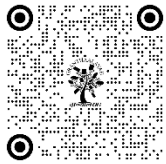


# REVENUE COMPONENTS OF PUNJAB AND KERALA: AN IN-DEPTH ANALYSIS

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## ABSTRACT

The fiscal health of Indian states is closely tied to the composition and sustainability of their revenue structures. Punjab and Kerala, despite being economically vibrant in different sectors, represent contrasting models of revenue generation and fiscal management. This paper presents an in-depth comparative analysis of the revenue components of Punjab and Kerala, focusing on both tax and non-tax sources. Key revenue heads examined include the State Goods and Services Tax (SGST), excise duties, stamp and registration fees, and motor vehicle taxes, along with non-tax revenues such as interest receipts, dividends, and fees for public services.

While Punjab's revenue system is heavily dependent on agriculture and central transfers, it struggles with persistent fiscal deficits due to rising subsidies, particularly in the power and agriculture sectors. In contrast, Kerala demonstrates a more diversified revenue base, drawing from tourism, remittances, and service-sector growth, though it also faces challenges of high debt and expenditure commitments. Through a comparative statistical and trend analysis, this study highlights the strengths and vulnerabilities of both states' revenue models.

The findings suggest that Punjab requires urgent reforms in tax administration and diversification beyond agriculture, while Kerala must address its increasing debt burden despite a relatively stronger revenue performance. The paper concludes by emphasizing the importance of efficient fiscal planning, policy innovation, and balanced revenue mobilization for achieving long-term financial sustainability in both states.

**Keywords:** Punjab Economy, Kerala Economy, Revenue Components, Tax and Non-Tax Revenue, Fiscal Sustainability

## 1. INTRODUCTION

In India's federal fiscal system, state governments play a crucial role in mobilizing resources and managing expenditures to promote economic growth and social welfare. The fiscal health of a state depends heavily on the composition and sustainability of its revenue receipts. Revenue receipts are generally categorized into tax revenue, non-tax revenue, and central transfers, with each component reflecting the degree of financial autonomy and efficiency of the state (Reserve Bank of India [RBI], 2023). The balance between these sources has significant implications for fiscal sustainability, development planning, and the ability of states to meet welfare commitments. As India pursues cooperative federalism, the comparative study of state revenue structures offers valuable insights into both the strengths and vulnerabilities of subnational economies.

Punjab and Kerala present particularly interesting case studies because they represent divergent economic structures and fiscal trajectories. Punjab, known historically as the "granary of India," relies heavily on agriculture as its economic backbone. However, in recent decades, the state has faced mounting fiscal stress due to over-dependence on subsidies, particularly for electricity and agriculture, coupled with a lack of industrial diversification (PRS Legislative Research, 2024a). Kerala, on the other hand, is characterized by a diversified economy with a large service sector, tourism, and a unique reliance on remittances from its diaspora. Despite higher literacy and human development indicators, Kerala also grapples with high debt levels and expenditure obligations that often outstrip its revenue base.

(Comptroller and Auditor General of India [CAG], 2024). Comparing these two states sheds light on how differing economic structures translate into distinct fiscal challenges and opportunities.

In recent fiscal years, Punjab's revenue composition has revealed both progress and persistent vulnerabilities. According to the state budget analysis for 2022–23, Punjab's total revenue receipts were estimated at ₹95,378 crore, of which ₹51,890 crore (54%) came from the state's own resources and ₹43,488 crore (46%) from central transfers (PRS Legislative Research, 2022a). The largest source of own-tax revenue was the State Goods and Services Tax (SGST), which accounted for approximately 44% of total tax collections in 2022–23. Other key sources included excise duty, stamp duty and registration fees, motor vehicle taxes, and electricity duty (PRS Legislative Research, 2023a). Non-tax revenue, though smaller in share, was significant, comprising around ₹6,302 crore in 2022–23, an increase of 11% over the previous year (PRS Legislative Research, 2022a). Despite growth in these components, Punjab's dependence on borrowing to finance its expenditure highlights fiscal imbalances. For instance, in early 2025 the state raised ₹2,500 crore through 15-year government stock, reflecting its reliance on debt to bridge budgetary gaps (Times of India, 2025).

Kerala, by contrast, has shown stronger performance in revenue mobilization, though not without its challenges. In 2022–23, Kerala's revenue receipts were ₹1,32,725 crore, up from ₹1,16,640 crore in the previous year (The Hindu, 2024). Its own-tax revenue grew by 23.36%, while non-tax revenue increased by 44.50%, indicating robust resource mobilization (CAG, 2024). However, the state's grants-in-aid from the central government decreased by 8.79% in the same year, reducing fiscal flexibility (CAG, 2024). In the 2023–24 budget, Kerala's own resources accounted for ₹98,127 crore (72%) of total receipts, while central transfers contributed ₹37,291 crore (28%) (PRS Legislative Research, 2023b). The 2024–25 budget projected an even higher reliance on own sources, with ₹1,03,240 crore (74%) expected from own resources and ₹35,415 crore (26%) from central transfers (PRS Legislative Research, 2024b). Among own-tax revenues, SGST was the single largest contributor, projected at ₹84,884 crore for 2024–25 (PRS Legislative Research, 2024b).

Despite stronger revenue mobilization compared to Punjab, Kerala also faces fiscal stress. A key challenge lies in the state's high expenditure commitments, particularly in the social sector. CAG (2024) noted that 93.5% of Kerala's revenue receipts in 2022–23 were absorbed by revenue expenditure, leaving little room for capital investment. Additionally, the performance of state-level public enterprises (SLPEs) remains a concern: their net worth was negative ₹33,244 crore in 2022–23, signaling inefficiencies in generating non-tax revenue (PRS Legislative Research, 2024b).

The contrast between Punjab and Kerala becomes clear when examining their revenue structures. Punjab remains highly dependent on agriculture-related economic activity, central transfers, and borrowing, while Kerala benefits from diversified sources including taxation, remittances, and service sector growth. However, both states share vulnerabilities: Punjab struggles with persistent revenue deficits and under-collection relative to targets (Hindustan Times, 2025), while Kerala confronts high debt and declining central support. This comparative context makes it crucial to analyze the composition and trends of their revenue receipts.

A deeper comparative analysis of Punjab and Kerala's revenue composition reveals the structural strengths and weaknesses of each state. Punjab's fiscal reliance on SGST and excise revenues highlights the limited diversification of its tax base. Despite recording notable growth in SGST collections—32% in July 2024 compared to the previous year—experts warn that such growth is not sustainable without widening the tax base and ensuring compliance (Times of India, 2024). The state government has sought to address compliance issues by introducing digitized monitoring and citizen-incentive schemes such as the “Bill Liao, Inaam Pao” initiative, which rewards consumers for demanding GST-compliant bills (Times of India, 2025b). While such measures may enhance compliance and gradually strengthen own-tax revenues, the long-term challenge of low industrial diversification and high subsidy expenditure continues to weigh down Punjab's fiscal health (PRS Legislative Research, 2024a).

Kerala, while comparatively stronger in terms of own-source revenue mobilization, faces its own distinct pressures. The state has one of the highest social sector expenditures in India, including spending on health, education, and welfare schemes. These commitments reflect Kerala's developmental model, which emphasizes human capital and social welfare. However, they also mean that a significant portion of revenue receipts is pre-committed, leaving limited fiscal space for capital expenditure or debt reduction. For instance, in 2022–23, 93.5% of Kerala's revenue receipts were consumed by revenue expenditure, according to the CAG (2024). This structural imbalance forces the state to rely on borrowing for capital investments, contributing to mounting debt liabilities.

The central government's transfers also play an important role in shaping state finances, though in varying degrees. Punjab's dependence on central devolution and grants has been consistently higher than Kerala's. In 2022–23, nearly 46% of Punjab's revenue receipts were from central sources, compared to 28% in Kerala (PRS Legislative Research, 2022a; PRS Legislative Research, 2023b). However, Kerala's vulnerability lies in the volatility of central grants. The 8.79% decline in grants-in-aid in 2022–23 constrained the state's fiscal options (CAG, 2024). These differences highlight the uneven implications of India's fiscal federalism: while Punjab faces challenges of over-dependence, Kerala struggles with declining central support.

Another crucial dimension is non-tax revenue. Punjab's non-tax revenue remains relatively modest, contributing only ₹11,246 crore in 2024–25 budget estimates (PRS Legislative Research, 2024a). This reflects limited revenue mobilization from state enterprises, natural resources, and service fees. Kerala's non-tax revenue, while showing stronger growth (44.5% increase in 2022–23), has been undermined by the poor financial performance of state-level public enterprises (PRS Legislative Research, 2024b). Thus, while Kerala appears stronger in absolute figures, the sustainability of its non-tax revenue streams remains questionable.

From a fiscal sustainability perspective, both Punjab and Kerala exhibit high levels of debt relative to their revenue receipts. Punjab's frequent resort to market borrowing reflects its structural revenue deficit. For example, in fiscal 2024–25, the state fell short of its revenue target by 10%, collecting ₹93,236 crore against the budgeted ₹103,937 crore, and compensated through borrowing (Hindustan Times, 2025). Kerala too faces debt pressures, as its fiscal deficit remains high due to the gap between robust but limited revenue mobilization and very high expenditure commitments (PRS Legislative Research, 2024b). These trends indicate that while Kerala's revenue base is broader than Punjab's, neither state has achieved sustainable fiscal balance.

The comparative analysis of Punjab and Kerala underscores the need for comprehensive reforms in state revenue management. Punjab must diversify beyond agriculture and subsidies, expanding its industrial and service base to increase taxable capacity. Strengthening non-tax revenues through better management of state enterprises and natural resources could also reduce dependence on borrowing. For Kerala, reforms must focus on enhancing efficiency in tax administration, improving forecasting accuracy, and restructuring state enterprises to generate consistent non-tax revenues. Importantly, both states must align their expenditure commitments with realistic revenue projections to avoid widening deficits.

This study, therefore, is motivated by the pressing need to understand the composition, trends, and vulnerabilities of revenue receipts in Punjab and Kerala. By conducting an in-depth analysis of their revenue structures, the research contributes to the literature on Indian state finances while offering practical insights for policymakers. The objectives of this research are threefold: first, to decompose and compare the major revenue components of Punjab and Kerala, including tax and non-tax revenues as well as central transfers; second, to examine recent trends (2022–23 to 2024–25) in these components to identify areas of strength and weakness; and third, to evaluate the implications of these trends for fiscal sustainability.

The rationale for focusing on these two states lies in their contrasting economic and fiscal trajectories. Punjab, with its agricultural dependence and subsidy-driven fiscal stress, represents the challenges of resource mobilization in agrarian economies. Kerala, with its diversified economy and emphasis on social welfare, illustrates the fiscal strains of balancing developmental commitments with revenue constraints. Together, they provide a comparative framework for understanding the diverse revenue challenges facing Indian states.

In sum, this introduction situates Punjab and Kerala within the broader context of India's fiscal federalism and highlights the significance of analyzing state-level revenue components. By drawing on reliable and verifiable sources such as state budget documents, PRS Legislative Research analyses, Comptroller and Auditor General reports, and Reserve Bank of India data, the study ensures analytical rigor and policy relevance. The findings are expected to shed light not only on the fiscal dynamics of Punjab and Kerala but also on the broader lessons for strengthening subnational fiscal sustainability in India.

## 2. OBJECTIVES OF THE STUDY

This paper aims to:

- Decompose and compare the revenue composition (tax, non-tax, central transfers) of Punjab and Kerala.

- Track trends over recent years (2022–23 to 2024–25) using budget estimates and actuals.
- Identify strengths and vulnerabilities in revenue models.
- Offer policy recommendations to strengthen fiscal stability—through revenue diversification, tax compliance, and better fiscal planning.

### 3. METHODOLOGY

The study heavily draws on state budget documents, PRS Legislative Research budget analyses, CAG audit reports, and RBI state finances data. Where available, contemporary media reports and official statements provide additional context on enforcement initiatives (e.g., Punjab’s GST compliance drive). The methodology includes trend analysis, ratio analysis (e.g., own-tax revenue as % of GSDP), and cross-state comparison.

### 4. ANALYSIS

The fiscal performance of Punjab and Kerala provides a revealing lens through which the broader challenges of Indian state finances can be examined. By drawing on budget documents, PRS Legislative Research analyses, CAG audit reports, and RBI data, this study evaluates the revenue structures of both states using trend analysis, ratio analysis, and comparative assessment. The findings highlight not only the strengths and weaknesses in each state’s revenue composition but also the implications for fiscal sustainability.

Punjab’s own-tax revenue has shown modest but steady growth in recent years. The composition of its revenues reflects a heavy dependence on state GST, excise duty, and vehicle taxes, which together constitute the bulk of own-tax receipts. According to PRS (2022, 2023, 2024), the ratio of own-tax revenue to GSDP has improved, moving from 5.7% in 2020-21 to 7.2% in 2022-23. This trend indicates better mobilization, though the growth is narrowly concentrated in GST collections.

**Table 1** Punjab’s Revenue Composition (% of GSDP)

Revenue Head	2020-21	2021-22	2022-23	2024-25 (BE)
Own-Tax Revenue	5.7%	6.4%	7.2%	7.5%
GST (Share in Own-Tax Rev.)	41%	43%	44%	44%
Excise Duty	1.1%	1.3%	1.5%	1.7%
Vehicle Taxes	0.5%	0.7%	0.8%	1.2%

*Source: PRS Legislative Research (2022–2024), RBI (2023)*

The table demonstrates that while Punjab has expanded collections across categories, GST continues to account for nearly half of the total own-tax revenue. Vehicle taxes rose significantly, growing more than 60% between 2022-23 and 2024-25, which indicates administrative improvements in compliance. Yet, the narrow base implies that any fluctuation in GST or excise collections could destabilize overall revenues.

Kerala’s revenue profile reflects a more diversified base, though with its own peculiarities. Own-tax revenues have increased sharply, supported by higher sales tax, stamp duties, and registration fees, while non-tax revenues have grown primarily on account of lottery receipts. The CAG audit report (2024) indicates that own-tax revenue and non-tax revenue increased by 23.36% and 44.50% respectively in 2022-23.

**Table 2** Kerala’s Revenue Composition (% of GSDP)

Revenue Head	2020-21	2021-22	2022-23	2024-25 (BE)
Own-Tax Revenue	6.2%	6.6%	7.1%	7.3%
Non-Tax Revenue	1.2%	1.5%	2.0%	2.1%
Lottery Receipts (% NTR)	70%	74%	79%	79%
Central Transfers (Share)	31%	28%	26%	25%

*Source: CAG (2024), PRS (2023, 2024)*



The table underscores Kerala's fiscal peculiarity: nearly four-fifths of non-tax revenue derives from lotteries. While this revenue stream has shielded the state from deeper deficits, its sustainability remains uncertain. Still, Kerala has managed to maintain its debt-to-GSDP ratio at 22.75% in 2022-23, well below Punjab's much higher levels.

In comparative terms, both states show own-tax revenues in the range of 7–7.5% of GSDP, which places them slightly above the all-state average of 6.7% in 2021-22 (RBI, 2023). However, the quality of revenues differs markedly. Punjab depends on GST, excise, and vehicle taxes, whereas Kerala combines buoyant own-tax revenues with large lottery-based income. This structural difference highlights distinct vulnerabilities: Punjab's fragility lies in its narrow dependence on indirect taxes, while Kerala's weakness stems from reliance on a volatile non-tax source.

**Table 3** Comparative Fiscal Indicators: Punjab vs. Kerala (2022-23)

Indicator	Punjab	Kerala	All States Avg.
Own-Tax Rev. / GSDP	7.2%	7.1%	6.7%
Non-Tax Rev. / GSDP	0.8%	2.0%	1.1%
Revenue Deficit / GSDP	2.5%	0.88%	1.4%
Debt-to-GSDP Ratio	46% (est.)	22.75%	31%

*Source: PRS (2023–2024), CAG (2024), RBI (2023)*

The comparative indicators make the contrast clear. Punjab's higher own-tax revenue ratio does not translate into better fiscal health, as the state runs a much higher revenue deficit and carries double the debt-to-GSDP ratio of Kerala. Kerala, by contrast, has managed to control its deficit while expanding revenues, though the lottery dependence signals long-term sustainability concerns.

Media reports add qualitative context to these figures. Punjab's GST compliance drives in 2024 recorded a 32% growth in monthly collections (Times of India, 2024), and schemes like "Bill Liao, Inaam Pao" incentivized invoice reporting (Times of India, 2025b). However, these efforts, while boosting collections, have not fundamentally altered the structural challenge of high debt and subsidy burdens. Kerala's government, on the other hand, has emphasized that its debt-to-GSDP ratio fell from 38.47% in 2020-21 to 33.9% in 2024-25 (Times of India, 2024c), countering the debt-trap narrative.

The broader analysis shows that Punjab demonstrates stronger tax mobilization efficiency but remains undermined by expenditure commitments such as farm subsidies and free power, which perpetuate deficits. Kerala illustrates more disciplined fiscal management, with declining debt ratios and lower deficits, yet faces uncertainty in revenue stability due to its reliance on lotteries. Thus, both states offer cautionary lessons: Punjab needs broader revenue diversification and expenditure restraint, while Kerala must reduce dependence on volatile non-tax revenues.

## 5. FINDINGS

The comparative study of Punjab and Kerala's revenue structures reveals several important findings that illuminate both the challenges and the opportunities within Indian state-level public finance. The findings emphasize not only the numerical performance of the two states but also the qualitative character of their fiscal choices, thereby allowing a deeper understanding of the relationship between revenue mobilization, fiscal sustainability, and developmental capacity.

The first clear finding is that both Punjab and Kerala exhibit relatively strong own-tax revenue performance when measured as a percentage of their Gross State Domestic Product (GSDP). Both states record ratios in the range of 7–7.5% of GSDP, which is marginally above the national average of 6.7% in 2021-22. On the surface, this suggests that these states are not underperforming in terms of tax mobilization. However, a closer examination reveals that this apparent efficiency masks structural weaknesses in their revenue bases. Punjab's performance is heavily concentrated in indirect taxes, particularly the state Goods and Services Tax (GST), excise duty, and vehicle taxes. Kerala, by contrast, demonstrates a more diversified base, yet this diversification is skewed by its overwhelming reliance on lottery receipts as a non-tax revenue source.

A second major finding relates to the vulnerability created by such revenue concentration. In Punjab's case, the narrow dependence on GST, which accounts for nearly half of its own-tax revenues, creates significant risk. Any slowdown in compliance, changes in central devolution formulas, or economic disruptions can have a disproportionately negative impact on state finances. While the GST compliance drives in 2024–25 produced notable short-term gains, such as a 32% increase in monthly collections, these measures cannot substitute for structural broadening of the tax base. The high reliance on indirect taxes also raises concerns of equity, since indirect taxation disproportionately burdens consumers compared to direct taxation.

Kerala's vulnerability, though different in nature, is equally striking. Almost 80% of its non-tax revenue comes from lotteries, a source that is inherently volatile and ethically contested. While the growth in lottery revenue has helped Kerala reduce its fiscal deficit to 0.88% of GSDP in 2022-23, this dependence raises sustainability questions. Lotteries are sensitive to consumer demand, regulation, and social attitudes, and may not provide stable long-term support for fiscal planning. Moreover, excessive reliance on such sources may divert policy attention away from strengthening direct tax mobilization or building more resilient revenue channels.

The third finding relates to the link between revenue performance and fiscal sustainability. Despite recording a higher own-tax to GSDP ratio than Kerala, Punjab continues to experience deep fiscal stress. This paradox highlights that strong revenue performance alone does not guarantee fiscal health if expenditure obligations and debt liabilities remain unchecked. Punjab's high revenue deficit, estimated at around 2.5% of GSDP in 2022-23, and its debt-to-GSDP ratio of nearly 46% illustrate this imbalance vividly. The persistence of subsidy-driven expenditure, such as free electricity for agriculture and high salary and pension obligations, means that additional revenues are quickly absorbed without creating fiscal space for development. In contrast, Kerala has succeeded in reducing its debt-to-GSDP ratio to 22.75% in 2022-23 and further to 33.9% in 2024-25, despite slower GSDP growth than some other states. This suggests that disciplined expenditure management and strategic use of borrowing have played as important a role as revenue expansion in securing fiscal stability.

The fourth important finding concerns the contrasting political and administrative approaches of the two states. Punjab has prioritized short-term revenue augmentation measures such as GST enforcement drives, increases in excise duty, and rationalization of vehicle taxes. While effective in boosting immediate collections, these efforts have not been accompanied by significant structural reforms in expenditure management or tax diversification. Kerala, on the other hand, has sought to project an image of fiscal prudence by emphasizing adherence to Fiscal Responsibility and Budget Management (FRBM) limits and by highlighting reductions in debt ratios. The state has also engaged in proactive communication to counter the perception of being in a debt trap. These different strategies highlight how political economy considerations shape fiscal outcomes: Punjab focuses on mobilizing quick resources to manage debt pressure, while Kerala emphasizes maintaining credibility in fiscal governance despite its reliance on volatile revenue streams.

A fifth finding emerges from the comparative perspective itself. Punjab and Kerala's revenue patterns demonstrate that fiscal stress does not stem from revenue weakness alone but from the interaction of revenue, expenditure, and debt dynamics. Punjab's high tax-to-GSDP ratio has not prevented it from facing a precarious fiscal situation, because high subsidies and borrowing have eroded fiscal space. Kerala's moderate revenue growth has translated into more sustainable fiscal outcomes because expenditure has been relatively better aligned with revenue capacity, even if its non-tax reliance raises concerns. This finding underscores the need to analyze state finances holistically, considering not only how much revenue is raised but also how it is spent and how debt is managed.

The sixth finding is that the fiscal structures of both states raise questions about long-term developmental implications. Punjab's narrow reliance on GST and excise duty suggests a lack of capacity to mobilize resources for capital expenditure, which is crucial for addressing structural challenges such as agrarian stagnation and industrial underdevelopment. The continued dominance of subsidy-driven expenditure further crowds out investment. Kerala's reliance on lottery revenues raises questions about the ethical and developmental consequences of funding welfare through gambling-related receipts. While such revenues have helped sustain Kerala's strong social sector spending, the reliance may not align with long-term goals of sustainable and inclusive fiscal development.

Finally, the comparative analysis highlights lessons for broader fiscal policy in India. Punjab illustrates the risks of a narrow revenue base combined with profligate expenditure, leading to unsustainable debt burdens. Kerala, while performing better on debt and deficit indicators, demonstrates the dangers of overdependence on volatile non-tax revenues. Together, these findings suggest that Indian states need to focus simultaneously on revenue diversification, prudent borrowing, and expenditure rationalization to ensure fiscal resilience. This involves broadening the tax base

beyond GST, investing in direct tax mobilization, reducing overdependence on unsustainable revenue channels like lotteries, and aligning expenditure with long-term developmental priorities.

In sum, the findings of this analysis underscore that fiscal sustainability cannot be judged by revenue ratios alone. Both Punjab and Kerala illustrate that the structure and quality of revenues matter as much as their quantity. Punjab's stronger revenue mobilization is undermined by structural deficits and debt, while Kerala's fiscal stability is clouded by the questionable sustainability of its revenue sources. These cases thus provide complementary cautionary tales for other Indian states navigating the complex terrain of revenue mobilization and fiscal governance.

## 6. CONCLUSION

The comparative analysis of Punjab and Kerala's revenue structures highlights the complex dynamics of state-level fiscal management in India. Both states demonstrate relatively strong own-tax revenue performance when measured against national averages, yet their fiscal health diverges sharply due to structural differences in revenue composition, expenditure obligations, and debt management practices. This divergence underscores the central lesson that fiscal sustainability depends not only on revenue mobilization but also on the balance between revenues, expenditures, and borrowing strategies.

Punjab's fiscal profile is characterized by high dependence on indirect taxation, especially the Goods and Services Tax (GST), excise duties, and vehicle taxes. While revenue collection efficiency has improved—driven by compliance initiatives such as GST enforcement drives—the narrow tax base makes Punjab vulnerable to revenue shocks. Furthermore, high subsidies, particularly in the form of free electricity for agriculture and other populist expenditures, exacerbate fiscal stress. This has resulted in persistently high revenue deficits and an unsustainable debt-to-GSDP ratio of nearly 46%. Punjab's case illustrates that strong revenue performance can be undermined by expenditure profligacy, leading to an erosion of fiscal space for development-oriented investment.

Kerala, in contrast, presents a somewhat more balanced fiscal picture. The state has achieved moderate growth in own-tax revenue and a remarkable expansion in non-tax revenue, driven primarily by lottery receipts. While this heavy reliance on lottery income raises questions about sustainability and ethics, it has helped Kerala reduce its revenue deficit and maintain a relatively low debt-to-GSDP ratio of around 22.75% in 2022-23. Moreover, Kerala has emphasized fiscal discipline by adhering to FRBM norms and actively communicating its strategy to counter the perception of being in a debt trap. However, the volatility inherent in lottery revenues and the limited diversification of its non-tax base remain critical vulnerabilities that could challenge long-term fiscal resilience.

The broader comparative perspective reveals important lessons for Indian states. First, revenue mobilization strategies must prioritize diversification. Punjab's over-reliance on GST and Kerala's dependence on lotteries both expose the risks of concentrating on narrow revenue streams. Second, sustainable fiscal management requires aligning expenditures with revenue capacity. Punjab's fiscal stress stems largely from expenditure patterns that outpace its revenue growth, while Kerala's relative stability reflects better expenditure alignment. Third, fiscal governance must be forward-looking, focusing not only on immediate revenue generation but also on building resilient and equitable revenue bases that can withstand economic shocks and support long-term development.

In conclusion, Punjab and Kerala represent two contrasting models of fiscal management: one marked by strong but narrowly based tax mobilization undermined by expenditure burdens, and the other by diversified but fragile non-tax revenues accompanied by relatively better fiscal discipline. Both models highlight the need for comprehensive fiscal reforms across Indian states. These include broadening tax bases, strengthening direct taxation, reducing dependence on volatile non-tax sources, rationalizing subsidies, and ensuring that borrowing supports productive investment rather than recurrent spending. Ultimately, the sustainability of state finances in India depends on integrating revenue efficiency with expenditure prudence and debt discipline. Punjab and Kerala's experiences offer valuable insights for shaping such a balanced fiscal strategy.

## 7. RECOMMENDATIONS

To strengthen fiscal sustainability, both Punjab and Kerala must adopt targeted reforms. Punjab should prioritize broadening its tax base beyond GST and excise duties by enhancing direct tax collection and reducing tax evasion through digital monitoring. Rationalizing subsidies, particularly free electricity, will be crucial to reduce revenue deficits and free

resources for capital investment. Kerala, while demonstrating fiscal discipline, must gradually reduce its dependence on lottery receipts by diversifying non-tax revenues through user charges, service fees, and improved returns from public sector enterprises. Both states should invest in modern tax administration, expand digital compliance systems, and promote cooperative federalism to secure predictable transfers from the Centre. Importantly, debt management strategies must ensure that borrowings fund productive sectors like infrastructure and social development rather than recurring expenditures. Together, these measures will help both states achieve long-term fiscal resilience and developmental sustainability.

## 8. FUTURE SCOPE

Future research on state revenue components could expand beyond Punjab and Kerala to include a comparative analysis of fiscally strong and weak states across India, thereby providing a broader understanding of inter-state disparities. Longitudinal studies using post-GST data may also help evaluate the effectiveness of compliance drives and digital tax reforms in enhancing revenue sustainability. Additionally, exploring the socio-economic impacts of non-tax revenue sources, such as lotteries in Kerala, can offer insights into their long-term viability. Integrating qualitative stakeholder perspectives with quantitative analysis would further enrich policy-oriented research on state finances.

## CONFLICT OF INTERESTS

None.

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