Bridging the Data Gaps in India
The Case of Capital Spending

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Introduction

- India's central government has taken steps to improve fiscal transparency and accountability
- States are responsible for close to two-thirds of the general government expenditure (NITI Aayog), but state-level data has many gaps
- The CAG in 2023 cautioned that "states should take steps to earn adequate returns on their investments and recover their cost of borrowed funds"
- Adherence to international standards of accounting required for sound PFM
- **Capital spending** is a very large, politically salient categories of expenditure. Capex plays a pivotal role in economic development and fiscal policy, involving investments in durable assets that enhance productivity, generate employment and foster private-sector participation. However, India's current reporting practices often obscure the true nature and impact of these investments.

Divergence from international standards

Cash-Based Accounting: India's reliance on cash-based accounting, as opposed to accrual-based systems, limits the accuracy and comprehensiveness of fiscal reporting.

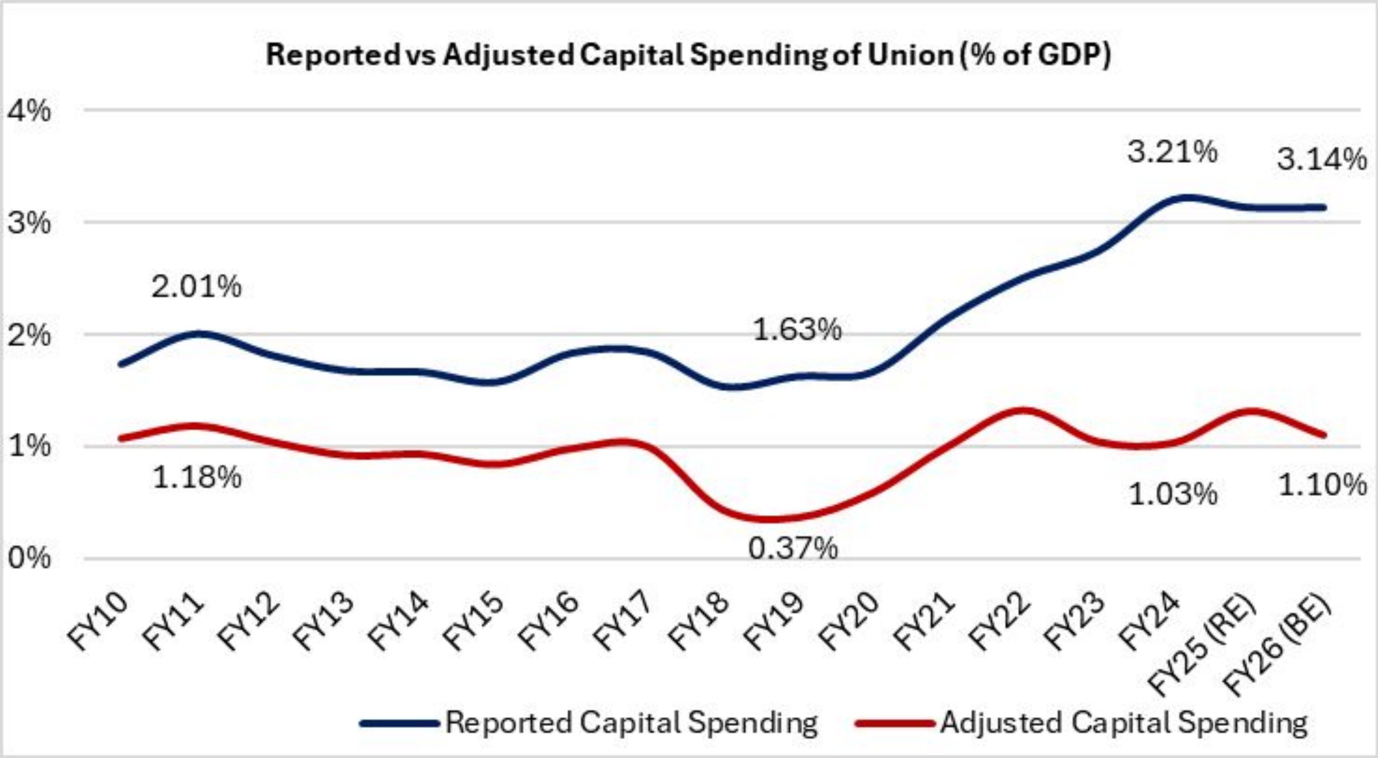
Exclusion of Off-Budget Finances: Off-budget expenditures and PPPs are often excluded from official reports, creating hidden fiscal risks.

Inadequate Disclosure: Insufficient transparency around debt financing, contingent liabilities and PPPs further complicates the assessment of public investments.

Misclassification of Expenditure: Financial assets (e.g., loans and equity infusions) are included in capex, while revenue expenditures are often misclassified as capital spending, particularly at the sub-national level.

Overstated Capex: Union

Nearly 2% of GDP is Financial Transfers, Not Asset Creation



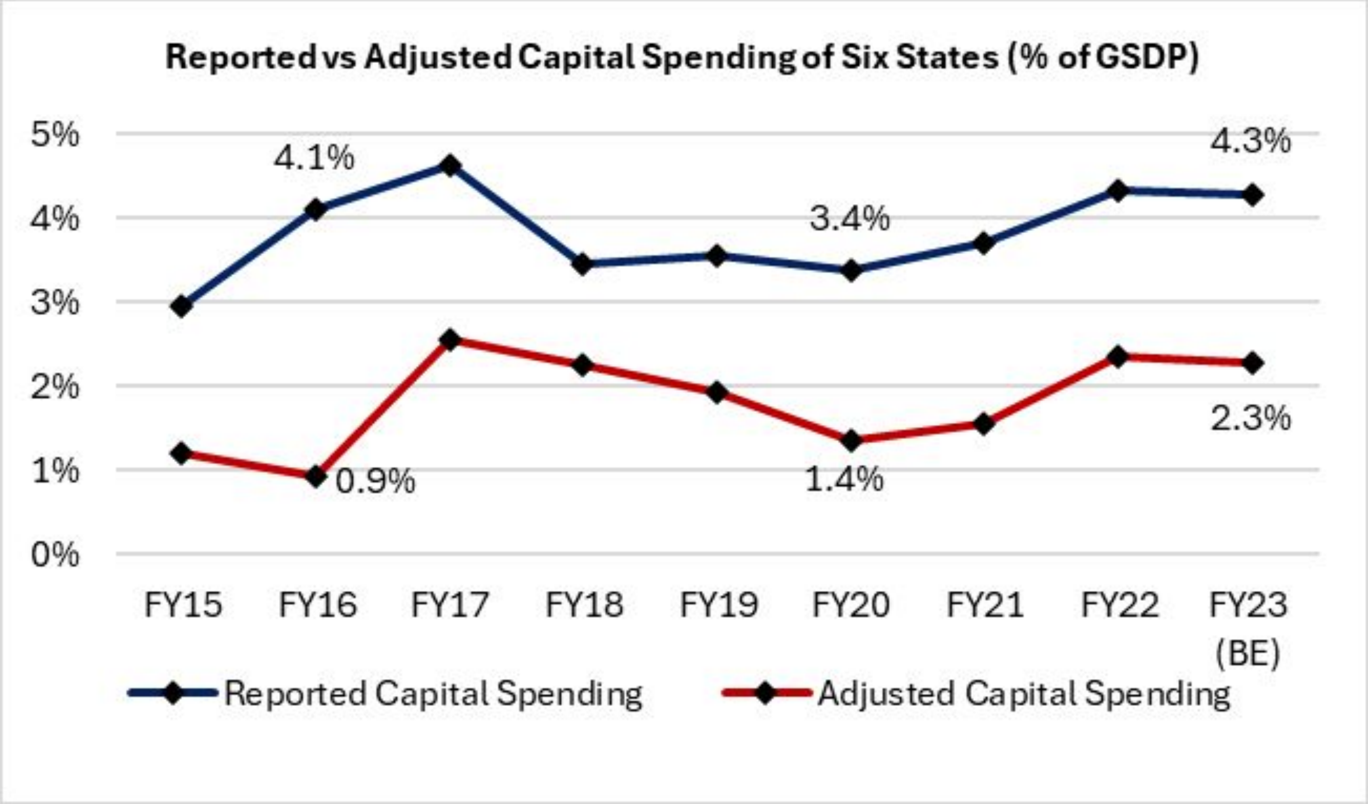
Reported capex adjusted for

- Loans & advances to other entities (including debt repayment)
- Equity infusion in PSUs

Source: Union Budgets; RBI; Based on authors' calculations

Overstated Capex: States

Six states include: Maharashtra, Punjab, Bihar, Telangana, Madhya Pradesh, & Rajasthan



Adjustments made for

- Loans & advances to other entities (including debt repayment)
- Equity infusion in PSUs
- Misclassifications

Source: CAG State Finance Account; RBI; Based on authors' calculations

Data Gaps	
Inconsistent reporting	Maintenance costs, grants, subsidies and other operational expenses are often misclassified as capex, inflating reported figures without corresponding increases in tangible assets.
Incompleteness	Not all capital expenditures are captured in official reports, particularly those related to off-budget financing and public–private partnerships, which are frequently excluded. This obscures the true extent of public investment and creates hidden fiscal risks.
Fragmented & untimely reporting	Delays in reporting and the lack of integrated databases hinder timely analysis and monitoring of capex projects.
Lack of granularity	Insufficient detail on the nature, location and progress of capex projects limits the ability to assess their impact and effectiveness. Contingent liabilities and debt-financing costs are also not adequately disclosed.
Underutilisation	Allocated capex is often underutilised owing to bureaucratic delays, procurement challenges and poor coordination.
Mismanagement	Allocated capex is often underutilised owing to bureaucratic delays, procurement challenges and poor coordination.

Key Recommendations

Harmonising Definitions: Establish a uniform classification of capex across the Centre and state governments to ensure consistent treatment of financial and non-financial assets

Enhancing Granularity: Provide detailed, sectoral and project-specific breakdowns of capex to facilitate transparency, accountability and outcomes evaluation

Integrating Off-Budget Spending: Consolidate expenditures by SPVs and PSEs into fiscal accounts to provide a comprehensive view of public investment

Consolidating General Government Data: Report financial data at the general government level to eliminate intergovernmental transfers and reveal net investment in non-financial capital assets

Strengthening Auditing: Expand the role of the CAG in auditing capex to ensure proper classification, verification of assets, and accountability for delays and cost overruns