

II

Fiscal Position of Municipal Corporations

The municipal revenues, which were hit during the COVID-19 pandemic in 2020-21, recovered in 2021-22 and 2022-23. Despite significant responsibilities, the revenue streams of municipalities are limited and pale in comparison to those of State and Central governments. The revenues of municipal corporations (MCs) show concentration, with the top 10 MCs accounting for over 58 per cent of the total municipal revenue receipts in India. Property taxes are the major constituent of tax revenues. Municipal bond financing has seen some recovery in recent years. MCs are also venturing into green municipal bonds to fund environmentally beneficial projects, marking a pivotal move towards sustainable urban development.

1. Introduction

II.1 In India, urban areas contribute around 60 per cent of the country's GDP (NITI Aayog, 2022).¹ Municipal corporations (MCs), the third tier of the government in large urban areas, generate their own revenues in terms of taxes and fees, apart from grants from the higher levels of the government and are also responsible for the provision of local public services.

II.2 This Chapter analyses the financial position of MCs in India from 2019-20 to 2023-24 (BE). It is organised into five sections. Section 2 examines receipts of MCs from 2019-20 to 2023-24 (BE), focusing on own tax revenue, non-tax revenue, and transfers. Municipal expenditure is discussed in section 3 while section 4 presents details on their borrowings and municipal bond financing. Finally, section 5 sets out some conclusions along with the way forward.

2. Municipal Receipts

II.3 Municipal revenue receipts, which were subdued during 2020-21, grew by 22.5 per cent in 2021-22 mainly due to rise in non-tax revenues. The growth in the revenue receipts moderated to 3.7 per cent in 2022-23 (RE) and was budgeted to increase by 20.1 per cent in 2023-24 [Table II.1a]. Despite significant responsibilities, MCs' revenue receipts are quite modest (0.6 per cent of GDP in 2023-24) and pale in comparison to those of Central and State governments (9.2 per cent and 14.6 per cent of GDP in 2023-24, respectively). Revenue receipts of MCs exhibit concentration, with the top 10 MCs accounting for over 58 per cent of total municipal revenue receipts (Table II.1b). The consolidated budgets of the municipalities indicate a surplus on the revenue account. The surplus fell to ₹1,034 crore in the pandemic year 2020-21 from ₹4,914 crore in 2019-20. It was budgeted higher at ₹20,819 crore in 2023-24.

¹ NITI Aayog (2022), *Cities as Engines of Growth*. pp-2.

Table II.1: Municipal Corporations' Revenue Receipts and Expenditure

(₹ crore)

a. All Municipal Corporations					
Item	2019-20 (Accounts)	2020-21 (Accounts)	2021-2022 (Accounts)	2022-23 (RE)	2023-24 (BE)
Revenue Receipts	1,11,308	1,11,891 (0.5)	1,37,058 (22.5)	1,42,178 (3.7)	1,70,722 (20.1)
Revenue Expenditure	1,06,394	1,10,857 (4.2)	1,23,201 (11.1)	1,31,608 (6.8)	1,49,903 (13.9)
Revenue Surplus (+) / Deficit (-) (Receipts - Expenditure)	4,914	1,034	13,857	10,570	20,819
b. Top 10 Municipal Corporations					
Item	2019-20 (Accounts)	2020-21 (Accounts)	2021-2022 (Accounts)	2022-23 (RE)	2023-24 (BE)
Revenue Receipts	65,177 [58.6]	65,146 [58.2]	82,003 [59.8]	82,102 [57.7]	98,508 [57.7]
Revenue Expenditure	61,681 [58.0]	63,647 [57.4]	72,726 [59.0]	74,988 [57.0]	82,950 [55.3]
Revenue Surplus (+) / Deficit (-) (Receipts - Expenditure)	3,496	1,499	9,277	7,114	15,558

Note: 1. Figures in parentheses represent the growth rate.
2. Figures in square brackets represent the shares of the top 10 MCs in all MCs.
3. RE – Revised Estimates; and BE – Budget Estimates.
4. All MCs consist of 232 MCs.

Source: Municipal Corporations; and RBI staff estimates.

II.4 The surplus in 2023-24 was budgeted at above ₹1,000 crore in States like Maharashtra, Gujarat, Karnataka, Madhya Pradesh, Haryana, and Telangana, led by Maharashtra (₹11,104 crore). The surplus in MCs in Delhi, Andhra Pradesh, Rajasthan, Odisha, West Bengal, and Tamil Nadu was placed in the range of ₹100 crore (Tamil Nadu) to ₹687 crore (Delhi). In contrast, MCs in Tripura, Jharkhand, Himachal Pradesh, Bihar, Chhattisgarh, Jammu and Kashmir, Uttar Pradesh, and Kerala budgeted for a revenue deficit in the range of (-) ₹2 crore (Tripura) to (-) ₹789 crore (Kerala) for 2023-24 (Table II.2).

II.5 The revenues of the MCs relative to those of their respective State governments differ widely; the ratio is the highest in Delhi [34.5 per cent in 2023-24 (BE)] followed by Maharashtra (14.1 per cent), and Gujarat (7.8 per cent) [Table II.3]. Aggregate revenue receipts of MCs were 6.3 per cent of the Central government's revenue receipts [2023-24 (BE)].

II.6 The revenue receipts of MCs, including own tax revenue, own non-tax revenue, and transfers, amounted to 0.6 per cent of GDP in 2023-24 (the same as in 2019-20) [Table II.4a]. Tax revenues are the largest source of revenue of the MCs (30.0

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Table II.2: State-wise Municipal Corporations' Revenue Receipts and Expenditure

(₹ crore)

State/UT	2021-22 (Accounts)			2022-23 (RE)			2023-24 (BE)		
	Revenue Receipts	Revenue Expenditure	Revenue Surplus (+)/ Deficit (-)	Revenue Receipts	Revenue Expenditure	Revenue Surplus (+)/ Deficit (-)	Revenue Receipts	Revenue Expenditure	Revenue Surplus (+)/ Deficit (-)
Andhra Pradesh	2,539	1,951	587	2,808	2,265	543	4,334	3,732	603
Arunachal Pradesh	108	16	92	NA	NA	NA	NA	NA	NA
Assam	372	219	153	NA	NA	NA	NA	NA	NA
Bihar	1,224	1,110	114	1,301	1,260	42	2,114	2,418	-304
Chhattisgarh	1,459	1,410	49	1,538	1,571	-33	1,775	2,184	-408
Delhi	14,127	15,079	-952	20,678	21,116	-438	21,634	20,947	687
Goa	56	43	13	51	49	3	76	72	5
Gujarat	10,976	10,119	857	11,989	11,616	373	16,290	13,187	3,104
Haryana	2,723	2,280	443	3,643	2,681	963	5,380	3,616	1,763
Himachal Pradesh	69	146	-77	76	155	-79	132	309	-176
Jammu and Kashmir	199	159	39	31	519	-488	33	459	-425
Jharkhand	478	544	-66	634	671	-36	535	711	-175
Karnataka	3,164	9,546	-6,382	5,509	5,016	492	9,905	7,962	1,942
Kerala	1,732	1,575	156	1,905	1,419	486	2,423	3,212	-789
Madhya Pradesh	5,311	4,832	478	5,504	5,234	270	8,456	6,690	1,766
Maharashtra	65,323	46,022	19,301	55,370	47,413	7,956	63,371	52,266	11,104
Manipur	12	12	0	NA	NA	NA	NA	NA	NA
Mizoram	43	43	0	45	46	0	97	54	43
Odisha	831	1,007	-176	854	835	19	1,267	1,061	206
Punjab	2,148	2,136	13	2,116	2,300	-184	2,322	2,301	21
Rajasthan	1,627	1,494	133	2,466	2,180	285	2,972	2,379	592
Sikkim	25	13	12	27	20	7	31	24	7
Tamil Nadu	6,365	7,846	-1,481	7,729	8,465	-736	8,834	8,734	100
Telangana	4,037	3,542	495	4,573	3,742	831	4,762	3,269	1,494
Tripura	283	307	-24	240	241	-1	264	265	-2
Uttar Pradesh	5,930	5,742	188	7,095	6,796	299	7,437	7,963	-526
Uttarakhand	458	458	0	491	468	24	568	552	16
West Bengal	5,441	5,548	-107	5,502	5,531	-29	5,711	5,538	173
All India	1,37,058	1,23,201	13,857	1,42,178	1,31,608	10,570	1,70,722	1,49,903	20,819

Note: NA – Not available; RE – Revised Estimates; and BE – Budget Estimates.

Source: Municipal Corporations; and RBI staff estimates.

Table II.3: Ratio of Municipal Corporations' Revenue Receipts to State Government's Revenue Receipts

(Per cent)

State/UT	2019-20 (Accounts)	2020-21 (Accounts)	2021-22 (Accounts)	2022-23 (RE)	2023-24 (BE)
Andhra Pradesh	1.6	2.0	1.7	1.6	2.1
Arunachal Pradesh	0.1	0.1	0.5	NA	NA
Assam	0.3	0.2	0.5	NA	NA
Bihar	0.6	0.6	0.8	0.6	1.0
Chhattisgarh	2.6	2.3	1.8	1.6	1.7
Delhi	31.7	31.7	28.6	32.9	34.5
Goa	0.4	0.4	0.4	0.3	0.4
Gujarat	6.4	7.4	6.6	6.1	7.8
Haryana	3.3	2.4	3.5	3.8	4.9
Himachal Pradesh	0.3	0.3	0.2	0.2	0.3
Jammu and Kashmir	0.3	0.3	0.3	0.0	0.0
Jharkhand	0.7	0.7	0.7	0.8	0.5
Karnataka	2.9	3.1	1.6	2.6	4.2
Kerala	1.3	1.8	1.5	1.5	1.8
Madhya Pradesh	3.3	3.4	2.9	2.7	3.7
Maharashtra	15.9	15.0	19.6	12.8	14.1
Manipur	0.1	0.1	0.1	NA	NA
Mizoram	0.4	0.5	0.5	0.4	0.8
Odisha	0.6	0.7	0.5	0.5	0.7
Punjab	3.1	2.8	2.7	2.3	2.3
Rajasthan	0.9	0.9	0.9	1.1	1.3
Sikkim	0.3	0.4	0.4	0.3	0.3
Tamil Nadu	3.4	3.6	3.1	3.1	3.3
Telangana	3.5	2.9	3.2	2.6	2.2
Tripura	1.2	0.9	1.6	1.1	1.2
Uttar Pradesh	1.3	1.8	1.6	1.5	1.3
Uttarakhand	1.4	1.3	1.1	0.9	1.0
West Bengal	3.5	4.0	3.1	2.8	2.7
All India	4.2	4.3	4.2	3.6	4.0

Note: NA – Not available; RE – Revised Estimates; and BE – Budget Estimates.

Source: Municipal Corporations; and RBI staff estimates.

Table II.4: Revenue Receipts

(₹ crore)

a. All Municipal Corporations					
Item	2019-20 (Accounts)	2020-21 (Accounts)	2021-22 (Accounts)	2022-23 (RE)	2023-24 (BE)
Revenue Receipts (I+II+III)	1,11,308 (0.6)	1,11,891 (0.6)	1,37,058 (0.6)	1,42,178 (0.5)	1,70,722 (0.6)
I. Own Tax Revenue	30,371 (0.2)	32,301 (0.2)	34,358 (0.1)	42,090 (0.2)	51,237 (0.2)
<i>Of which: Property Tax</i>	18,389	19,812	18,387	26,054	32,450
<i>Of which: Water Tax</i>	3,756	4,130	4,419	4,499	5,759
II. Own Non-Tax Revenue	35,324 (0.2)	29,472 (0.1)	49,840 (0.2)	42,754 (0.2)	54,503 (0.2)
<i>Of which: Fees and User Charges</i>	20,867	16,856	37,378	26,908	34,426
<i>Of which: Income from Investment</i>	5,341	3,322	3,284	3,777	4,596
III. Transfers	45,613 (0.2)	50,118 (0.2)	52,860 (0.2)	57,333 (0.2)	64,982 (0.2)
b. Top 10 Municipal Corporations					
Item	2019-20 (Accounts)	2020-21 (Accounts)	2021-22 (Accounts)	2022-23 (RE)	2023-24 (BE)
Revenue Receipts (I+II+III)	65,177	65,146	82,003	82,102	98,508
I. Own Tax Revenue	19,450	20,228	20,683	26,284	32,233
<i>Of which: Property Tax</i>	11,753	12,156	9,942	16,730	20,595
<i>Of which: Water Tax</i>	2,532	2,847	3,031	2,690	3,542
II. Own Non-Tax Revenue	22,245	18,299	34,436	26,454	32,839
<i>Of which: Fees and User Charges</i>	12,850	10,169	27,035	16,481	21,072
<i>Of which: Income from Investment</i>	3,502	1,793	1,933	2,206	2,973
III. Transfers	23,481	26,619	26,884	29,364	33,435

Note: 1. Figures in parentheses are percentage of GDP.
 2. RE - Revised Estimates; and BE - Budget Estimates.
 3. All MCs consist of 232 MCs.

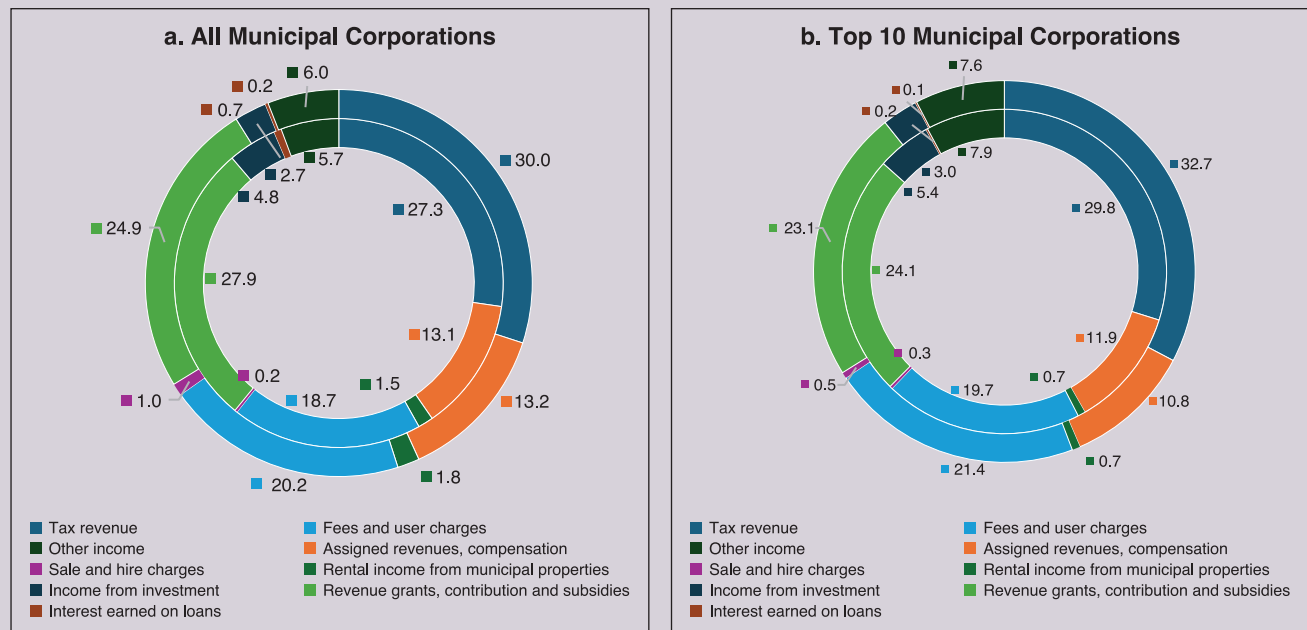
Source: Municipal Corporations.

per cent of the total revenue receipts) followed by revenue grants, contributions, and subsidies (24.9 per cent) and fees and user charges (20.2 per cent). The other major revenue sources include assigned revenues, compensation, and

rental income from municipal properties (Table II.4 and Chart II.1a). The revenue receipt pattern of the top 10 municipal corporations is largely the same (Chart II.1b).

Chart II.1: Components of Revenue Receipts

(Per cent)



Note: The inner circle represents 2019-20 while the outer circle represents 2023-24 (BE).
Source: Municipal Corporations.

II.7 The ratio of MCs’ tax and non-tax revenue to the respective State government’s tax and non-tax revenue varied across States, indicating a vertical imbalance. The MCs in Delhi and Maharashtra have higher ratios in both tax and non-tax revenue, while those in Sikkim and Tripura are lower. Mizoram, and Jammu and Kashmir, on the other hand, have lower non-tax revenue shares (Table II.5). MCs’ tax and non-tax revenues were 2.2 per cent and 13.6 per cent of the Central government’s tax and non-tax revenue, respectively, in 2023-24 (BE).²

2.1 Own Tax Revenue

II.8 Own tax revenue, inclusive of property tax, water tax, electricity tax, education tax, and other local taxes, constituted 30.0 per

cent of total revenue during 2023-24 (BE), with significant variations across States (Chart II.2). The ratio was the highest in Karnataka (53.8 per cent), followed by Telangana (50.3 per cent), Tamil Nadu (44.3 per cent) and Jharkhand (44.0 per cent).

II.9 Property taxes are a major source of own tax revenue of the MCs in India, constituting more than 16 per cent of revenue receipts and more than 60 per cent of their own tax revenue (Charts II.3a and II.3b). Wide variation is, however, observed in the relative importance of property tax revenues across MCs which can be attributed, *inter alia*, to differences in tax rates, collection efficiency, and the overall economic environment of each State (Chapter 3).

² Data for Central government’s tax and non-tax revenue for 2023-24 are based on provisional accounts.

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Table II.5: Ratio of Municipal Corporations' Tax and Non-Tax Revenue to State Government's Tax and Non-Tax Revenue

(Per cent)

State/UT	Tax Revenue					Non-Tax Revenue				
	2019-20 (Accounts)	2020-21 (Accounts)	2021-22 (Accounts)	2022-23 (RE)	2023-24 (BE)	2019-20 (Accounts)	2020-21 (Accounts)	2021-22 (Accounts)	2022-23 (RE)	2023-24 (BE)
Andhra Pradesh	0.9	1.0	0.9	1.0	1.2	3.0	2.5	2.3	2.3	2.9
Arunachal Pradesh	NA	NA	NA	NA	NA	0.1	0.0	0.1	NA	NA
Assam	0.2	0.2	0.2	NA	NA	0.0	0.0	0.0	NA	NA
Bihar	0.2	0.2	0.2	0.2	0.3	0.2	0.1	0.2	0.2	0.4
Chhattisgarh	0.7	0.9	0.7	0.7	0.8	1.1	0.7	1.2	1.2	1.3
Delhi	8.3	9.2	9.0	12.0	12.3	48.1	34.1	47.4	50.5	82.4
Goa	0.3	0.3	0.3	0.3	0.3	0.5	0.4	0.5	0.3	0.5
Gujarat	3.2	3.3	2.9	2.7	3.4	6.2	8.1	8.5	12.0	18.0
Haryana	1.0	1.0	0.7	0.9	1.5	3.3	1.8	5.4	4.3	9.4
Himachal Pradesh	0.2	0.2	0.1	0.1	0.2	0.2	0.1	0.1	0.2	0.4
Jammu and Kashmir	NA	NA	NA	NA	NA	0.0	0.0	0.1	0.0	0.0
Jharkhand	0.3	0.3	0.3	0.3	0.4	0.6	0.4	0.6	0.5	0.7
Karnataka	2.0	2.9	0.7	2.3	2.5	4.3	2.6	3.2	2.7	11.6
Kerala	0.5	0.7	0.6	0.6	0.6	0.8	0.4	0.4	0.5	0.8
Madhya Pradesh	1.2	1.3	1.0	1.0	1.7	1.7	1.8	1.9	1.7	2.2
Maharashtra	4.9	5.3	5.2	4.0	4.3	27.0	16.2	50.6	19.1	24.8
Manipur	0.0	0.0	0.0	NA	NA	0.1	0.1	0.1	NA	NA
Mizoram	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.4	0.3	0.1
Odisha	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.2	0.2	0.3
Punjab	2.0	2.1	1.8	1.4	1.2	2.1	1.3	2.0	1.7	1.5
Rajasthan	0.1	0.1	0.1	0.1	0.1	0.5	0.5	0.7	1.2	2.0
Sikkim	0.0	0.0	0.0	0.0	0.0	0.5	0.2	0.3	0.2	0.2
Tamil Nadu	1.5	1.5	1.4	1.9	1.8	3.9	3.2	3.5	2.5	3.5
Telangana	2.2	2.2	1.9	1.7	1.6	7.2	3.6	9.1	4.4	3.0
Tripura	0.2	0.2	0.2	0.1	0.1	1.5	0.9	1.2	1.0	1.1
Uttar Pradesh	0.4	0.5	0.4	0.4	0.4	0.3	0.4	0.7	0.5	0.7
Uttarakhand	0.3	0.3	0.2	0.2	0.3	0.3	0.3	0.2	0.2	0.3
West Bengal	0.8	1.2	0.7	0.7	0.6	9.2	8.2	7.6	7.2	7.0
All India	1.6	1.8	1.5	1.5	1.6	4.4	3.6	5.7	3.7	4.7

Note: NA – Not available; RE - Revised Estimates; and BE - Budget Estimates.

Source: Municipal Corporations; and RBI staff estimates.

II.10 Between 2019-20 and 2023-24, the share of property taxes in revenue receipts increased in States such as Himachal Pradesh (38 percentage

points), Karnataka (28 percentage points), Andhra Pradesh (14 percentage points), and Bihar (13 percentage points). In Uttar Pradesh the

Chart II.2: Municipal Corporations' Own Tax Revenue in 2023-24 (BE)



Note: BE – Budget Estimates.
Source: Municipal Corporations.

share was unchanged over the same period while it declined in Tripura by two percentage points (Chart II.4).

2.2 Own Non-Tax Revenue

II.11 Non-tax revenue, which accounted for around 32 per cent of total revenue receipts

Chart II.3a: Share of Property Taxes in Revenue Receipts in 2023-24 (BE) [Per cent]

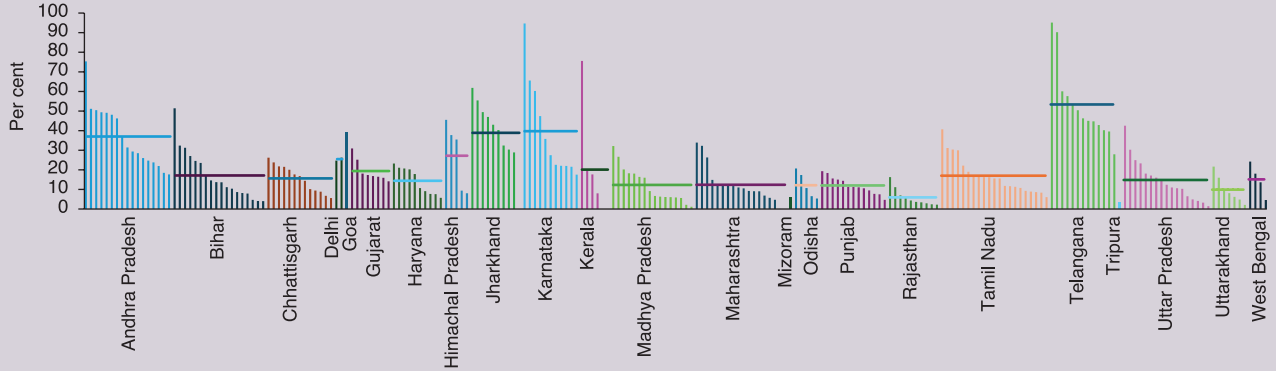
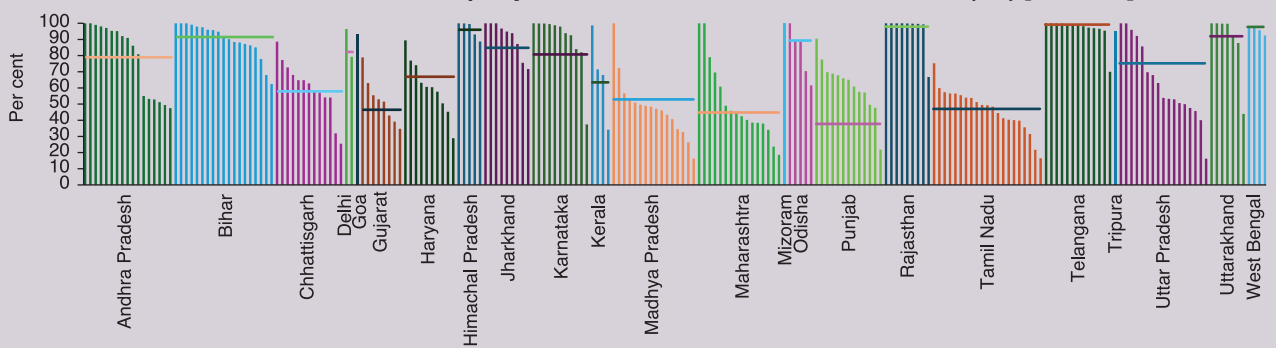
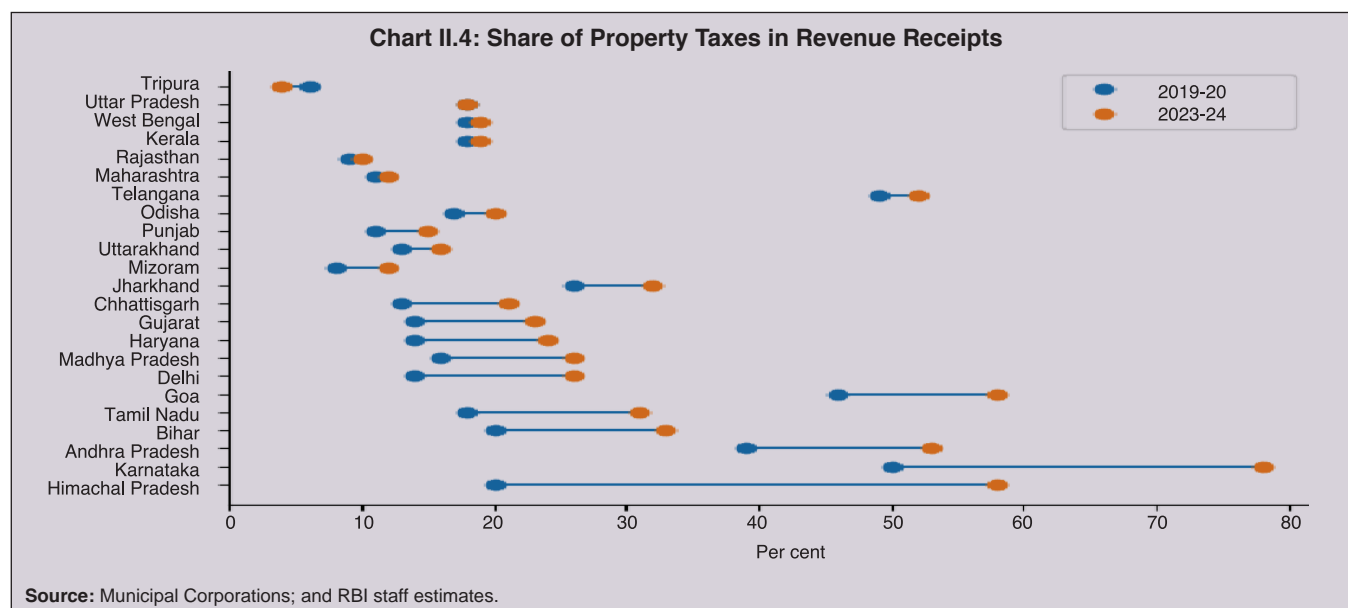


Chart II.3b: Share of Property Taxes in Own Tax Revenue in 2023-24 (BE) [Per cent]



Note: 1. Each bar in the chart corresponds to a municipal corporation located within a particular State.
2. Horizontal lines are State-wise averages.
Source: Municipal Corporations.

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of MCs during 2023-24 (BE), is dominated by fees and user charges, followed by income from investment and other income (Table II.6a). Non-

tax revenue of the top 10 MCs accounted for 33.3 per cent of their revenue receipts during the same period (Table II.6b).

Table II.6: Municipal Corporations' Non-Tax Revenue

(₹ crore)

a. All Municipal Corporations					
Item	2019-20 (Accounts)	2020-21 (Accounts)	2021-22 (Accounts)	2022-23 (RE)	2023-24 (BE)
Own Non-Tax Revenue (I-VI)	35,324	29,472	49,840	42,754	54,503
	(0.2)	(0.1)	(0.2)	(0.2)	(0.2)
I. Rental Income from Municipal Properties	1,666	1,523	1,839	2,179	3,146
II. Fees and User Charges	20,867	16,856	37,378	26,908	34,426
III. Sale and Hire Charges	274	529	508	876	1,738
IV. Income from Investment	5,341	3,322	3,284	3,777	4,596
V. Interest Earned on Loans	822	671	465	383	410
VI. Other Income	6,354	6,570	6,366	8,630	10,186
b. Top 10 Municipal Corporations					
Item	2019-20 (Accounts)	2020-21 (Accounts)	2021-22 (Accounts)	2022-23 (RE)	2023-24 (BE)
Own Non-Tax Revenue (I-VI)	22,245	18,299	34,436	26,454	32,839
I. Rental Income from Municipal Properties	485	368	469	492	675
II. Fees and User Charges	12,850	10,169	27,035	16,481	21,072
III. Sale and Hire Charges	175	366	221	400	506
IV. Income from Investment	3,502	1,793	1,933	2,206	2,973
V. Interest Earned on Loans	109	186	172	125	123
VI. Other Income	5,125	5,416	4,605	6,750	7,491

Note: 1. Figures in parentheses are percentage of GDP.
 2. RE - Revised Estimates; and BE - Budget Estimates.
 3. All MCs consist of 232 MCs.

Source: Municipal Corporations.

Table II.7: Grants to Urban Local Bodies from the Central and State Governments

(₹ crore)

Grants	2019-20 (Accounts)	2020-21 (Accounts)	2021-22 (Accounts)	2022-23 (RE)
Total Grants from the Central Government to the MCs[®]	13,881	14,316	11,795	14,731
Finance Commission Grants as Reported by the Municipal Corporations	5,386 (21.5)	7,099 (26.6)	6,076 (37.6)	7,067 (39.7)
Grants from Central Government other than Finance Commission Grants	8,495	7,216	5,719	7,664
Total Grants from the State Governments to the MCs[®]	32,148	33,548	34,772	41,872
State Finance Commission Grants as Reported by the Municipal Corporations	6,861	7,168	6,592	8,605
Grants from the State Governments other than State Finance Commission Grants	25,287	26,380	28,180	33,267
Memo Item				
Finance Commission Grants to ULBs as reported in the Union Budget	25,098	26,710	16,147	17,779 [*]

Note: 1. RE - Revised Estimates.
2. Figures in parentheses represent the shares of MCs in the Finance Commission grants to the ULBs.
3. [®] - Data as reported by 232 MCs.
4. ^{*} - Data for 2022-23 are Actuals.

Source: Union Budget 2021-22 to 2024-25, Government of India; Municipal Corporations; and RBI staff estimates.

2.3 Transfers

II.12 The total grants from the Central government and the State governments to the MCs increased by 24.9 per cent and 20.4 per cent, respectively, in 2022-23 [Table II.7].

II.13 Transfers from the State governments in the form of assigned revenues, compensation, State Finance Commission (SFC) grants and

other State government grants were range bound at 30 per cent of revenue receipts of the MCs during 2019-20 to 2022-23 and were budgeted at 28.7 per cent in 2023-24 (BE). Transfers from the Central government accounted for 2.5 per cent of the total revenue receipts of the MCs during the recent years (Table II.8).

Table II.8: Municipal Corporations' Finances – Key Ratios

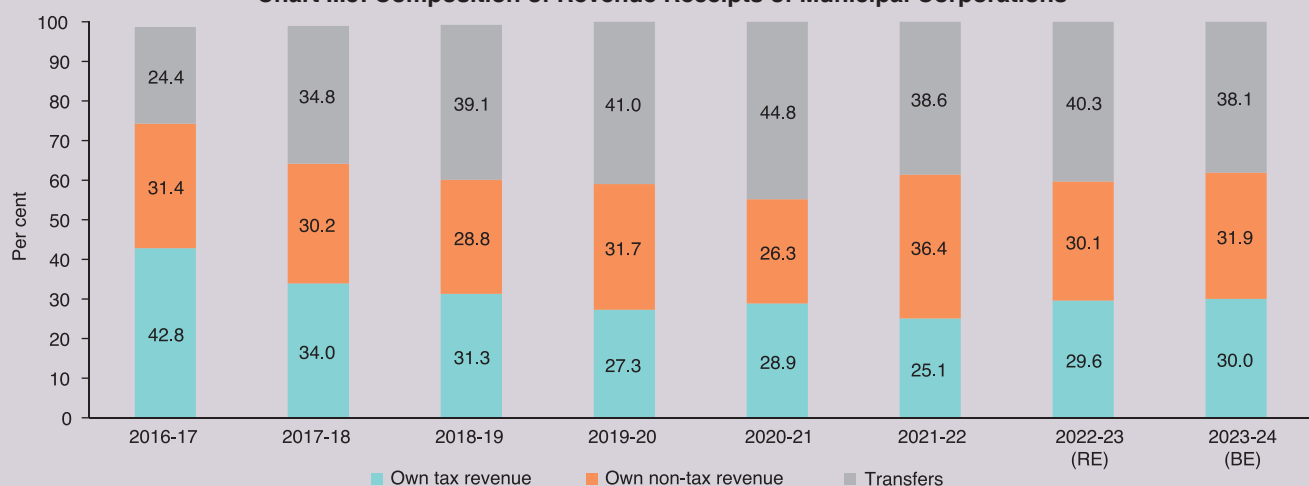
(Per cent)

Ratio	2019-20 (Accounts)	2020-21 (Accounts)	2021-22 (Accounts)	2022-23 (RE)	2023-24 (BE)
Own Revenue / Total Revenue Receipts	59.0	55.2	61.4	59.7	61.9
Tax Revenue / Total Revenue Receipts	27.3	28.9	25.1	29.6	30.0
Property Tax Collection / Total Revenue Receipts	16.5	17.7	13.4	18.3	19.0
States' Transfer / Total Revenue Receipts	30.3	30.2	27.0	30.0	28.7
Central Government's Transfer / Total Revenue Receipts	2.7	3.6	2.7	2.5	2.5
Combined (Centre <i>plus</i> States) Transfer / Total Revenue Receipts	33.0	33.8	29.7	32.5	31.3

Note: RE – Revised Estimates; and BE – Budget Estimates.

Source: Municipal Corporations; and RBI staff estimates.

Chart II.5: Composition of Revenue Receipts of Municipal Corporations



Note: 1. Data for 2016-17 to 2018-19 are based on 201 MCs while those for 2019-20 onwards are based on 232 MCs.
2. RE – Revised Estimates; and BE – Budget Estimates.
Source: Municipal Corporations.

II.14 Overall, in the post-GST period (2017-18 onwards), own tax revenue as a ratio of total revenue has come down for the MCs (Chart II.5). On the other hand, the share of transfers in total revenue has increased, indicating the rise in

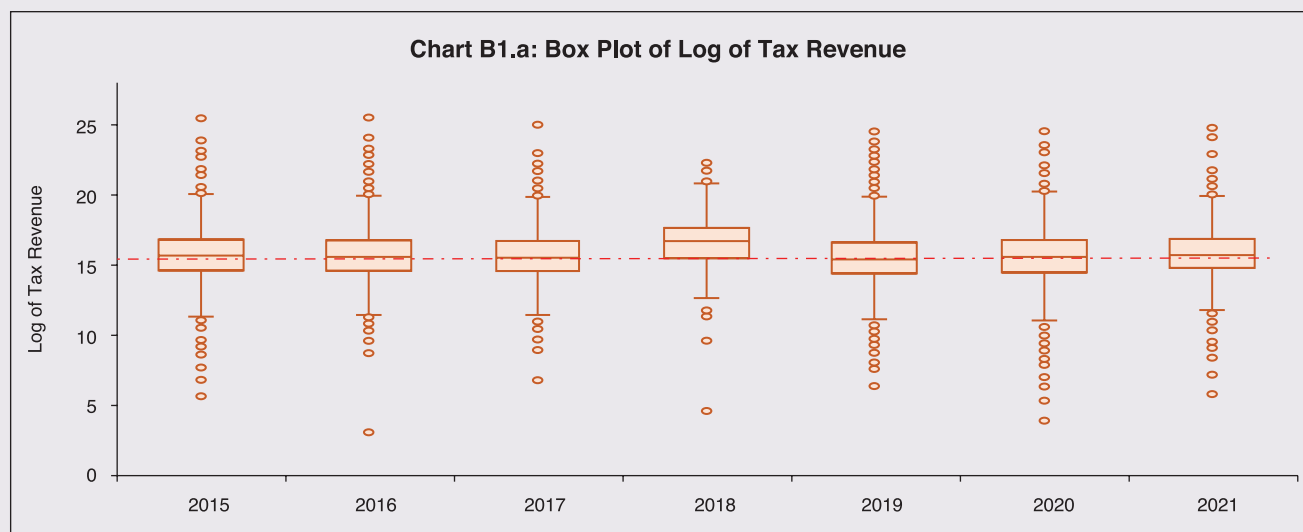
vertical dependence of the MCs on the upper tiers of the government (Box II.1). This is, however, not a reflection on the substantial gains that GST implementation has rendered to the economy.

Box II.1: Revenue Performance of ULBs Pre and Post GST

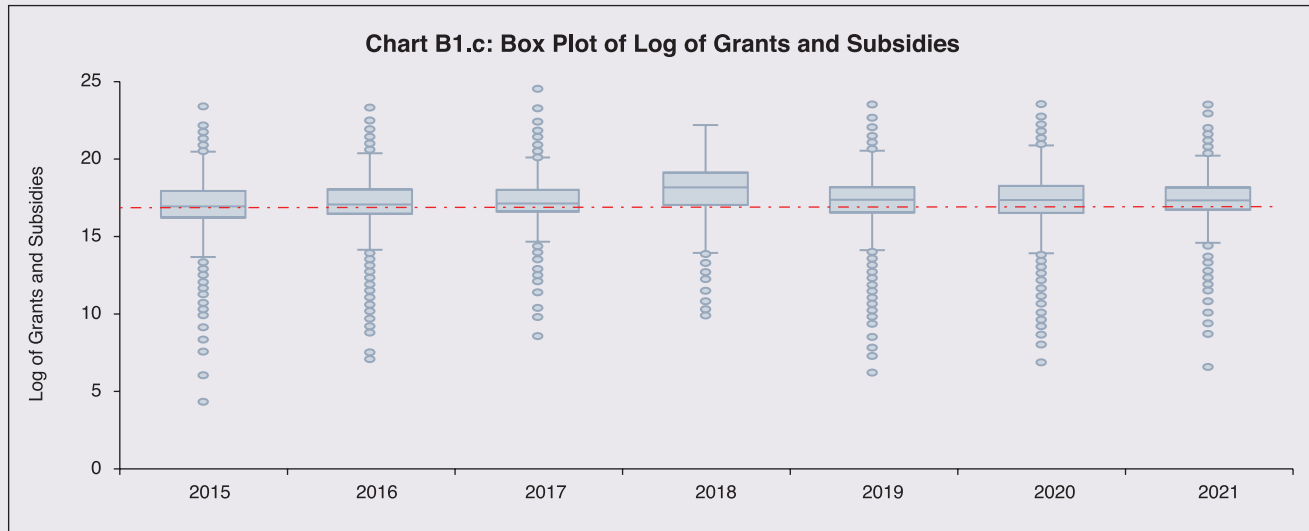
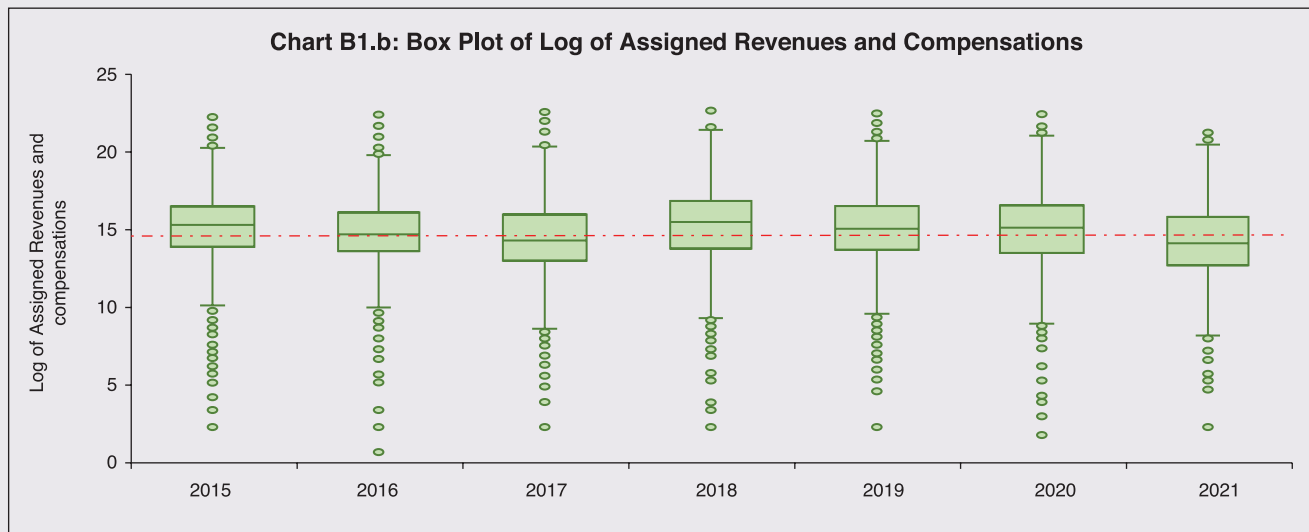
The implementation of the GST in India on July 1, 2017 revolutionised the country's indirect tax system by simplifying the tax structure and creating a unified market. The GST subsumed several municipal taxes

like entry tax, entertainment tax, and advertisement tax, impacting the own revenue sources of ULBs. Octroi, an entry tax, was a major tax subsumed in GST. While the GST Constitutional Amendment Act (2016)

Chart B1.a: Box Plot of Log of Tax Revenue



(Contd...)



Note: The red dashed lines are the corresponding median values in 2015.
Source: RBI staff estimates based on City Finance Data.

provides compensation for State governments, it does not mandate compensation for local governments, leaving it to State authorities' discretion. In the post-GST period, States have adopted divergent policies for compensating the MCs for octroi losses. For instance, Maharashtra announced compensation for octroi losses and Kerala for entertainment tax collections. In contrast, some States/UTs allowed local bodies to impose additional taxes – for example, on movie tickets in Bhopal and Chandigarh (Mankikar, 2018; and Riyas, 2024).

Tax revenues of the ULBs have remained around the median level of 2015 after implementation of the GST

(Chart B1.a). However, the ULBs have been compensated with an increase in revenue grants, contributions, and subsidies (Chart B1.b and B1.c).

References:

Mankikar, Sayali. (2018). The Impact of GST on Municipal Finances in India: A Case Study of Mumbai, *ORF Issue Brief*, Issue No. 257, 1-8.
 Riyas, Muhammed, M. P. (2024). Did the Implementation of GST Hurt Municipal Finances? *Economic and Political Weekly*, 59(1), 27-30.

3. Municipal Expenditure

II.15 The total expenditure (revenue and capital spending combined) of the MCs increased slightly from 1.2 per cent of GDP in 2019-20 to 1.3 per cent of GDP in 2023-24 (BE). The revenue expenditure/GDP ratio hovered around 0.5 per cent of GDP, while the capital expenditure/ GDP ratio increased from 0.7 per cent to 0.8 per cent during this period (Table II.9).

3.1 Revenue Expenditure

II.16 The share of revenue expenditure³ in total expenditure of the MCs has declined from 43.9 per cent in 2019-20 to 38.5 per cent in 2023-24 (BE) with concomitant increase in capital expenditure⁴ share from 56.1 to 61.5 per cent (Chart II.6a). Within revenue expenditure, the share of committed expenditure (establishment expenses, administrative expenses and interest

Table II.9: Expenditure of Municipal Corporations

(₹ crore)

a. All Municipal Corporations					
Item	2019-20 (Accounts)	2020-21 (Accounts)	2021-22 (Accounts)	2022-23 (RE)	2023-24 (BE)
Total Expenditure (I+II)	2,42,555 (1.2)	2,79,876 (1.4)	3,11,158 (1.3)	3,40,286 (1.3)	3,89,306 (1.3)
I Revenue Expenditure (A to H)	1,06,394 (0.5)	1,10,857 (0.5)	1,23,201 (0.5)	1,31,608 (0.5)	1,49,903 (0.5)
A Establishment Expenses	47,144	47,378	52,919	62,011	69,745
<i>Of which:</i>					
(i) Salary, Wages and Bonus	30,377	30,186	33,560	38,470	43,037
(ii) Pension	9,033	9,016	10,341	11,973	13,413
B Administrative Expenses	4,653	4,896	5,469	5,906	7,901
C Operational and Maintenance Expenses	21,371	23,797	26,487	30,028	36,520
D Interest and Finance Charges	3,806	3,934	4,800	5,595	5,675
E Programme Expenses	2,544	3,479	4,030	3,930	6,002
F Revenue Grants, Contributions and Subsidies	9,003	8,389	7,762	9,169	10,982
G Miscellaneous Expenses	1,455	1,444	1,410	1,575	2,089
H Others	16,417	17,539	20,323	13,394	10,990
II Capital Expenditure	1,36,162 (0.7)	1,69,020 (0.8)	1,87,958 (0.8)	2,08,678 (0.8)	2,39,403 (0.8)

(Contd...)

³ Revenue expenditure includes committed expenses such as establishment expenditure (salaries and pension expenses); administrative expenses (audit and legal fee, office maintenance expenses) and interest and finance charges; such expenditure is necessary for day-to-day operations but do not contribute to long-term asset creation.

⁴ Capital expenditure involves significant investments in long-term assets like land, building, parks and playgrounds, roads and bridges, public lighting, statues, and heritage assets.

b. Top 10 Municipal Corporations					
(₹ crore)					
Item	2019-20 (Accounts)	2020-21 (Accounts)	2021-22 (Accounts)	2022-23 (RE)	2023-24 (BE)
Total Expenditure (I+II)	1,05,330	1,39,770	1,62,607	1,77,012	1,90,431
I Revenue Expenditure (A to H)	61,681	63,647	72,726	74,988	82,950
A Establishment Expenses	29,050	28,865	32,460	38,939	42,806
<i>Of which:</i>					
(i) Salary, Wages and Bonus	16,695	16,296	18,108	21,300	22,923
(ii) Pension	6,089	5,867	6,786	7,775	8,573
B Administrative Expenses	1,998	2,221	2,881	2,849	3,709
C Operational and Maintenance Expenses	9,365	10,913	12,438	12,722	15,277
D Interest and Finance Charges	3,258	3,431	4,241	4,847	5,025
E Programme Expenses	1,152	1,543	1,604	1,768	2,713
F Revenue Grants, Contributions and Subsidies	5,779	5,344	4,756	5,935	6,143
G Miscellaneous Expenses	555	505	534	733	733
H Others	10,523	10,826	13,811	7,195	6,544
II Capital Expenditure	43,649	76,123	89,881	1,02,024	1,07,481

Note: 1. Figures in parentheses are percentage of GDP.
2. RE – Revised Estimates; and BE – Budget Estimates.
Source: Municipal Corporations; and RBI staff estimates.

and finance charges) has moved in a range of 50.7 to 55.6 per cent during 2019-20 to 2023-24 (BE) [Chart II.6b].

II.17 In 2023-24, a large part of revenue receipts of MCs was budgeted to be derived from taxes, revenue grants, contributions, and subsidies and fees and user charges. On the outgoes side, establishment expenses and operational and maintenance expenses accounted for a major part of the revenue expenditure (Chart II.7a and II.7b).

3.2 Capital Expenditure

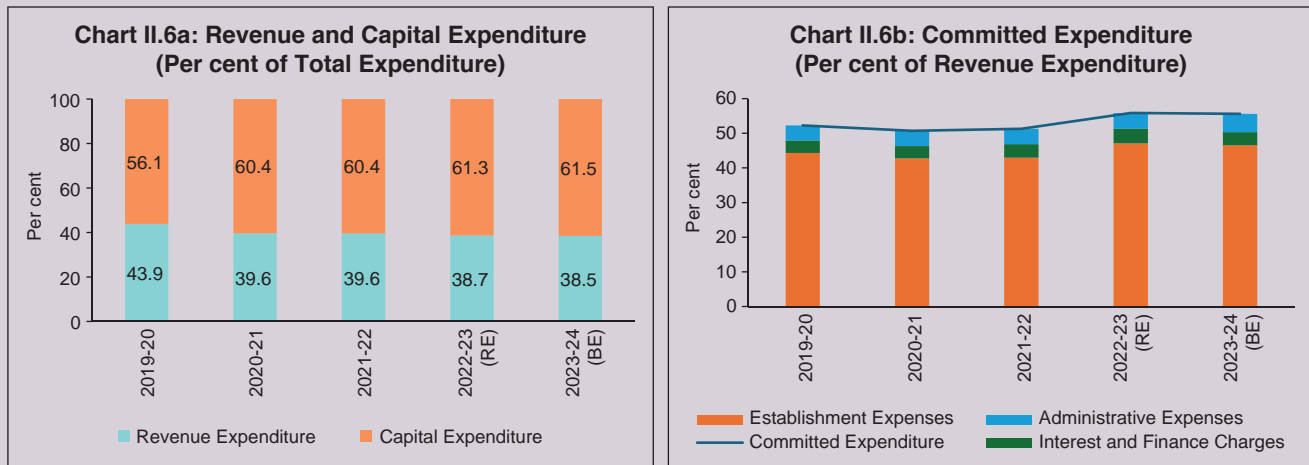
II.18 The primary areas of capital expenditure of the MCs are fixed assets and capital work-in-progress (Table II.10).

II.19 The proportion of capital expenditure in total expenditure for the MCs was 61.5 per cent in 2023-24 (BE) as compared with 24.8 per cent and 21.4 per cent for State governments and the Central government, respectively [2023-24 (BE)]. It may, however, be noted that total expenditure of MCs is modest relative to State governments and the Central government. In 2023-24, total expenditure of MCs was 1.3 per cent of GDP as compared with 16.3 per cent for the State governments and 15.1 per cent for the Central government.

II.20 The ratio of capital expenditure to total expenditure for MCs has large inter-state variations, with the shares in Jharkhand, Uttar

Fiscal Position of Municipal Corporations

Chart II.6: Composition of Expenditure of Municipal Corporations

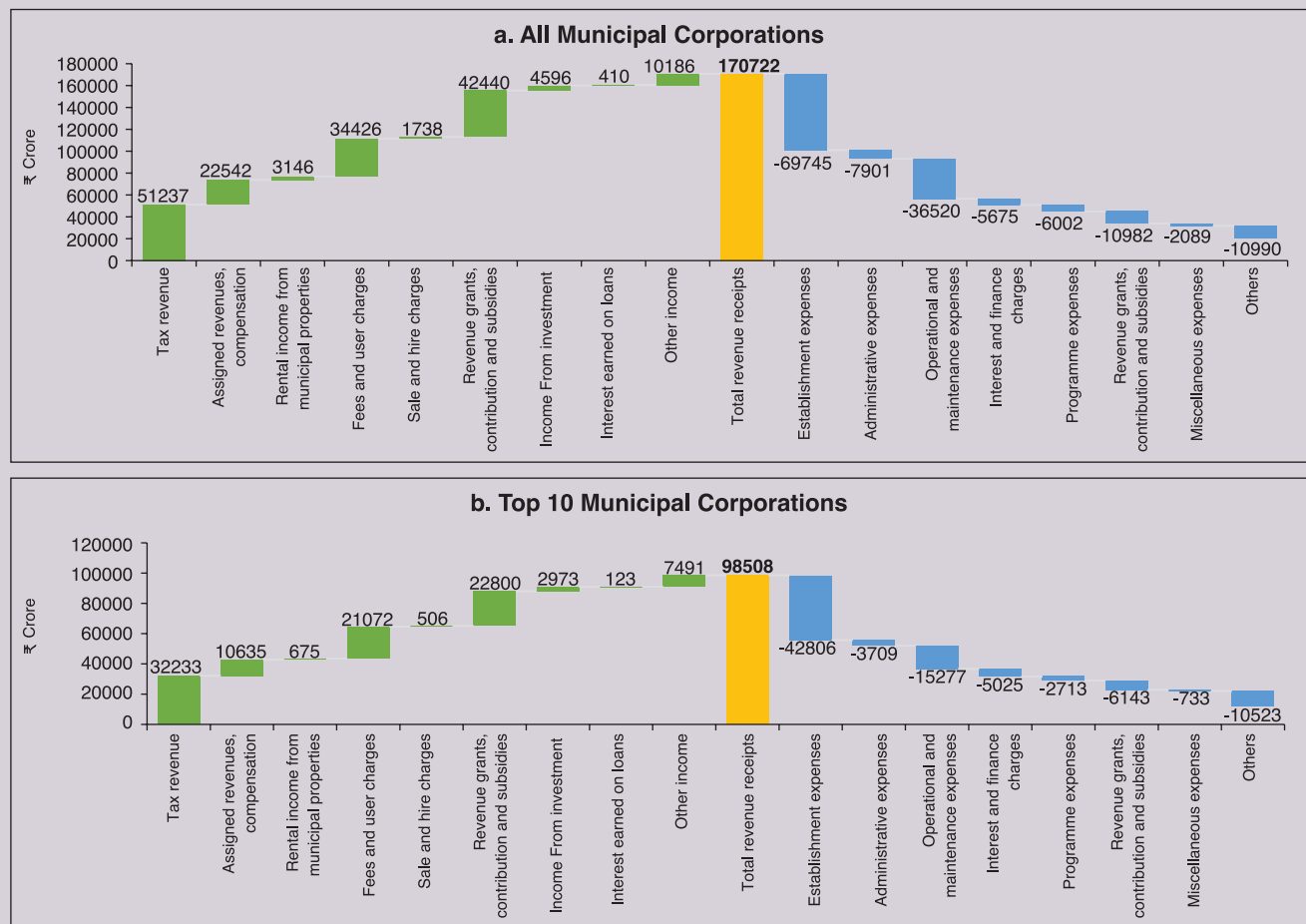


Note: 1. RE – Revised Estimates; and BE – Budget Estimates.

2. Committed expenditure is the sum of establishment expenses, administrative expenses and interest and finance charges.

Source: Municipal Corporations.

Chart II.7: Inflow and Outflow of Revenue during 2023-24 (BE)



Note: BE – Budget Estimates.

Source: Municipal Corporations.

Table II.10: Municipal Corporations' Capital Expenditure Components

(₹ crore)

a. All Municipal Corporations					
Item	2019-20 (Accounts)	2020-21 (Accounts)	2021-22 (Accounts)	2022-23 (RE)	2023-24 (BE)
Total Capital Expenditure (I-VII)	1,36,162 (0.7)	1,69,020 (0.8)	1,87,958 (0.8)	2,08,678 (0.8)	2,39,403 (0.8)
I. Fixed Assets	97,044	1,32,759	1,45,194	1,43,511	1,53,084
II. Capital Work-in-progress	16,189	13,051	18,398	37,927	55,720
III. Investments - General Fund	7,857	9,044	10,141	10,964	11,197
IV. Investments - Other Funds	2,980	1,362	1,486	2,125	3,496
V. Stock-in-hand	714	552	955	705	855
VI. Loans, Advances and Deposits	3,717	4,405	2,821	3,966	3,942
VII. Other Assets	7,358	7,060	8,236	9,479	11,091
b. Top 10 Municipal Corporations					
Item	2019-20 (Accounts)	2020-21 (Accounts)	2021-22 (Accounts)	2022-23 (RE)	2023-24 (BE)
Total Capital Expenditure (I-VII)	43,649	76,123	89,881	1,02,024	1,07,481
I. Fixed Assets	28,386	61,321	71,066	63,296	55,388
II. Capital Work-in-progress	8,540	5,319	8,157	26,392	40,018
III. Investments - General Fund	1,133	1,519	3,631	3,589	3,707
IV. Investments - Other Funds	0	0	0	0	0
V. Stock-in-hand	532	426	611	490	640
VI. Loans, Advances and Deposits	1,353	2,408	994	1,842	1,102
VII. Other Assets	3,404	4,346	4,697	6,416	6,627

Note: 1. Figures in parentheses are percentage of GDP.
2. RE – Revised Estimates; and BE – Budget Estimates.

Source: Municipal Corporations; and RBI staff estimates.

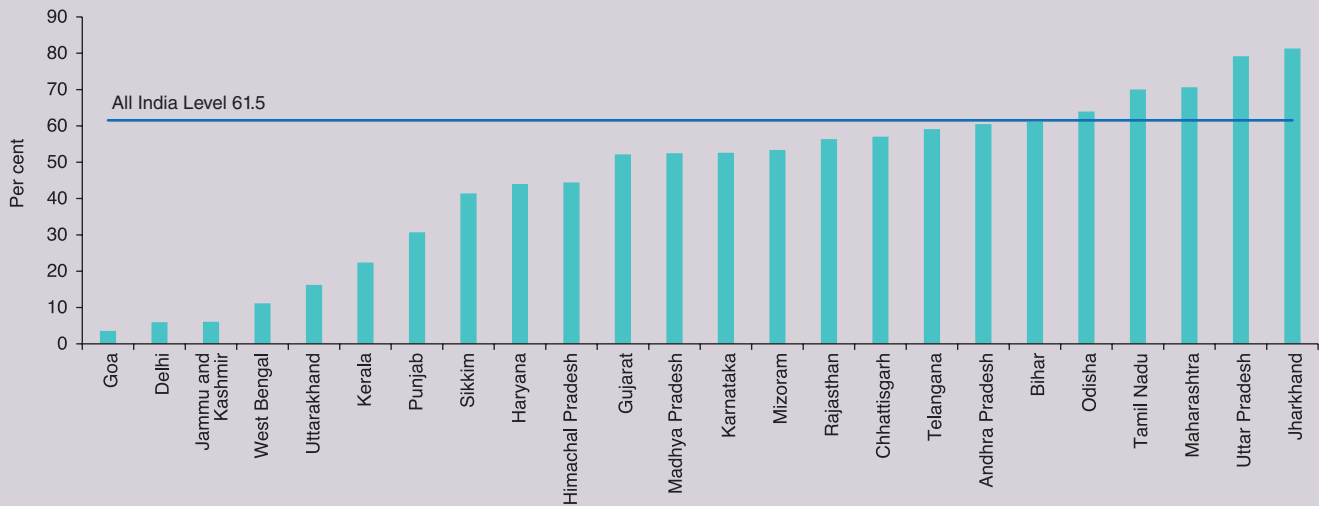
Pradesh, Maharashtra, Tamil Nadu, Odisha, Bihar, Andhra Pradesh and Telangana being more than 50 per cent in 2023-24 (BE) [Chart II.8].

II.21 The ratio of revenue expenditure to capital expenditure, a summary indicator of

the quality of government expenditure, was 0.63 for the MCs in 2023-24 (BE) as against 3.7 for the Centre and 3.0 for the States [Chart II.9].

Fiscal Position of Municipal Corporations

Chart II.8: Ratio of Capital Expenditure to Total Expenditure in 2023-24 (BE)



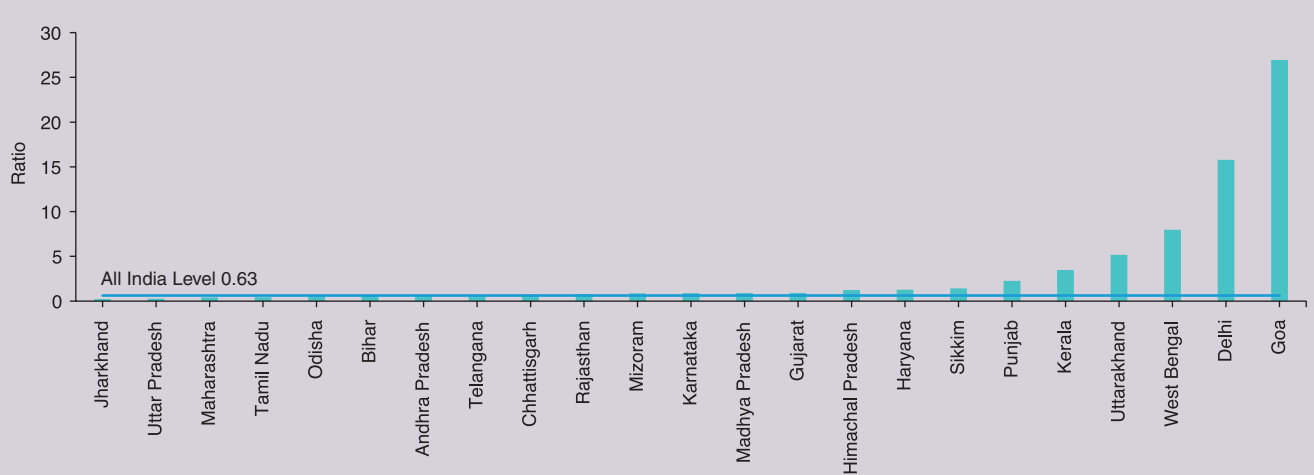
Note: BE – Budget Estimates.
Source: Municipal Corporations.

II.22 The all-India per capita capital expenditure by MCs was budgeted at ₹11,532 in 2023-24, an annual average growth of 10.5 per cent over ₹8,547 in 2020-21. The per capita capital spending of the MCs in Maharashtra, Uttar Pradesh and Tamil Nadu exceeded the all-India level during 2023-24 (Chart II.10).

4. Municipal Borrowings

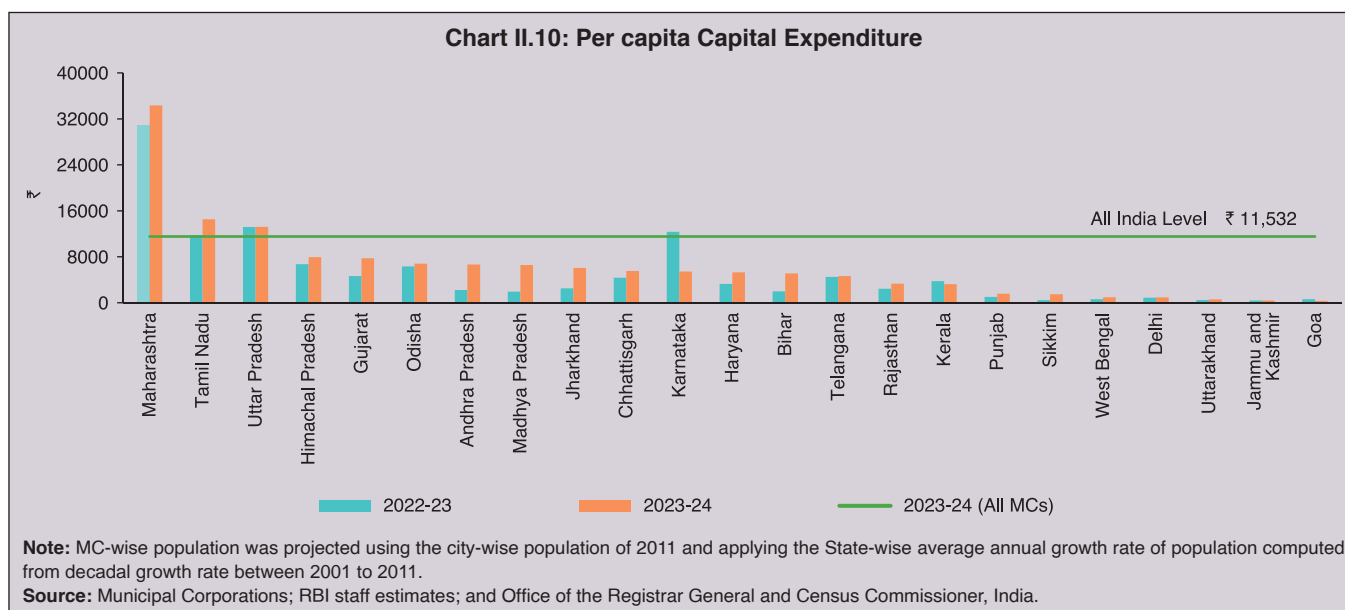
II.23 Borrowings by the MCs from the financial institutions (secured and unsecured) in India increased from ₹2,886 crore during 2019-20 to ₹13,364 crore during 2023-24 (BE) [Chart II.11a]. Borrowings from financial institutions accounted for 5.2 per cent of total municipal receipts in

Chart II.9: Ratio of Revenue Expenditure to Capital Expenditure in 2023-24 (BE)



Note: BE – Budget Estimates.
Source: Municipal Corporations.

Chart II.10: Per capita Capital Expenditure



2023-24 (BE) as compared with 1.9 per cent in 2019-20 (Chart II.11b). The MCs in Odisha and Telangana had higher shares at 14.4 per cent and 15.1 per cent, respectively, in these two years (Chart II.11c). Municipal borrowings remain negligible at less than 0.05 per cent of GDP for all the MCs (Chart II.11d). The highest level of per capita borrowings from financial institutions was observed in Odisha (₹1,258) in 2022-23 (RE) [Chart II.11e].

4.1 Municipal Bond Financing

II.24 The evolution of the municipal bond market in India can be categorised into three distinct phases (Gangamreddypalli, 2023). During the initial phase of development (1995 to 2005), the municipal bond market was supported by the United States Agency for

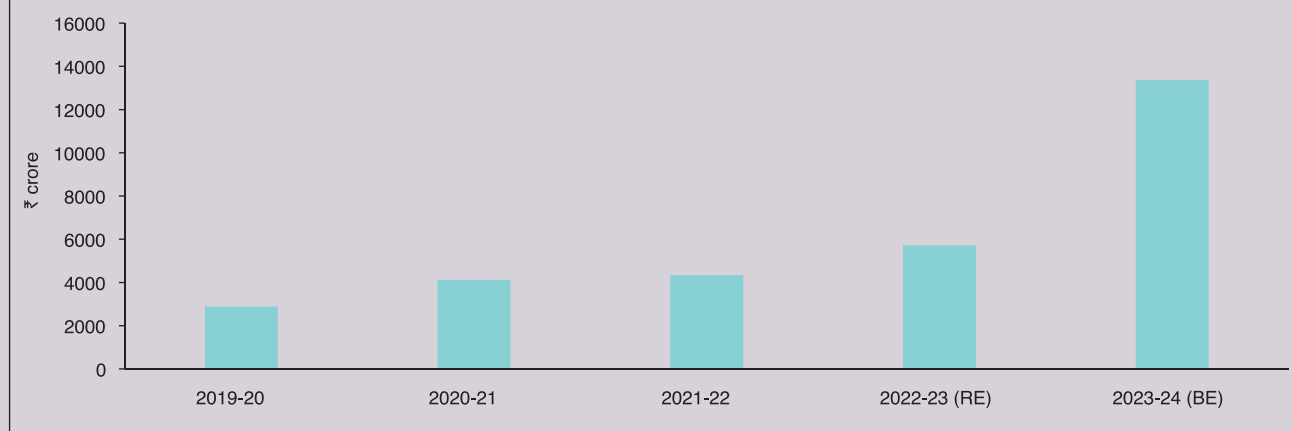
International Development’s (USAID) Financial Institutions Reform and Expansion - Debt (FIRE-D) project. Between 1995 and 2005, ten municipal corporations and other civic bodies raised a total of ₹1,325 crore. Bengaluru was the first to issue a bond worth ₹125 crore in 1997 (Chart II.12). Most of these bonds were tax-free and primarily financed road construction, water and sewerage projects. Bond issuances declined during 2006 to 2016, *inter alia*, due to the *Jawaharlal Nehru National Urban Renewal Mission* (JNNURM) grants, which offered ₹1 lakh crore to the qualifying corporations, thereby obviating the need for issuing municipal bonds (Gangamreddypalli, 2023).⁵

II.25 There was a pick up in municipal bond issuances during 2018-19, attributable to factors

⁵ Out of the total Central Government share of ₹66,085 crore for the period 2005-2012, ₹40,584 crore had been released under JNNURM, up to 2011-12 (Report No. 15, Performance Audit of Jawaharlal Nehru National Urban Renewal Mission, Ministry of Housing and Urban Poverty Alleviation, 2012-13, Comptroller and Auditor General of India, GoI).

Chart II.11: Municipal Corporations' Borrowings from Financial Institutions – Select Indicators

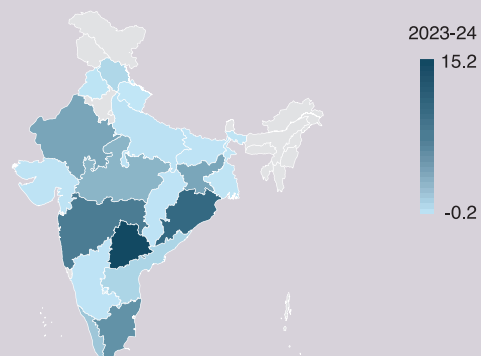
a. Recent Trend in Borrowings from Financial Institutions



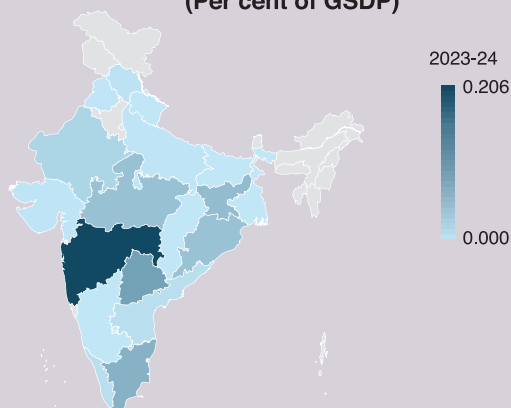
b. Borrowings from Financial Institutions (Per cent of Total Municipal Receipts)



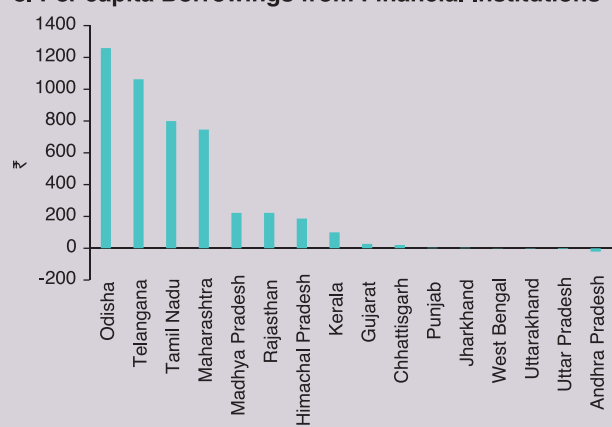
c. Borrowings from Financial Institutions (Per cent of Total Municipal Receipts)



d. Borrowings from Financial Institutions (Per cent of GSDP)



e. Per capita Borrowings from Financial Institutions*



- Note: 1. The maps are for illustrative purpose only.
- 2. Per capita borrowing data for Andhra Pradesh is negative on account of repayment of loans.
- 3. * Data pertaining to 2022-23 (RE).
- 4. RE – Revised Estimates; and BE – Budget Estimates.
- 5. Total receipts are the sum of revenue and capital receipts.

Source: Municipal Corporations; RBI staff estimates; and Office of the Registrar General and Census Commissioner, India.

Chart II.12: Municipal Bonds Issuances in India (as on April 30, 2024)



such as the regulatory framework on municipal bonds⁶ issued by the Securities and Exchange Board of India (SEBI) and the 2018 *Atal Mission for Rejuvenation and Urban Transformation* (AMRUT) scheme which offered grants for bond issuance.⁷ Bond activity dipped during 2020-22 due to the pandemic but has seen some recovery during 2023 and 2024. In 2023, the SEBI introduced the Information Database and Repository on Municipal Bonds to guide corporations on issue and listing of Municipal Debt Securities. Further, the National Stock Exchange (NSE) India Limited launched country's first Municipal Bond Index in 2023, tracking the performance of municipal bonds issued by 10 investment-grade rating corporations, with

a base value of the index equal to 1,000 for 2021. This initiative is likely to increase transparency in the municipal bond market and encourage investor participation.

II.26 Municipal bonds worth ₹4,204 crore were outstanding as on March 31, 2024 (0.01 per cent of GDP) as compared with ₹1,100 crore as on March 31, 2005 (0.03 per cent of GDP). All the bonds issued since 2016-17 are taxable, unlike the initial development phase. The coupon rates on municipal bonds have generally moved in tandem with those on Central government bonds in recent years (Chart II.13).

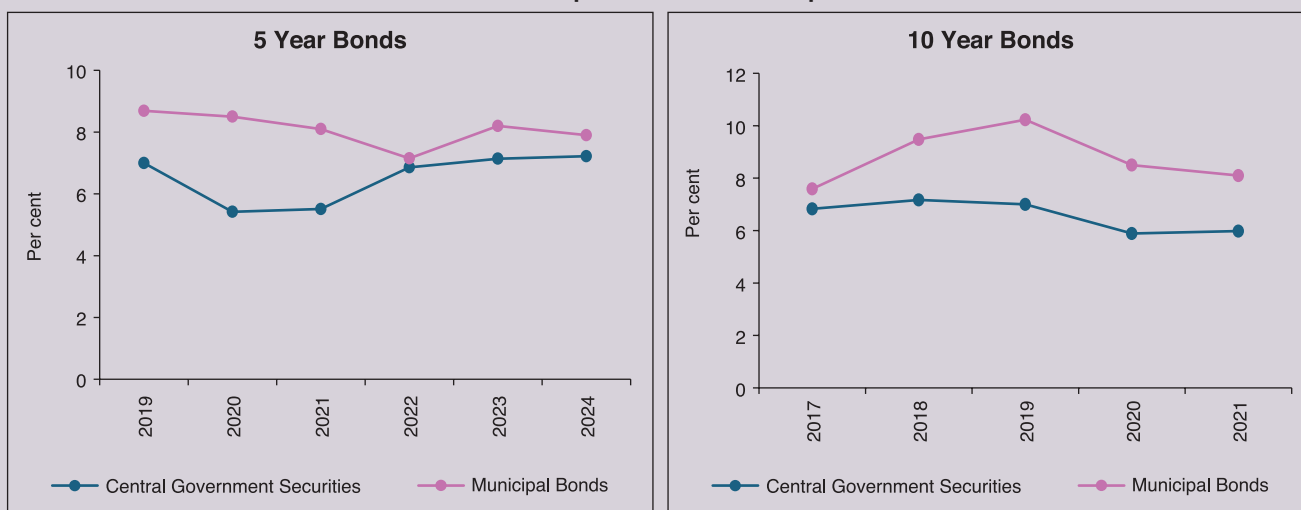
II.27 The coupon rates on municipal bonds increase with maturity, consistent with the term structure hypothesis⁸ (Chart II.14).

⁶ In March 2015, SEBI passed regulations to facilitate issuance of municipal debt and listing of debt securities by municipalities in India. This helped in clarifying the regulatory status of the municipal bonds and rendered them safer for investors.

⁷ In order to encourage ULBs to raise resources from the market, AMRUT Mission introduced financial incentives in the form of a lump-sum grant-in-aid for municipal bond issuances at a rate of ₹13 crore per ₹100 crore of bonds issued, with a ceiling of a maximum of ₹200 crore of bonds. This incentive was structured as a first-come, first-serve reward for 10 ULBs in a financial year (MoHUA and Gangamreddypalli, 2023). So, while AMRUT incentivised bond issuances, JNNURM crowded out the demand for market debt.

⁸ The 'term structure hypothesis' posits that the yield on a long-term bond is equal to the average expectation of the short-term yield over the life of the long-term bond *plus* a risk premium.

Chart II.13: Coupon Rates on Municipal Bonds



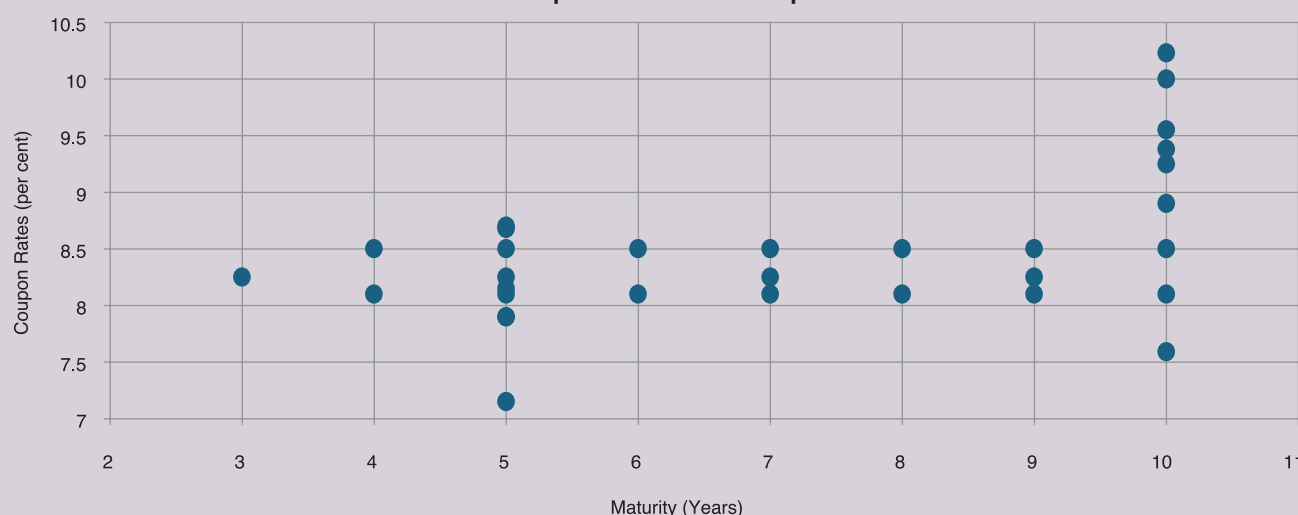
Source: Ministry of Housing and Urban Affairs (cityfinance.in); SEBI; DBIE; and Gangamreddypalli, L. (2023).

II.28 Municipal bonds delivered an average return of 8.5 per cent during 2023-24, as compared with 8.3 per cent and 7.3 per cent on the NIFTY Medium Duration G-Sec Index and NIFTY AAA Medium Duration Corporate Bond Index, respectively (Table II.11).

II.29 The Indian municipal bond market remains in a nascent stage. As of March 2024,

the total municipal bonds outstanding at ₹4,204 crore was just 0.09 per cent of the total corporate bonds outstanding.⁹ Most municipal bonds are privately placed with select investors, limiting the investor base. Ahmedabad (in 1998 and 2019) and Indore (in 2023) offered public bond issues. An improvement in the financial performance and credit ratings of the MCs is critical for

Chart II.14: Maturities and Coupon Rates for Municipal Bonds Issued after 2017



Source: SEBI; and RBI staff estimates.

⁹ Data for municipal bonds outstanding is sourced from NSE and SEBI, while the data for corporate bonds outstanding, which equals ₹47,28,935 crore, has been taken from CEIC.

Table II.11: NIFTY India Municipal Bond Index – Returns (as on July 31, 2024)

(Per cent)

Period	NIFTY India Municipal Bond Index	NIFTY Medium Duration G-Sec Index	NIFTY AAA Medium Duration Corporate Bond Index
1 Year*	8.5	8.3	7.3
3 Years**	6.8	5.6	5.1

Note: 1. *: Returns are year-on-year as on July 31, 2024.

2. **: Average of year-on-year returns for 2021-22, 2022-23 and 2023-24, where returns are calculated as on July 31st for each year.

Source: National Stock Exchange of India Ltd.

promoting investor confidence and broadening market participation. Credit rating agencies have rated the MCs as investment grade so far (Table II.12).

4.2 Green Municipal Bonds

II.30 Amidst increasing awareness about climate-related risks, local bodies have started issuing green bonds to finance projects with

Table II.12: Credit Ratings of Municipal Corporations

Bond Issuing Municipal Corporation	Rating Date	Rating Agency	Rating
Ahmedabad Municipal Corporation	February 29, 2024	CRISIL	AA+
	February 26, 2024	India Ratings	AA+
Ghaziabad Municipal Corporation	April 19, 2024	Brickwork	AA
	April 03, 2024	India Ratings	AA
Greater Hyderabad Municipal Corporation	June 28, 2024	India Ratings	AA
	December 26, 2023	CARE	AA-
Greater Visakhapatnam Municipal Corporation	January 25, 2023	CARE	AA
	July 28, 2022	India Ratings	AA
Indore Municipal Corporation	June 28, 2024	India Ratings	AA+
	March 29, 2024	Acuité	AA
Lucknow Municipal Corporation	January 19, 2024	Brickwork	AA
	November 17, 2023	India Ratings	AA
Bhopal Municipal Corporation	June 17, 2024	Acuité	AA
	February 27, 2024	Brickwork	AA
Pimpri Chinchwad Municipal Corporation	August 09, 2024	CARE	AA+
	July 04, 2024	CRISIL	AA+
Pune Municipal Corporation	June 14, 2024	India Ratings	AA+
	January 03, 2024	CARE	AA+
Surat Municipal Corporation	January 22, 2024	India Ratings	AA+
	January 08, 2024	CRISIL	AA+
Vadodara Municipal Corporation	August 16, 2024	India Ratings	AA+
	May 30, 2024	CRISIL	AA

Note: CARE - Credit Analysis and Research Limited Ratings; and CRISIL - Credit Rating Information Services of India Limited.

Source: NSE Cogencis.

Table II.13: Green Municipal Bond Issuances: 2021 to 2024

Bond Issuing Municipal Corporation	Year of Issue	Amount Raised (₹ crore)	Bids Received (₹ crore)	Coupon Rate (Per cent)	Tenure (Years)	Credit Rating (by India Ratings and Research Pvt. Ltd.)	Purpose
Ghaziabad Nagar Nigam	2021	150	401	8.1	4 to 10	AA	Tertiary water treatment plant
Indore Municipal Corporation	2023	244	720	8.3	3 to 9	AA+	Solar power plant
Ahmedabad Municipal Corporation	2024	200	1,360	7.9	5	AA+	Green energy generation; zero liquid discharge for industrial purposes
Vadodara Municipal Corporation	2024	100	1,460	7.9	5	AA+	Sustainable water infrastructure

Note: Data for 2024 are up to April 30, 2024.

Source: Securities and Exchange Board of India (SEBI); India Ratings and Research Pvt. Ltd.; and news reports.

positive environmental impacts. The issuance of municipal green bonds began in the United States in 2014, followed by similar initiatives by cities and municipalities in Europe. In India, municipal green bond issuance started in 2021, when Ghaziabad Nagar Nigam raised bonds worth ₹150 crore for setting up a tertiary water treatment plant (Table II.13). This was followed by Indore in 2023 and Ahmedabad and Vadodara in 2024. Municipal green bonds worth ₹694 crore have been raised in 4 years for different green projects. The market for green municipal bonds is still at a nascent stage and the process of issuing a green bond involves additional costs for green audits and monitoring key performance indicators (GIZ, 2017). As the market matures and expands, these costs are expected to come down.

5. Conclusion

II.31 Despite the critical role of municipal corporations in urban governance, their financial

capacity remains limited, hampering their ability to provide essential services and drive urban development effectively. The recent increase in municipal bond financing is a positive development, but it remains modest. The introduction of green bond financing by some MCs is a promising step toward sustainable urban growth.

II.32 The MCs rely heavily on the upper tiers of government for revenues, which can limit their financial autonomy and capacity to plan and execute long-term projects. This underscores the need for State-specific strategies to strengthen MC revenues and finances and achieve better urban development outcomes through reforms in local taxation, better enforcement of tax laws, and innovative non-tax revenue streams. At the same time, given the large dependence on transfers from the State governments, timely, adequate and rule-based frameworks for transfers from the upper tier authorities would help the MCs to

fulfil their functional obligations effectively and efficiently and contribute to urban development. Finally, building institutional capacity through training in financial management is crucial for

the transparent and effective use of the resources available with the MCs, positioning Indian cities as leaders in climate-resilient urban development.