15,000–₹21,000 per month experienced income compression to roughly ₹6,000–₹7,000 per month upon return, implying an average monthly income loss of about ₹11,250 per worker. For over 1.2 million returning migrants, this amounts to an aggregate income shock of approximately ₹13.5 billion per month. Applying a conservative marginal propensity to consume of 0.60 for low-income households, the implied consumption contraction is nearly ₹8.1 billion per month or close to ₹9,700 crore annually. This magnitude is fiscally comparable to the state's flagship income support programme: Lakshmir Bhandar alone is allocated ₹14,400 crore in 2024–25. The scale of private consumption destroyed by labour market fragility has therefore required near-equivalent public transfer outlays to stabilise demand, indicating that West Bengal has increasingly substituted market-generated incomes with fiscally financed consumption support rather than employment-led income growth.

6.4.8 Why employment structure becomes a fiscal problem

The composition of employment has direct fiscal consequences. A workforce

concentrated in agriculture and informal services generates low taxable incomes, weak GST buoyancy, and limited growth in formal payrolls. As a result, the state is compelled to substitute job-led income growth with transfer-based income support, contributing to rising revenue expenditure and persistent revenue deficits. In this sense, West Bengal's employment structure constitutes a hidden but binding constraint on fiscal sustainability and long-term economic prudence.

6.5 Public Sector Employment Fragility and Fiscal Implications

Beyond the vulnerabilities observed in private and informal employment, West Bengal's labour market exhibits growing fragility even within formal public sector employment, traditionally considered a stabilising anchor for income security and aggregate demand. Recent developments in state-managed employment systems highlight institutional weaknesses that have direct fiscal and credibility implications.

A prominent example is the prolonged teacher recruitment crisis arising from irregularities in the 2016 School Service Commission (SSC) recruitment process. This remains an active judicial matter and the analysis here is confined to its fiscal impact only. The judicial invalidation of the recruitment panel resulted in the cancellation of appointments for over 25,000 teachers and non-teaching staff, many of whom had already spent several years in service. From a fiscal perspective, this episode reflects more than an employment shock. It underscores weaknesses in administrative controls and recruitment governance, which translate into contingent fiscal liabilities, litigation costs, and ad hoc expenditure pressures associated with interim relief, protests, and potential re-recruitment or compensation mechanisms. Moreover, the sudden

withdrawal of stable public sector incomes from a large cohort of households exerts negative spillovers on local consumption demand, particularly in semi-urban and rural districts where government employment has a disproportionate multiplier effect.

The income shock associated with these cancellations is economically significant. Using conservative assumptions, the average annual wage per affected employee is estimated at approximately ₹3.8–4.0 lakh, implying a suspension of nearly ₹950–1,000 crore in wage income for every year of disruption. Given the relatively high marginal propensity to consume among salaried public-sector households (UKEssays,2015), this translates into an estimated ₹650–700 crore annual reduction in household consumption. Since government school employment is geographically dispersed, particularly across semi-urban and rural districts, the resulting contraction in demand is locally concentrated and amplified through informal retail, transport, and service networks.

Parallel to this, the long-standing dispute over Dearness Allowance (DA) payments to state government employees illustrates fiscal stress within the wage management framework itself. The accumulation of DA arrears over more than a decade, and the subsequent judicial direction to release pending dues, reveal a structural mismatch between committed expenditure obligations and available fiscal space. While DA is a legally indexed component of compensation, delays in its disbursement effectively converted a routine revenue expenditure item into a large, deferred fiscal liability amounting to ₹ 40,000 crore (The Telegraph, 2026). The eventual enforcement of arrears payments intensifies short-term fiscal pressure, crowding out discretionary spending and reinforcing revenue rigidity.

Taken together, these episodes indicate that even formal employment in West

Bengal is subject to elevated uncertainty, weakening its traditional role as a stabilising force in the labour market. For the state's public finances, this has three important implications.

- a. First, employment-related institutional failures generate episodic but sizable fiscal shocks that are not captured in routine budget projections.
- b. Second, deferred wage obligations and court-mandated payouts exacerbate expenditure inflexibility, limiting the state's ability to adjust during periods of revenue stress.
- c. Third, erosion of credibility in public employment systems may reduce the effectiveness of the public sector as an employer of last resort, increasing reliance on welfare transfers rather than sustainable wage-based income generation.

In this sense, employment fragility in West Bengal is not confined to informality or private-sector weakness. It extends into the core of the state's employment and compensation architecture, reinforcing the broader fiscal challenge identified in this study: high committed expenditure, limited adjustment space, and repeated transmission of institutional stress into the revenue account.



7. Conclusion

West Bengal stands at a decisive fiscal and economic crossroads. Over the period examined in this report, the state has navigated multiple shocks, including the pandemic, a major cyclone, and phases of national economic volatility. These are not trivial achievements.

Yet the central finding of this assessment is clear. The state's fiscal fragility is structural, not temporary. Improvements occur in favourable years, but they do not endure once growth moderates. The binding constraint remains the revenue deficit, driven by a persistent gap between recurring expenditure commitments and the state's capacity to generate durable own-source revenues. Without structural correction, this imbalance will continue to limit capital formation, compress fiscal space, and raise debt servicing pressure.

At the heart of the issue lies the composition of growth. West Bengal's economy is expanding, but the pattern of expansion does not generate proportionate fiscal returns. The tertiary sector dominates output, particularly trade, real estate, transport, and other demand-linked services. These sectors can grow quickly in response to consumption and urban demand, but they are not consistently tax-rich, nor do they anchor large-scale formal employment. Manufacturing remains underdeveloped relative to the scale of the state's economy. Agriculture still absorbs a large share of the workforce despite modest value addition. The result is a structural growth-fiscal disconnect: output increases, but the tax base does not deepen at the same pace.

This disconnect shapes every major fiscal outcome documented in this report. Revenue mobilisation remains persistently below national benchmarks relative to

GSDP. State Own Revenue finances only a limited share of total expenditure. Revenue expenditure accounts for close to four-fifths of spending, leaving capital outlay compressed. Interest payments absorb a high share of revenue receipts, narrowing flexibility further. Even in recovery years, gains in fiscal prudence are not sustained because the underlying structure does not change.

The expansion of welfare schemes reflects both administrative capability and social intent. Large programmes such as Lakshmir Bhandar, Kanyashree, and others have extended coverage across districts and demographic groups. However, the fiscal analysis in this study shows that welfare expansion has occurred in the context of a relatively weak revenue base. Unlike states that fund similar schemes from surpluses or stronger own-tax collections, West Bengal finances a significant share of recurring transfers while running a revenue deficit. This creates an opportunity cost. Every additional rupee committed to recurring consumption reduces the room available for infrastructure, industrial capacity, and productivity-enhancing investment.

This is not an argument against welfare. It is an argument about sequencing and balance. When welfare substitutes for missing labour market opportunities rather than complements a growing production base, it risks becoming structurally embedded. In West Bengal's case, high revenue expenditure has coincided with limited manufacturing expansion, modest formalisation, and a narrow tax base. Without expanding the sources of market-generated income, the fiscal system must repeatedly rely on borrowing to sustain current commitments.

The demographic context sharpens the

urgency. The state's dependency ratio is relatively favourable and population growth has slowed. The demographic dividend is mature. The window for labour-supply-led expansion is narrowing. Future growth must come from higher productivity, capital deepening, and technological efficiency rather than a growing workforce. If this transition does not occur before ageing pressures intensify, fiscal stress may compound over time.

The gender dimension offers a clear illustration of untapped potential. A favourable sex ratio and a large working-age female population present an opportunity to expand the formal labour force. Even modest increases in female labour force participation, particularly in formal and tax-paying sectors, could generate meaningful revenue gains and reduce welfare dependence. However, such a shift requires enabling conditions: safe mobility, skill alignment, industrial job creation, and reliable infrastructure. Transfers alone cannot unlock this potential.

Similarly, the state's geographic advantages remain under-leveraged. Its role as a transit corridor and port-linked hub generates trade volumes, but transit is not the same as production. Without dense industrial clustering, logistics advantages do not automatically translate into sustained tax buoyancy. Industrial land policy, infrastructure connectivity to production nodes, ease of formalisation, and sector-specific incentives all influence whether trade activity evolves into local value addition. The evidence suggests that this transition has been incomplete.

The fiscal health framework applied in this study was designed to move beyond single-year deficit numbers and instead assess durability across phases. The results are consistent. Improvements during growth upswings tend to reverse during stress periods. Revenue mobilisation does not accelerate

sufficiently even when output rebounds. Debt sustainability remains sensitive to revenue growth rather than structural consolidation. In short, the system responds to cycles but does not fundamentally reset.

The path forward is therefore structural, not incremental. First, revenue mobilisation must deepen through expansion of the formal sector rather than solely through higher rates on existing bases. Broader GST registration, improved compliance, and greater integration of small enterprises into formal value chains are essential. Second, capital expenditure must rise not just in volume but in composition, with clear prioritisation of industrial infrastructure, logistics integration, energy reliability, and digital capacity. Third, expenditure reform must focus on improving the productivity impact of social spending, linking transfers where possible to skill development, employability, and workforce participation.

None of these shifts will produce instant results. Structural change unfolds over years. However, delay compounds constraints. Each year of high revenue deficit financed through borrowing adds to the interest burden and narrows future flexibility. Each year of underinvestment in productive assets slows the expansion of the tax base. Each year of labour underutilisation reduces cumulative income growth.

West Bengal's fiscal story is not one of absence of activity or effort. It is a story of imbalance. The state has scale, administrative reach, demographic depth, and strategic location. It has demonstrated resilience in recovery phases. What it lacks is alignment between growth structure and fiscal architecture. Aligning these two dimensions is the central policy challenge of the coming decade.

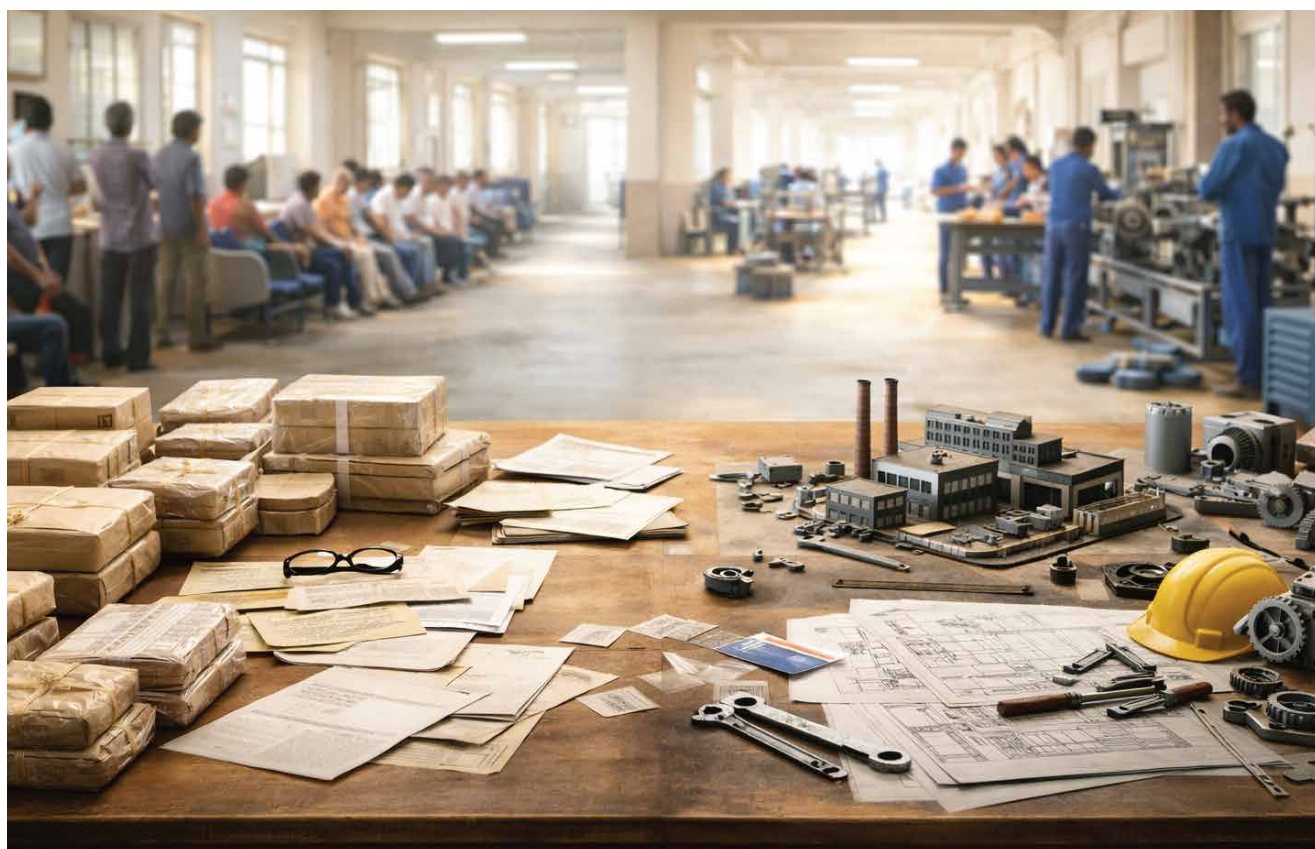
If the state can pivot towards deepening manufacturing, formal employment expansion, higher female participation, and

productivity-led capital investment, the fiscal loop can turn virtuous. Stronger production will widen the tax base. Higher revenues will create space for both welfare and infrastructure without excessive borrowing. Lower servicing pressure will restore flexibility. Durable fiscal health will follow from structural economic strength.

If this pivot does not occur, the current pattern is likely to persist: cyclical improvement followed by renewed stress, recurring revenue deficits, constrained capital outlays, and rising debt servicing burdens. In that scenario, demographic maturity and ageing pressures may intensify the challenge.

The choice is therefore not between growth and welfare, or between equity and efficiency. It is between a consumption-led fiscal model sustained through borrowing and a production-led model that finances both welfare and investment through expanding income and productivity. This transition, however, carries genuine distributional costs in the short term: households that currently depend on direct transfers may face uncertainty during the period before productivity gains and formal employment expand sufficiently to replace that income support. The evidence presented in this report points towards the production-led path as the more durable one, but the pace and sequencing of this transition will determine whether its benefits are broadly shared.

West Bengal possesses the foundational strengths required to make this transition. The next phase depends on whether policy choices reorient spending, incentives, and institutional capacity towards building a broader, deeper, and more tax-generative economic base. Fiscal resilience will not come from managing deficits alone. It will come from reshaping the structure that produces them.



Annexure I: State Profile and Context

This annexure provides supporting tables that complement the analytical sections of the report. The first table presents the sector-wise distribution of Gross Value Added (GVA) in West Bengal, including each sector's share in Gross State Value Added (GSVA) and its growth performance over the period 2020–2025. The second table summarises major State policies and reform initiatives that have influenced the State's economic structure and fiscal outcomes over time. Together, these tables provide contextual evidence for the sectoral and policy dynamics discussed in the main analysis.

1.1 Sector-wise GVA

Sector	GVA (₹ Cr) (Current Prices)	% of GSVA	Cumulative % of GSVA per sector	5-Yr CAGR (%) (2020-2025)
Primary Sector				
Agriculture, Forestry & Fisheries	32349872.21	20.08 %	21 %	10.76%
Mining & Quarrying	1576152.188	0.92 %		16.03%
Secondary Sector				
Manufacturing	21593780	12.56 %	20.73 %	7.47%
Electricity & Utilities	2816061	1.64 %		9.45%
Construction	11220929	6.53 %		11.00%
Tertiary Sector				
Trade, Hotels & Restaurants	29435486	17.12 %	58.27 %	14.29%
Transport & Storage	12559832	7.31 %		12.34%
Financial Services	9030805	5.25 %		9.06%
Real Estate	23156001	13.47 %		11.25%
Public Administration	8162751	4.75 %		6.72%
Other Services	17825075	10.37 %		12.68%
	171902427.4	100.0%	-	-

1.2 Major State Policies and Reform Outcomes

Year	Policy/ Reform	Objective	Outcome Assessment
2018-19	Rupashree	One time assistance of ₹ 25,000 provided to families of girls with annual income of up to ₹ 1.5 lakh for the purpose of marriage.	Provided financial assistance to 22.02 lakh women. In 2024-25 , 0.3% of revenue receipts.
2018-19	Manabik	Provide a monthly pension of ₹ 1000 to two lakh persons with disabilities.	Manabik up until 2024-25 has reached 7.18 lakh beneficiaries and has received a budget allocation of ₹625 crore, amounting to 0.3% of revenue receipts.
2019-20	Krishak Bandu	Provide assured financial assistance to farmers and a death benefit to families of deceased farmers.	Since its inception, more than ₹ 2,029 crore has been disbursed to the legal heirs of 1,01,457 deceased farmers.
2019-20	Kanyashree Prakalpa	- An annual K-1 grant of ₹ 1,000 is given to girls of 13-18 years of age and a one-time K-2 grant of ₹ 25,000 is given to girls when they turn 18, provided they are unmarried and are continuing their education. - Scholarship for K-3 of up to ₹ 2,500 per month is available for girls pursuing Post Graduate studies.	Kanyashree has reached 90.89 lakh beneficiaries up until now. In 2024-25, 0.5% of revenue receipts have been allocated for this scheme.
2020-21	Jai Bangla Pension Scheme	A monthly pension of ₹ 1000 is provided to impoverished individuals from disadvantaged socio-economic groups, aged about 60.	Caters to 18.43 lakh beneficiaries with a budget allocation of ₹ 4496 crore, accounting for 1.9% of revenue receipts.

Year	Policy/ Reform	Objective	Outcome Assessment
2020-21	Karma Sathi Prakalpa	Provide assistance to one lakh unemployed youth until 2023 wherein they were to be provided soft loan and subsidy up to ₹ 2 lakhs for taking up any new income generating project.	Caters to 1 lakh youth and has spent ₹ 2000 crore up until now.
2021-22	Lakshmir Bhandar	Provide monthly financial support of ₹ 1000 to women from SC/ST household and ₹ 500 to general category women.	It has empowered 2.21 crore women . Currently it accounts for 6 % of Revenue Receipts as of 2024-25.
2021-22	West Bengal Student	Provide collateral free education loans up to ₹ 10 lakh at nominal interest rate of 4% with state guarantee for higher studies.	100,000 sanctioned loans up until now.
2023-24	Matsyajeebi Bandhu Scheme	On the death of a registered fisherman in the age group of 18-60 years, the dependent family members will receive a one-time grant of two lakh rupees.	The scheme was started off with a budget allocation of ₹ 30 crore.
2024-25	Taruner Swapno	One time financial assistance of ₹10,000 provided for students in class 11 for purchasing smart phones or tablet computers	The government has allocated ₹ 900 crore in the year 2024-25, accounting for 0.4% of revenue receipts.

Annexure II: Methodology

1. Data Sources

Data for the analysis have been sourced from the Reserve Bank of India's annual publications and other government-authorised sources, including Sansad, PFLS, and individual state budget documents. A consistent time series of budgetary transactions for all states, spanning a period of thirteen years, has been compiled and used for index construction and subsequent analysis.

2. Variables and Their Description

2.1 Quality of Expenditure

This variable indicates how effectively and efficiently government funds are utilised to achieve long-term economic growth and social development. Spending on physical and social infrastructure not only enhances welfare but also paves the way for a higher multiplier effect that facilitates both capital and labour productivity. This variable is constructed using two ratios:

$$\begin{aligned} A. & \quad \frac{\text{Total Development Expenditure}}{\text{Total Expenditure}} \\ B. & \quad \frac{\text{Total Capital Outlay}}{\text{GSDP}} \end{aligned}$$

2.2 Revenue Mobilisation

Revenue mobilisation captures the state's capacity to generate its own revenues on a sustained basis relative to its economic base and expenditure requirements. Strong revenue mobilisation enables a state to reduce its dependence on borrowing and transfers and also improves the state's ability to absorb Fiscal shocks. This variable is constructed using two ratios:

$$\begin{aligned} A. & \quad \frac{\text{State's Own Revenue}}{\text{GSDP}} \\ B. & \quad \frac{\text{State's Own Revenue}}{\text{Total Expenditure}} \end{aligned}$$

2.3 Fiscal Prudence

It captures the extent to which a state manages its deficits and expenditure growth while ensuring that Fiscal expansion is financed sustainably and does not compromise medium-term Fiscal stability. This variable is constructed using these two ratios:

$$\begin{aligned} A. & \quad \frac{\text{Gross Fiscal Deficit}}{\text{GSDP}} \\ B. & \quad \frac{\text{Revenue Deficit}}{\text{GSDP}} \end{aligned}$$

2.4 Debt Index

The debt index reflects the burden of existing debt stock, capturing the extent to which accumulated borrowing constrains the Fiscal flexibility of a government. It is constructed using these two ratios:

$$\begin{aligned} A. & \quad \frac{\text{Interest Payments}}{\text{Revenue Receipts}} \\ B. & \quad \frac{\text{Outstanding Liabilities}}{\text{Revenue Receipts}} \end{aligned}$$

2.5 Debt Sustainability

It is one of the key determinants of medium-term Fiscal growth. It captures a state's ability to service its existing liabilities from its revenue flows without constraining any essential expenditure. It is calculated by subtracting the growth rate of interest payments from the growth rate of GSDP.

2.6 Weighting Structure

The Fiscal Resilience Index is constructed using a fully equal weighting scheme at every level of aggregation. Each of the five pillars, Quality of Expenditure, Revenue Mobilisation, Fiscal Prudence, Debt Index, and Debt Sustainability, contributes equally to the composite index, each carrying a weight of 20%. Within each pillar that contains two sub-indicators, both sub-indicators are weighted equally at 50% each.

The equal weighting approach is adopted for two reasons. First, it is consistent with the methodology used by the NITI Aayog Fiscal Health Index, ensuring comparability with the national framework this study adapts. Second, in the absence of empirical evidence supporting differential weights across pillars, and consistent with the broader guidance in the composite indicator literature, equal weighting is the most transparent and replicable choices. This is consistent with the guidance of the OECD Handbook on Constructing Composite Indicators, which recommends that differential weighting should be avoided unless theoretically or empirically grounded, as arbitrary weight assignment introduces subjectivity without necessarily improving analytical validity (OECD/European Union/EC-JRC, 2008).

This structure ensures that no single dimension of fiscal performance dominates the overall index and that the composite score reflects a balanced assessment across all pillars.

3. Normalisation

All sub-indicators are normalised using a directional, target-based normalisation

approach. Indicators are classified as either improvement indices, where higher values represent better Fiscal outcomes, or deprivation indices, where lower values are preferred.

3.1 Improvement Index

$$\frac{X_i - \text{Min}(X)}{\text{Target}(X) - \text{Min}(X)}$$

X_i - Value for the particular minor sub-index under Quality of Expenditure, Revenue Mobilisation and Debt Sustainability.

Max (X) / Min (X)- Maximum/Minimum value for a particular minor sub-index across all states in the specified year.

Target(X)- Highest value of all the maximums of all states each year observed over the reference window.

3.2 Deprivation Index

$$\frac{\text{Max}(X) - X_i}{\text{Max}(X) - \text{Target}(X)}$$

X_i - Value for the particular minor sub-index under Debt Index and Fiscal Prudence.

Max (X) / Min (X)- Maximum/Minimum value for a particular minor sub-index across all states in the specified year.

Target(X) - Lowest value of all the minimums of all states each year observed over the reference window.

Reference Window Construction

The target values used in normalisation are derived through a continuously expanding window, anchored at 2014-15 as a fixed starting point. For each index year, the reference window covers all state observations from 2014-15 up to and including the year immediately preceding the index year. The current index year's own observations are

never included in the reference window, ensuring that no look-ahead bias is introduced into the normalisation anchor.

This construction applies uniformly across the entire study period, including the post-pandemic years, with no structural freeze imposed at any point. This is a deliberate methodological choice. An alternative approach freezing the reference window at 2019-20 and excluding Covid-era observations entirely was considered but rejected on substantive grounds. Freezing the window at 2019-20 would suppress the base effect of the fiscal crisis induced by the pandemic: post-Covid recovery scores would be evaluated against a benchmark drawn exclusively from normal conditions, making even a modest fiscal recovery appear as a strong performance. This would produce artificially inflated post-Covid scores and misrepresent the true pace and extent of fiscal normalisation.

By allowing the window to expand through the Covid years, the reference anchor absorbs the actual fiscal experience of states, ensuring that post-Covid scores reflect genuine recovery relative to the full range of observed conditions, including the crisis itself. It is acknowledged, however, that this creates a symmetric consideration in the opposite direction: the extreme fiscal deterioration of 2020-21 enters the reference window as a boundary value for deprivation indices from 2021-22 onwards, meaning that post-Covid improvements on Fiscal Prudence and Debt indicators could partly reflect mechanical improvement against a crisis-era floor rather than genuine fiscal correction. Accordingly, post-Covid scores on these indices are interpreted alongside underlying ratio values to confirm that observed improvements are directionally consistent with actual fiscal changes. As data availability extends to 2023-24, the reference windows expand accordingly for each successive index year.

The table below illustrates the reference window for selected index years:

Index Year	Reference Window
2016-17	2014-15 to 2015-16
2017-18	2014-15 to 2016-17
2018-19	2014-15 to 2017-18
2019-20	2014-15 to 2018-19
2020-21	2014-15 to 2019-20
2021-22	2014-15 to 2020-21
2022-23	2014-15 to 2021-22
2023-24	2014-15 to 2022-23
2024-25	2014-15 to 2023-24

Uniformity of method does not imply uniformity of interpretability. The expanding window construction is applied identically across all years, but the interpretive reliability of scores varies across the study period, and this variation arises from the nature of the underlying data, not from any difference in methodology.

The pre-Covid phase (2014-15 to 2019-20) benefits from a reference window drawn entirely from normal fiscal conditions. Scores from this period are evaluated against a stable, undistorted benchmark, making them the most directly interpretable in this analysis. The post-Covid phase, by contrast, is evaluated against a reference window that progressively incorporates pandemic-era observations, introducing greater volatility into the normalisation anchor. As a result, precise score-level interpretation is less reliable in this period.

3.4 This does not, however, render post-Covid scores analytically uninformative. Within the post-Covid phase, cross-state directional comparisons, identifying which states are improving or deteriorating relative to their peers, remain valid and meaningful. What changes is the degree of precision with which individual scores should be read. Accordingly, all post-Covid index analysis in this study is read alongside the underlying ratio values to confirm that score movements are directionally consistent with actual fiscal changes, and not an artefact of the shifting normalisation anchor. Where score movements and ratio movements diverge, the ratio values take interpretive precedence.

3.5 Note on Value Interpretation

The nature of the value presented indicates what is being measured. Where values are expressed as percentages (e.g., 12.4% or 3.6%), the figure represents the actual underlying Fiscal ratio, a real, observed data point. Where values are expressed as absolute decimal numbers (e.g., 20.5 or 3.45), the figure represents a normalised index score.

This distinction is important: ratio values reflect a state's true fiscal position and are directly comparable across time, while index scores reflect relative performance within a given year's reference framework and should be interpreted accordingly. A divergence is identified when a score improves materially across one or more years within a phase while the corresponding underlying ratio moves in the opposite direction or remains broadly flat; in such cases the score movement is classified as a benchmark-driven artefact rather than a genuine fiscal change, and the ratio value is used as the primary basis for interpretation.

4. Comparability of Index Scores

The index uses an expanding reference window, anchored at 2014-15 and updated each year, so that scores always reflect the best fiscal performance observed up to that point. This is a deliberate design choice. How

this shapes score comparability across years is important to understand before drawing inferences from the index.

For this analysis, a fiscal phase is a period of broadly stable macroeconomic conditions within which states face a comparable external environment. Three phases are identified: pre-Covid (2014-15 to 2019-20), Covid shock (2020-21 to 2021-22), and post-Covid recovery (2022-23 onwards). Within eaWest Bengal's GSDP had contracted by 3.17% in 2019-20, sharper than the national contraction of 1.2% phase, directional reading of scores, whether a state is improving or deteriorating relative to its peers, is the intended use. Cross-phase comparison of normalised scores should be avoided; raw ratio values are the appropriate basis for any such inference.

4.1 Design Intent of the Index

The Fiscal Resilience Index is explicitly not designed for precise point-to-point year-on-year comparison of scores in isolation. The index is designed to serve two primary analytical purposes: first, to reveal the directional trajectory of a state's Fiscal Resilience within a defined Fiscal phase, that is, whether a state is broadly improving, stagnating, or deteriorating relative to its peers over a period; and second, to establish the relative position of states within each phase, enabling cross-state ranking and clustering within comparable time windows.

This distinction is important. A state's score in 2022-23 and its score in 2023-24 should not be read as precise cardinal values to be subtracted from one another to measure fiscal change. Rather, they should be read together as part of a directional pattern, alongside other states in the same phase, to understand where a state stands and which way it is moving relative to its peers

Directional assessment in this index is not derived from computing differences between any two individual year scores. Instead, direction is assessed by observing whether a state's scores are consistently rising, falling, or plateauing across multiple years within a

phase, a pattern-based reading rather than a point-to-point arithmetic one. A single year's movement is not treated as evidence of a trend; it is the sustained direction across several years within the same phase that carries analytical weight.

The index is therefore a diagnostic instrument for relative positioning and pattern-based directional analysis, not a precise measurement scale for point-to-point comparison.

It is worth noting that Fiscal comparisons within the pre-Covid phase, spanning 2014-15 to 2019-20, are the most directly interpretable in this analysis, as the reference window for this period reflects only normal Fiscal conditions, undistorted by the structural shock of the pandemic or its aftermath.

Note: Index scores are not designed for direct year-to-year comparison in isolation. The index is designed to show directional trajectory and relative position within each Fiscal phase, rather than precise point-to-point comparison across years.

4.2 Within-Year Cross-State Comparison

Within any given index year, all states are evaluated against an identical reference window and therefore against the same set of target values. Cross-state comparisons and rankings within a single year are fully valid and are the primary use case for this index.

4.3 Cross-Year Comparison

Since each index year has a different reference window, the goalposts against which scores are evaluated are not identical across years. As a result, a state's normalised score in one year cannot be directly compared with its normalised score in another year to draw precise point-to-point conclusions about the magnitude of improvement or deterioration. This limitation applies across all years in the study period, and is particularly important for cross phase comparisons such as pre-Covid versus during Covid versus post-Covid

periods. The Covid-19 shock introduced significant Fiscal distortions in 2020-21 and the years that followed; comparing normalised scores across this structural break without accounting for the shift in goalposts would produce misleading inferences.

4.4 Valid Cross-Phase Comparison Using Raw Ratios

For any analysis that requires precise comparison across different time periods or Fiscal phases, including pre-Covid versus post-Covid comparisons, the underlying un-normalised ratio values should be used. These raw ratios are phase-agnostic and fully comparable across the entire time series, as they reflect actual Fiscal positions without any dependence on the evolving reference window.

5. State Grouping: GSDP-Based Quartile Classification

For the purpose of cross-state comparison, states are grouped into quartiles based on their Gross State Domestic Product (GSDP). The rationale for using GSDP as the basis for grouping is two-fold.

First, Fiscal capacity is fundamentally determined by economic size. Revenue mobilisation potential, debt servicing ability, and the scale of capital outlay that a state can sustain are all closely linked to its economic base. Comparing a small state with a large economy directly would therefore produce misleading inferences about relative Fiscal performance.

Second, this grouping aligns with the criteria adopted by the Fifteenth Finance Commission, which incorporated GSDP-based considerations into its grant allocation framework. Using the same dimensional basis as the Finance Commission ensures that the comparisons made in this study are grounded in the institutional structure within which states actually operate and compete for resources.

Quartile classification is based on states' GSDP as of 2023-24, the most recent year in the study period, and is held fixed across the entire thirteen-year analysis. This means that a state's quartile group does not change from year to year within the study. This approach is taken deliberately: it ensures that comparisons within a quartile are stable and consistent over time, and it reflects the current relative economic standing of states, which is most relevant for contemporary policy inference.

It is acknowledged that fixing the quartile classification at 2023-24 introduces a prospective element into peer group assignment for earlier years, states are compared against peers defined by their current economic standing rather than their standing at the time. For states whose relative size ranking changed materially over the study period, this could be a consequential limitation. However, an empirical check of state GSDP rankings confirms that the relative economic size ordering of Indian states has remained broadly stable between 2014-15 and 2023-24, with states falling into nearly identical quartile groupings at both ends of the study period. The fixed 2023-24 classification is therefore not merely a simplification for analytical convenience, it is empirically supported by the stability of relative state economic size over the thirteen-year horizon

Note: Quartile classification is fixed using 2023-24 GSDP and applied uniformly across all years in the study period. This assumes broad stability in the relative economic size ordering of states over the thirteen-year horizon, which holds for the large majority of Indian states. A small number of fast-growing states may have occupied a lower quartile in earlier years; this limitation is noted, and cross-quartile movements, where material, are discussed in the analysis.

6. National Benchmarking

National benchmarking provides a comparative perspective by using actual ratio values from all states and union territories, as published by the Reserve Bank of India. These benchmarks are descriptive in nature; they

reflect what states actually recorded in each fiscal year and represent observed national fiscal behaviour, not normative standards. They are explicitly distinct from targets prescribed under the Fiscal Responsibility and Budget Management Act or recommendations of successive Finance Commissions. The benchmarks in this study do not evaluate whether a state has met any prescribed fiscal rule; they establish where a state stands relative to the actual fiscal performance of all Indian states in each year, providing a distributional reference across the full national landscape rather than a prescriptive standard.

These benchmarks reflect the real performance of Indian states in each Fiscal year. For deprivation indices (Fiscal Prudence and Debt Index), higher ratio values indicate worse performance, while for improvement indices (Quality of Expenditure, Revenue Mobilisation, and Debt Sustainability), higher values indicate better performance. This approach ensures that comparisons are grounded in observed national realities rather than constructed reference points.

7. Phase-wise Analysis

In the phase-wise analysis, the study uses normalised ratio values to evaluate Fiscal performance over time. Normalised scores are constructed so that a higher score always indicates better performance across all pillars. This differs from the national benchmarking, which uses un-normalised actual ratio values to reflect raw relative standing. The distinction is deliberate: national benchmarking shows how a state performs against other states in absolute terms, while phase-wise analysis tracks internal progress and durability using normalised scores that make improvement or deterioration clear, and assess directional trends within a defined fiscal phase.

8. Approach To Fiscal Resilience Analysis

While the Fiscal Resilience Index provides a structured and comparable measure of

state-level fiscal performance, the analysis in this study goes beyond index construction and ranking. The index is used as an analytical tool to examine Fiscal dynamics over time, rather than as an end in itself.

Building on the index scores, the study undertakes a phase-wise analysis of fiscal behaviour, identifies the dominant fiscal ratios driving movements in each sub-index, and assesses the durability of observed changes. Each observed change is classified into one of three categories:

a. Real Shift

Improvement or deterioration is sustained across multiple indicators and fiscal years within a phase, reflecting a genuine change in fiscal capacity or policy stance.

b. Cyclical Shift

Movement is temporary, driven by external economic conditions or one-off fiscal changes, and reverses as conditions normalise. It does not reflect a durable change in the state's underlying fiscal position.

c. Fragile Shift

Identified under two conditions, first, where score level improvement is not corroborated by the corresponding underlying ratio values, indicating a benchmark driven artefact rather than genuine fiscal change; and second, where improvement is confined to a single sub-indicator within a pillar without support from the companion indicator, suggesting the change is compositionally narrow and not broadly grounded in fiscal improvement.

At the system level, the analysis focuses on identifying binding constraints that limit overall fiscal resilience, examining key trade-offs between revenue, expenditure, and debt, and assessing the current fiscal position of states. This diagnostic approach enables the identification of priority areas for improving fiscal resilience, grounded in observed fiscal mechanisms rather than index outcomes alone.

Annexure III: Fiscal Resilience Assessment

1. Fiscal Prudence

1.1 Phase Wise Analysis

Phase	Index Movement	Key Drivers	Inference
Phase 1: Transition and Early Fiscal Adjustment (2016–17 to 2019–20)	Fiscal prudence declined steadily, with the index falling from 51.2 to 38.34. Normalised GFD/GSDP fell sharply from 86.58 to 48.57, while Revenue Deficit/GSDP worsened initially before partial correction.	Rising revenue expenditure, stagnation in revenue receipts, and weakening capital surplus drove the deterioration. Capital expenditure rose early in the phase, but declining non-debt capital receipts and rising subsidies and interest payments widened the revenue deficit. The sharp 89% increase in revenue deficit in 2019–20 marked the most significant fiscal slippage.	The smooth but persistent decline indicates a structural weakening in fiscal discipline, driven by expanding revenue commitments and insufficient revenue growth rather than temporary shocks.
Phase 2: Pandemic Fiscal Stress (2020–21 to 2021–22)	Fiscal prudence deteriorated sharply, with the index falling from 25.4 to 16.48. Both GFD/GSDP and Revenue Deficit/GSDP worsened significantly in normalised terms.	The COVID-19 shock caused a sharp increase in revenue expenditure (up 50%), while own tax revenues declined marginally. Capital expenditure contracted and 32% of market borrowings were used to finance revenue spending, crowding out productive investment. Expansion of welfare programmes such as Lakshmir Bhandar further increased revenue commitments.	Fiscal stress during the pandemic exposed structural vulnerability in revenue balances, with increased borrowing primarily financing consumption expenditure rather than capital formation.
Phase 3: Partial Recovery and Renewed Slippage (2022–23 to 2024–25)	Fiscal prudence improved temporarily from 24.43 to 33.33, before deteriorating again to 9.38 by 2024–25.	Early improvements were supported by higher revenue receipts and moderate increases in capital expenditure. However, by 2024–25 the revenue deficit expanded faster than capital surplus, while capital expenditure growth slowed relative to rising expenditure pressures.	The temporary improvement proved unsustainable, indicating that structural fiscal pressures continue to undermine consolidation despite short-term recovery.

1.2 Actual Ratios

Year	GSDP at current prices (in Crore)	Revenue Deficit (in Crore)	Gross Fiscal Deficit (in Crore)	Revenue Deficit/GSDP (%)	Gross Fiscal Deficit/GSDP (%)
2016-17	87,252,723	16,085	25,385	1.84%	2.91%
2017-18	97,470,005	9,807	28,931	1.01%	2.97%
2018-19	110,205,366	10,399	33,486	0.94%	3.04%
2019-20	117,912,746	19,661	36,831	1.67%	3.12%
2020-21	114,179,769	29,527	44,688	2.59%	3.91%
2021-22	134,003,023	32,000	50,528	2.39%	3.77%
2022-23	151,556,450	27,295	49,786	1.80%	3.28%
2023-24 (RE)	165,137,373	28,253	59,306	1.71%	3.59%
2024-25 (BE)	181,500,991	31,952	68,250	1.76%	3.76%

1.3 Normalised Scores

Year	Revenue Deficit/GSDP	Gross Fiscal Deficit/GSDP	Fiscal Prudence Index
2016-17	15.97	86.58	51.28
2017-18	24.34	52.63	38.49
2018-19	34.07	33.50	33.79
2019-20	28.13	48.57	38.35
2020-21	21.20	29.67	25.43
2021-22	11.42	21.55	16.49
2022-23	19.58	29.28	24.43

Year	Revenue Deficit/GSDP	Gross Fiscal Deficit/GSDP	Fiscal Prudence Index
2023-24	22.71	43.87	33.29
2024-25	11.15	7.62	9.39

1.4 Movement of Variables

Year	Capital Receipts	Capital Expenditure	Capital Surplus	Revenue Receipts	Revenue Expenditure	Revenue Deficit
2016-17 to 2017-18	↑	↑ by 64.85%	↑in CS by 30%	↑	No Change	↓ by 39.03%
2017-18 to 2018-19	↓ by 16%	↑	↓in CS by 16%	↑	↑	↑ by 6%
2018-19 to 2019-20	No Change	No Change	No Change in CS	No Change	↑	↑ by 89%
2019-20 to 2020-21	↑	↓ by 18.53%	↑in CS by 9%.	↑	↑	↑ by 50%
2020-21 to 2021-22	↑	↑ by 46.67%	↑in CS by 30%.	↑	↑	↑ by 8.38%
2021-22 to 2022-23	↑	↑ by 5%	↑in CS by 12%.	↑	↑	↓ by 14.70%
2022-23 to 2023-24	↑	↑ by 18%	↑in CS by 7%.	↑	↑	↑ by 3.5%.
2023-24 to 2024-25	↑	↑ by 9.24	↑in CS by 5.02%.	↑	↑	↑ by 13.09%

1.5 National Benchmarking For Fiscal Prudence Indicators

Indicator	Phase 1	Phase 2	Phase 3
	2.74%	3.41%	3.09%
West Bengal	3.01%	3.84%	3.55%
India	0.26%	1.15%	0.31%
	1.37%	2.49%	1.76%

2. Revenue Mobilisation

2.1 Phase Wise Analysis

Phase	Index Movement	Key Drivers	Inference
Phase 1: Weak Revenue Base (2016–17 to 2019–20)	Revenue mobilisation remained largely flat, with the index fluctuating between 10.36 and 10.68	The State's Own Revenue/Total Expenditure ratio declined, driven by a 1.88% fall in tax revenue and a 12.17% decline in non-tax revenue. State entities failed to repay loans to the government, resulting in lower interest receipts. In 2018-19, the state estimated an interest receipt of ₹ 1375 crore (CBGA,2018) whereas it was only able to recover ₹ 940.14 crore(CBGA,2020) . The structural cause was the failure of state-run entities (Statutory Corporations and PSUs) to pay back interest on loans given by the state.	West Bengal consistently ranked among the lowest-performing states in own revenue mobilisation, reflecting a structurally narrow revenue base and administrative inefficiencies.
Phase 2: Temporary Pandemic Spike (2020–21 to 2021–22)	The index improved sharply to 13.07 in 2020–21 before falling back to 9.41 in 2021–22.	The temporary improvement was driven by a 61.78% increase in non-tax revenue, largely due to the withdrawal of ₹2,498 crore from the Consolidated Sinking Fund, recorded as interest receipts. The effect reversed the following year when non-tax revenue fell sharply.(CAG,2022)	The spike reflected accounting adjustments rather than structural improvement, highlighting the fragility of the state's revenue mobilisation capacity.

Phase	Index Movement	Key Drivers	Inference
Phase 3: Administrative Recovery with Persistent Weakness (2022-23 to 2024-25)	Revenue mobilisation improved initially before moderating towards the end of the phase.	Strong growth in tax and non-tax revenues improved the revenue–expenditure ratio. However, State's Own Revenue/GSDP remained persistently low.	Improvements were administrative rather than structural, with persistent weaknesses in revenue administration limiting sustainable gains.

2.2 Actual Ratios

Year	State Own Revenue (In Crore)	Total Expenditure (In Crore)	GSDP at current prices (in Crore)	State Own Revenue/ Total Expenditure (%)	State Own Revenue/ GSDP (%)
2016-17	48,416	157,548	87,252,723	30.73	5.55
2017-18	60,818	180,031	97,470,005	33.78	6.24
2018-19	65,489	201,738	110,205,366	32.46	5.94
2019-20	63,882	204,365	117,912,746	31.26	5.42
2020-21	65,485	211,966	114,179,769	30.89	5.73
2021-22	72,772	260,093	134,003,023	27.99	5.43
2022-23	85,806	275,181	151,556,450	31.18	5.66
2023-24	95,890	299,083	165,137,373	32.06	5.80
2024-25	108,666	336,116	181,500,991	32.33	5.98

2.3 Normalised Ratios

Year	Revenue Deficit/GSDP	Gross Fiscal Deficit/GSDP	Fiscal Prudence Index
2016-17	0.00	20.76	10.38
2017-18	0.00	21.12	10.38
2018-19	0.00	21.20	10.56
2019-20	0.00	16.92	10.60
2020-21	9.21	18.82	13.07

Year	Revenue Deficit/GSDP	Gross Fiscal Deficit/GSDP	Fiscal Prudence Index
2022-23	0.00	21.59	8.04
2023-24	0.00	27.43	10.79
2024-25	0.00	21.78	13.71

2.4 Movement of Indicators of Revenue Mobilisation

Year	Tax Revenue	Non-Tax Revenue	State's Own Revenue	Total Expenditure	GSDP
2016-17 to 2017-18	↑ by 26%	↑ by 5.06%	↑ by 25.62%	↑ by 14.27%	↑ by 11.71%
2017-18 to 2018-19	↑ by 7.16%	↑ by 17.36%	↑ by 7.68%	↑ by 12.06%	↑ by 13.07%
2018-19 to 2019-20	↓ by 1.88%	↓ by 12.17%	↓ by 2.51%	↑ by 1.30%	↑ by 6.99%
2019-20 to 2020-21	↓ by 0.63%	↑ by 61.78%	↑ by 2.51%	↑ by 3.72%	↓ by 3.17%
2020-21 to 2021-22	↑ by 17.91%	↓ by 67.49%	↑ by 11.13%	↑ by 22.71%	↑ by 17.36%
2021-22 to 2022-23	↑ by 17.62%	↑ by 30%	↑ by 17.91%	↑ by 5.80%	↑ by 13.10%
2022-23 to 2023-24	↑ by 10.92%	↑ by 43.29%	↑ by 11.75%	↑ by 8.69%	↑ by 8.96%
2023-24 to 2024-25	↑ by 10.36%	↑ by 100.67%	↑ by 13.32%	↑ by 12.38%	↑ by 9.91%

2.5 National Benchmarking For Revenue Mobilisation

Indicator	Phase 1	Phase 2	Phase 3
State Own Revenue/GDP			
India	7.47%	7.04%	7.90%
West Bengal	5.79%	5.58%	5.82%
State Own Revenue/Total Expenditure			
India	42.84%	38.55%	42.26%
West Bengal	32.06%	29.44%	31.86%

3. Quality Of Expenditure

3.1 Phase Wise Analysis of Quality Of Expenditure

Phase	Index Movement	Key Drivers	Inference
Phase 1: Temporary Improvement Driven by Capital Outlay (2016–17 to 2019–20)	The index improved sharply from 28.74 to 29.14, before declining to 16.49 by the end of the phase.	A 70.85% increase in capital outlay initially improved expenditure quality. However, rising committed liabilities (salaries and pensions) and expanding welfare schemes such as Kanyashree and Krishak Bandhu increased revenue expenditure pressures. Infrastructure spending remained low, with roads and bridges accounting for only 2.3% of total expenditure.	Initial gains in expenditure quality were not sustained, as fiscal space was increasingly absorbed by revenue-heavy welfare commitments rather than capital investment.
Phase 2: Pandemic-Driven Decline (2020–21 to 2021–22)	Quality of expenditure deteriorated, with the index falling from 16.49 to 12.91.	Capital outlay declined sharply while development expenditure also fell, even as overall expenditure increased. Pandemic-related fiscal pressures shifted spending away from capital investment towards consumption-oriented expenditure.	The pandemic accelerated the shift towards revenue-heavy spending, weakening the productive quality of public expenditure.
Phase 3: Recovery from Low Base (2022–23 to 2024–25)	The index recovered strongly before moderating slightly towards the end of the phase.	Growth in capital outlay and development expenditure supported the recovery. However, capital outlay remained around 1.8–1.9% of GSDP, reflecting the very low base created during the pandemic.	Expenditure quality improved but remains structurally constrained by low capital investment relative to economic growth.

3.2 Actual Ratios

Year	GSDP at current prices (in Crore)	Revenue Deficit (in Crore)	Gross Fiscal Deficit (in Crore)	Revenue Deficit/GSDP (%)	Gross Fiscal Deficit/GSDP (%)
2016-17	87,252,723	11,336	157,548	0.0130	54.27
2017-18	97,470,005	19,368	180,031	0.0199	57.93
2018-19	110,205,366	23,717	201,738	0.0215	61.73
2019-20	117,912,746	15,971	204,365	0.0135	55.97
2020-21	114,179,769	13,034	211,966	0.0114	53.87
2021-22	134,003,023	17,484	260,093	0.0130	56.67
2022-23	151,556,450	22,009	275,181	0.0145	59.48
2023-24	165,137,373	30,537	299,083	0.0185	59.08
2024-25	181,500,991	35,866	336,116	0.0198	61.02

3.3 Normalised Ratio

Year	Capital Outlay/GSDP	Development Exp/Total Expenditure	Quality of Expenditure
2016-17	5.18	52.29	28.74
2017-18	24.95	33.40	29.18
2018-19	28.06	30.22	29.14
2019-20	5.80	27.18	16.49
2020-21	5.97	33.05	19.51
2021-22	0.88	24.95	12.91
2022-23	15.21	39.36	27.29

Year	Capital Outlay/GSDP	Development Exp/Total Expenditure	Quality of Expenditure
2023-24	18.10	37.67	27.88
2024-25	19.52	38.85	29.19

3.4 National Benchmarking of Quality Of Expenditure Indicators

Indicator	Phase 1	Phase 2	Phase 3
Total Capital Outlay/GDP			
India	2.32%	2.17%	2.63%
West Bengal	1.70%	1.22%	1.76%
Development/GSDP			
India	65.62%	68.79%	69.74%
West Bengal	60.65%	59.38%	59.52%

4. Debt Sustainability

4.1 Phase Wise Analysis of Debt Sustainability

Phase	Index Movement	Key Drivers	Inference
Phase 1: Growth-Led Sustainability (2016-17 to 2019-20)	Debt sustainability averaged from 47.55 to 42.48.	Strong nominal GSDP growth (10.3%) outpaced growth in interest payments (8.23%), reducing the relative burden of debt servicing.	The relatively strong score was largely growth-driven rather than reform-driven, making it vulnerable to future economic shocks.
Phase 2: Pandemic Shock (2020-21 to 2021-22)	Sustainability deteriorated sharply before reaching a peak in 2021-22.	The COVID shock reduced revenues and widened the revenue deficit to ₹32,000 crore, while borrowings increased significantly. Debt accumulated during this period raised the state's interest burden.	Fiscal buffers were limited, exposing the state to rapid deterioration in debt sustainability during shocks.
Phase 3: Debt Overhang (2022-23 to 2024-25)	The sustainability score fell sharply before recovering moderately, but remained below pre-pandemic levels.	Normalisation of growth combined with a higher post-pandemic debt stock increased interest servicing pressures.	The state now faces a structural debt overhang, where interest obligations remain elevated despite economic recovery.

4.2 Actual Ratios

Year	GSDP Growth	Interest Growth	Interest Payment	GSDP	Revenue Receipts	Debt Sustainability
2016-17	9.44	11.97	25,703	87,252,723	117,833	-1.76
2017-18	11.71	9.22	28,074	97,470,005	131,270	2.49
2018-19	13.07	9.82	28,911	110,205,366	145,975	10.08
2019-20	6.99	9.54	31,668	117,912,746	142,914	-2.54
2020-21	-3.17	6.68	33,782	114,179,769	148,394	-9.84
2021-22	17.36	8.55	36,672	134,003,023	178,160	8.81
2022-23	13.10	9.12	40,018	151,556,450	195,544	3.98
2023-24	8.96	5.64	42,275	165,137,373	208,659	3.32
2024-25	9.91	7.08	45,269	181,500,991	236,251	2.83

4.3 Normalised Ratios

Year	Debt Sustainability
2016-17	47.55
2017-18	41.93
2018-19	36.42
2019-20	42.48
2020-21	14.92
2021-22	43.16
2022-23	9.38
2023-24	32.97
2024-25	36.11

4.4 National Benchmarking for Debt Sustainability Indicators

Indicator	Phase 1	Phase 2	Phase 3
Growth Rate In Interest Payments			
India	12.78%	10.29%	9.68%
West Bengal	8.23%	7.62%	7.28%
Growth Rate In GDP			
India	9.94%	8.81%	11.92%
West Bengal	10.30%	7.10%	10.66%

5. Debt Index

5.1 Phase Wise Analysis

Phase	Index Movement	Key Drivers	Inference
Phase 1: Gradual Deterioration (2016–17 to 2019–20)	Debt Index declined from 46.05 to 38.22.	Outstanding liabilities declined from 38.69% of GSDP in 2016-17 to 36.73% in 2018-19, before increasing to 37.81% in 2019-20. Similarly, interest payments relative to revenue receipts declined from 21.81% to 19.81% in 2018-19, before rising to 22.16% in 2019-20.	Despite some improvement in both debt stock and interest burden until 2018-19, West Bengal's debt index declined, indicating that these improvements were weaker relative to other states. The subsequent reversal in 2019-20 further weakened the debt position.
Phase 2: Revenue Stress (2020–21 to 2021–22)	The Debt Index deteriorated from 38.22 to 30.89.	Outstanding liabilities increased sharply from 37.81% in 2019-20 to 43.55% in 2020-21, before moderating to 40.91% in 2021-22, indicating a significant rise in debt stock during the pandemic. At the same time, interest payments relative to revenue receipts increased to 22.77% in 2020-21, before declining to 20.58% in 2021-22, reflecting pressure on revenues followed by partial recovery.	The deterioration in the debt index was driven primarily by the sharp increase in debt stock in 2020-21. Although interest burden moderated in 2021-22, it was not sufficient to offset the elevated level of outstanding liabilities, leading to continued stress in the debt position.

Phase	Index Movement	Key Drivers	Inference
Phase 3: Limited Stabilisation (2022-23 to 2024-25)	The index declined further before stabilising at an index of 32. s	Outstanding liabilities remained broadly stable, moving from 39.48% in 2022-23 to 39.35% in 2024-25, indicating no meaningful reduction in debt stock. Interest payments as a share of revenue receipts declined from 20.47% in 2022-23 to 19.16% in 2024-25, showing some easing in servicing burden. However, there was a slight increase in the normalised interest indicator in 2024-25.	The improvement in the debt index towards 2024-25 was driven by moderation in interest burden rather than reduction in debt stock. While the debt position stabilised, the persistently high level of outstanding liabilities indicates that structural debt pressures remain.

5.2 Actual Ratios

Year	Revenue Receipts	Interest Payments	GSDP	Outstanding Liabilities	Interest / Revenue Receipts	Outstanding Liabilities / GSDP
2016-17	117,833	25,703	87,252,723	337,611	21.81	38.69
2017-18	131,270	28,074	97,470,005	371,071	21.39	38.07
2018-19	145,975	28,911	110,205,366	404,736	19.81	36.73
2019-20	142,914	31,668	117,912,746	445,790	22.16	37.81
2020-21	148,394	33,782	114,179,769	497,266	22.77	43.55
2021-22	178,160	36,672	134,003,023	548,236	20.58	40.91
2022-23	195,544	40,018	151,556,450	598,553	20.47	39.48
2023-24	208,659	42,275	165,137,373	651,747	20.26	39.67
2024-25	236,251	45,269	181,500,991	714,195	19.16	39.35

5.3 Normalised Ratio

Year	Capital Outlay/GSDP	Development Exp/Total Expenditure	Quality of Expenditure
2016-17	12.32	79.78	46.05
2017-18	30.73	54.68	42.70
2018-19	29.27	52.36	40.81
2019-20	26.39	50.06	38.22
2020-21	16.09	44.39	30.24
2021-22	19.02	42.76	30.89
2022-23	12.13	47.20	29.66
2023-24	13.00	45.07	29.04
2024-25	19.79	45.00	32.39

5.4 National Benchmarking for Debt Index Indicators

Indicator	Phase 1	Phase 2	Phase 3
Interest Payments/Revenue Receipts			
India	11%	14%	13%
West Bengal	21%	22%	20%
Outstanding Liabilities/GDP			
India	25.53%	30.07%	28.20%
West Bengal	37.82%	42.23%	39.43%

6. Fiscal Resilience Index

Phase	Index Movement	Key Drivers	Inference
Phase 1: Gradual Deterioration (2016–17 to 2019–20)	The Fiscal Resilience Index deteriorated from 36.80 to 29.23.	The index declined as improvements in individual components were either limited or not sustained. While there was some moderation in interest burden and partial improvement in debt stock until 2018-19, these gains reversed in 2019-20. At the same time, revenue mobilisation remained weak and revenue deficits persisted, limiting overall fiscal adjustment.	Fiscal resilience weakened during this phase as incremental improvements in select indicators were insufficient to offset structural weaknesses in revenue generation and debt levels.
Phase 2: Pandemic Shock (2020–21 to 2021–22)	The index declined sharply to below 20.	COVID-19 and cyclone Amphan triggered a simultaneous deterioration in fiscal prudence, debt sustainability, and revenue balances.	The pandemic exposed structural fiscal vulnerabilities, particularly the narrow revenue base and rigid expenditure commitments.
Phase 3: Partial Stabilisation (2022–23 to 2024–25)	The index recovered partially before moderating again.	The index showed moderate improvement, supported by stabilisation in debt indicators, some reduction in interest burden, and recovery in capital expenditure. However, revenue mobilisation remained weak and revenue deficits re-emerged, limiting the strength of recovery.	Fiscal resilience improved in this phase, but the recovery was partial. Persistent weaknesses in revenue generation and the absence of sustained deficit reduction continue to constrain the state's fiscal position.

Year	Fiscal Resilience Index
2016-17	36.80
2017-18	32.54
2018-19	30.14
2019-20	29.23
2020-21	20.63
2021-22	22.57
2022-23 (A)	19.76
2023-24 (RE)	26.80
2024-25 (BE)	24.16

Annexure IV: Economic Dynamism

This annexure provides the economic indicators used to assess the broader structural context of West Bengal's fiscal performance. It includes key macroeconomic variables such as GSDP, sectoral composition, investment trends, employment indicators, financial flows, and external trade data. These indicators support the Economic Dynamism assessment and help explain how underlying economic structure influences fiscal outcomes.

1. CPI Inflation

Year	Rural	Urban	Source
2015	125.6	123.7	MOSPI 2015
2016	133.7	129.2	MOSPI 2016
2017	139.3	135.7	MOSPI 2017
2018	144.9	138	MOSPI 2018
2019	152.4	148.7	MOSPI 2019
2020	167.2	162.9	MOSPI 2020
2021	171.9	170.5	MOSPI 2021
2022	184.1	181.1	MOSPI 2022
2023	191.5	187.5	MOSPI 2023
2024	201.9	195.1	MOSPI 2024
2025	202.1	201.4	MOSPI 2025

All underlying data referenced in this assessment, including the normalised index values and sub-index scores across the five pillars of fiscal resilience for Telangana and Madhya Pradesh for the period 2016-17 to 2024-25, are compiled in a consolidated data sheet accessible at the following link: [Source](#).

The data sheet provides a complete record of the Quality of Expenditure, Revenue Mobilisation, Fiscal Prudence, Debt Index, and Debt Sustainability indices for all three states across the full assessment period, and may be referred to for verification of the figures cited throughout this section.

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Notes

1. Dependency Ratio

The dependency ratio is a measure of the number of dependents (aged 0-14 and 65+) relative to the total working-age population (aged 15-64).

2. Fiscal Resilience Rating (Methodology)

The fiscal health rating is derived using a relative benchmarking approach based on economic scale. States are first grouped into quartiles according to their Gross State Domestic Product (GSDP), ensuring comparison among economically comparable peers. This approach controls for differences in economic size, as larger economies face structurally different fiscal capacities, expenditure commitments, and borrowing dynamics compared to smaller States. West Bengal falls within the second highest quartile of large State economies, alongside Telangana, Andhra Pradesh, Madhya Pradesh and Rajasthan. Within this quartile, fiscal health is assessed using the composite Fiscal Resilience Index. West Bengal recorded a score of 24.149, which is the lowest among its peer group, compared to Telangana (57.9), Andhra Pradesh (30.035) and Rajasthan (30.9). Given its lowest relative performance within this economically comparable cohort, West Bengal is classified as "Vulnerable" in fiscal health.

3. Population Base

This indicates a relatively large population base among Indian States.

4. Population Growth

This indicates one of the lowest population growth rates among Indian States, reflecting demographic stabilisation.

5. Literacy Rate

This indicates a high literacy rate relative to most Indian States.

6. Sex Ratio

This indicates a favourable gender balance compared with most Indian States.

7. Labor Force Participation

This indicates a mid-range position among Indian States in terms of workforce participation.

8. Demographic Structure

This indicates a relatively favourable demographic structure with a lower share of dependents compared with many Indian States.

9. Welfare Scheme Growth

The 47% annual growth rate reflects the period when the scheme was still adding beneficiaries, growing from 1.6 crore at launch in 2021-22 to 2.42 crore today. A scheme in its expansion phase will show higher growth rates than one that has reached its intended coverage. The cost going forward will be shaped by whether beneficiary numbers are revised further, whether benefit amounts are increased, and natural demographic growth in the eligible population.

10. Index and Ratio Definitions

In this section, index refers to a composite indicator constructed from multiple fiscal variables and normalised on a 0–100 scale, where higher values indicate stronger performance. Score refers to the numerical value of a given index for a specific year. Ratio refers to actual fiscal

metrics expressed relative to an economic base (e.g., GSDP or revenue receipts), such as Revenue Deficit/GSDP or Interest Payments/Revenue Receipts.

11. Capital Surplus

Capital surplus refers to a situation where a government's capital receipts exceed its capital expenditure during a financial year.

12. Unit Cost Benchmarks

This estimate has been arrived at using national average unit cost benchmarks as illustrative scale indicators. Actual delivery costs would vary by project type and location. This estimate also assumes full and efficient deployment of available capital, whereas West Bengal's historical pattern of capital underspending suggests that fiscal space alone does not guarantee equivalent on-ground investment.

13. GST Registrations

West Bengal records 815 active monthly GST registrations, compared to 1,571 in Karnataka, 1,483 in Maharashtra and 1144 in Rajasthan.

14. Formalisation and Trade Integration

Weak formalisation then feeds into poor trade integration.

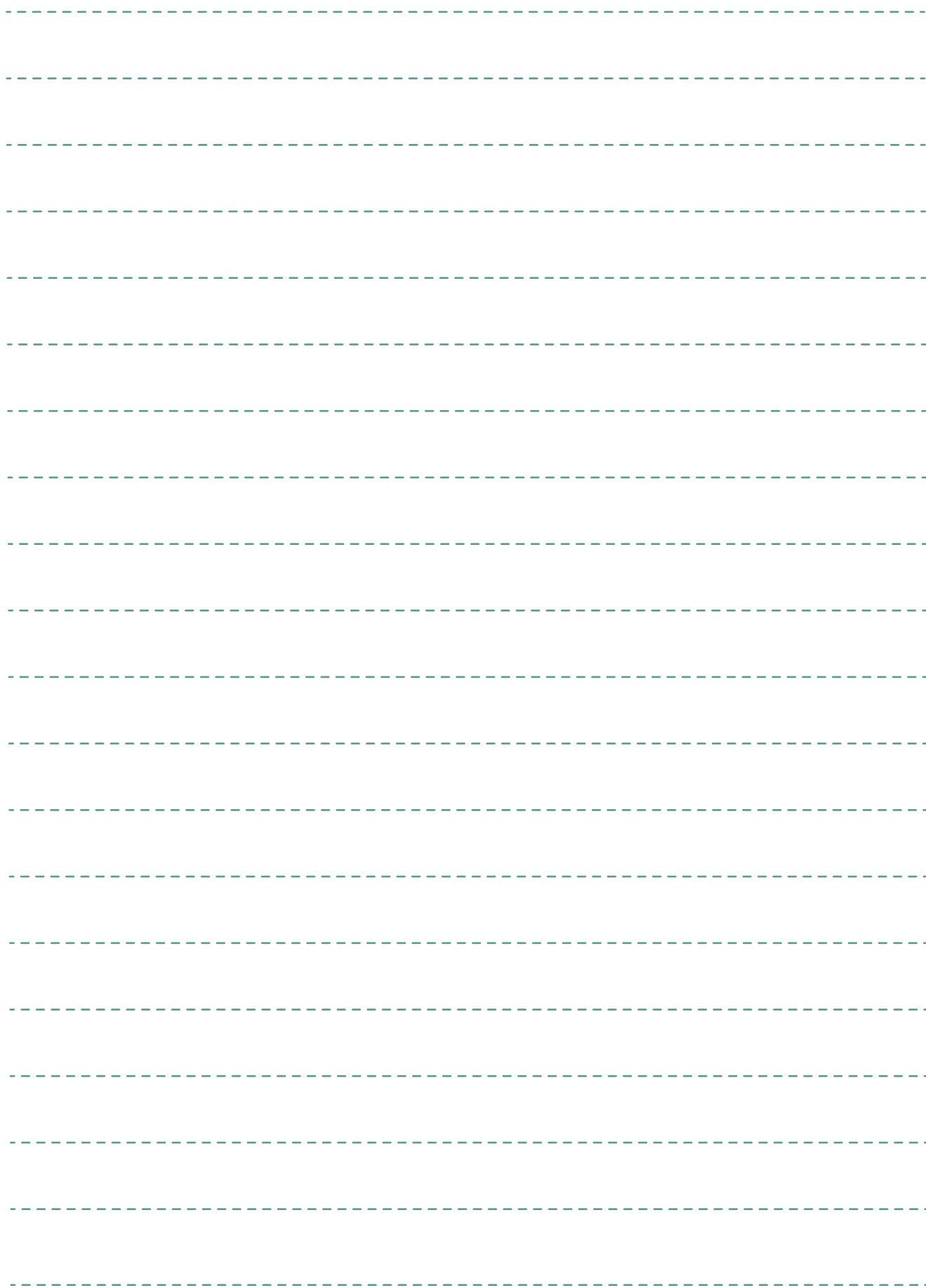
15. SGST Buoyancy

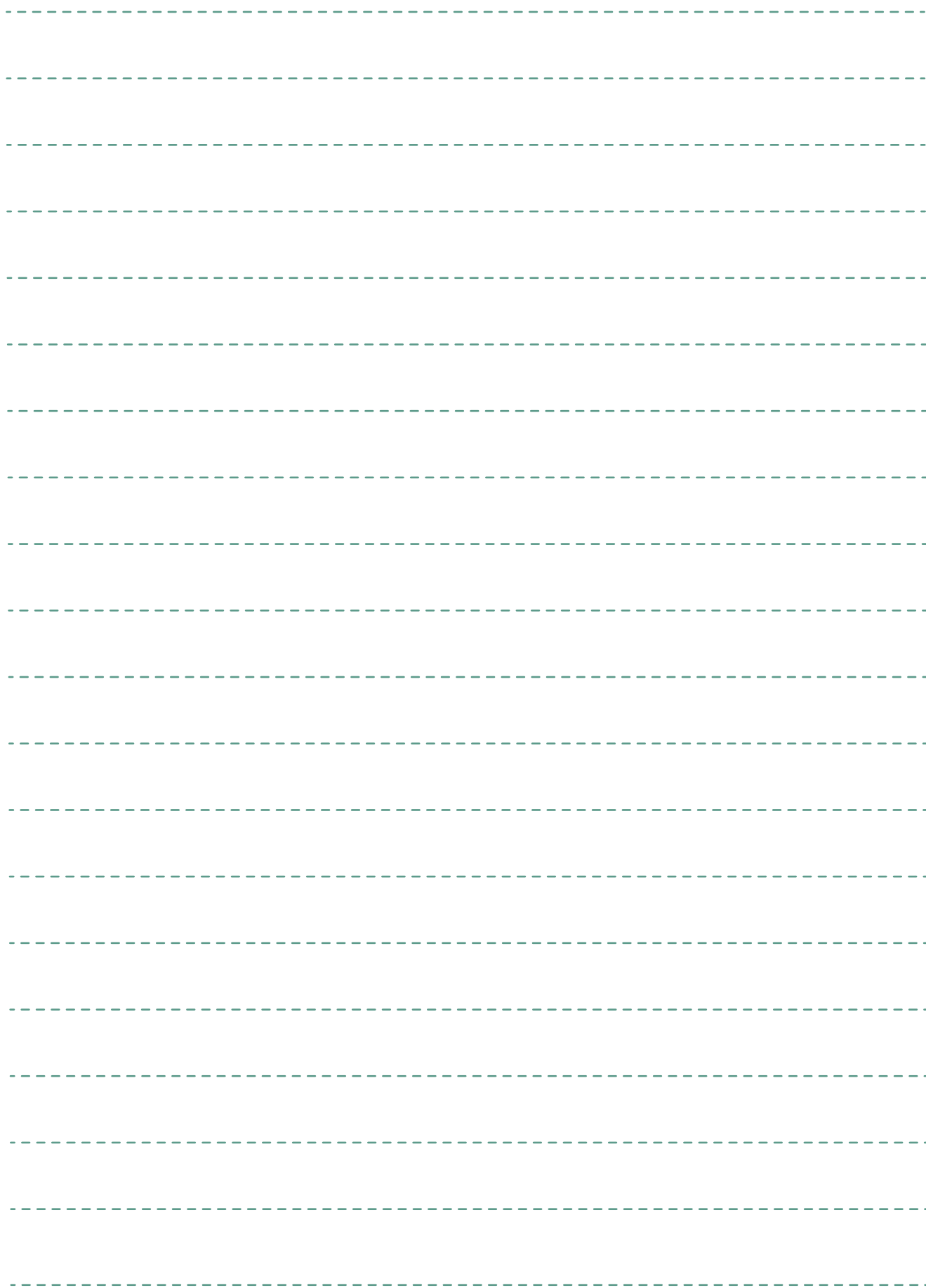
SGST buoyancy has been computed as the ratio of the compound annual growth rate (CAGR) of State GST collections to the CAGR of total Gross Value Added (GVA) at current prices for the period 2019-20 to 2022-23. Total State GVA at current prices has been sourced from the Ministry of Statistics and Programme Implementation (MOSPI), State Accounts. A buoyancy value greater than 1 indicates that SGST collections are growing faster than the underlying state economy, while a value below 1 indicates revenue growth lagging economic expansion.

16. Service Sector Employment Assumptions

This estimate is based on the following assumptions: (a) total West Bengal workforce is approximately 40 million, derived from state population and a labor force participation rate of around 50%; (b) services account for 51.1% of total employment per PLFS 2023-24; (c) trade workers are assumed to earn below the professional tax threshold and contribute negligible direct tax; (d) IT workers are assumed to earn an average of ₹4-5 lakh per year, contributing approximately ₹2,500 in professional tax and ₹15,000 in GST on consumption annually, totalling roughly ₹17,500 per worker per year; (e) the shift is modelled as a clean transition with no transitional unemployment or wage adjustment period. These are illustrative estimates intended to indicate the order of magnitude of the fiscal gain from sectoral formalisation, and should not be treated as precise projections.

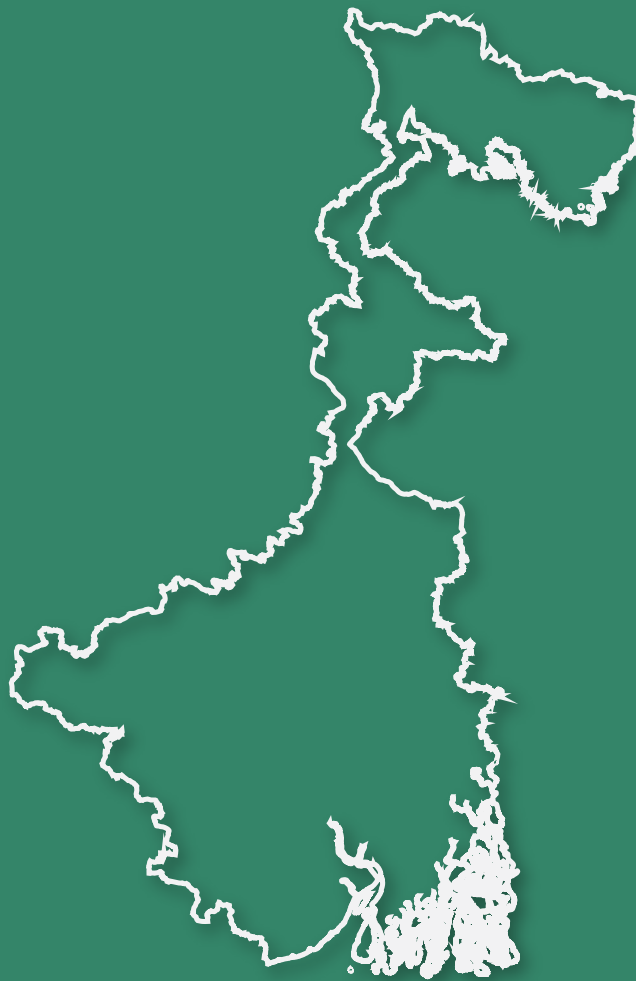
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