

STATE GOVERNMENT FINANCES

**Massive YoY growth of 57% needed
in H2 FY2023 capital outlay for 18
state governments to meet their
FY2023 BE target**

NOVEMBER 2022





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To meet the combined capital outlay of Rs. 6.2 trillion included in the FY2023 BE of the 18 states, a sharp ~57% growth in spending is required in H1 FY2023 relative to H1 FY2022

The 18 states covered in this note are Andhra Pradesh (AP), Chhattisgarh, Gujarat, Haryana, Himachal Pradesh (HP), Jharkhand, Karnataka, Kerala, Madhya Pradesh (MP), Maharashtra, Odisha, Punjab, Rajasthan, Tamil Nadu (TN), Telangana, Uttar Pradesh (UP), Uttarakhand and West Bengal (WB)

The revenue deficits of a sample of 18 state governments narrowed to a subdued Rs. 0.3 trillion in H1 FY2023 from Rs. 1.3 trillion in H1 FY2022. Despite this, their combined capital outlay rose by a muted 2.2% in H1 FY2023, sharply lower than the high 37.8% growth indicated in the FY2023 Budget Estimate (BE), necessitating a sharp ~57% increase in H2 FY2023 to achieve the FY2023 BE. In October 2022, there has been an encouraging step up in disbursements under the Government of India (GoI's) capex scheme to the states. Nevertheless, unless the execution of capital projects picks up considerably in H2 FY2023, the states' capital outlay target for FY2023 could be missed by a sizeable extent.

- **Revenues in H1 FY2023 were ~27% higher than the year-ago levels, led by tax revenues:** The combined states' own tax revenues (SOTR), as per the provisional actuals (PA) of 18 states, were 28.6% higher in H1 FY2023 than the level in H1 FY2022. Among these states, Chhattisgarh, Gujarat, Karnataka, Maharashtra, TN and WB had already received 50-53% of their budgeted SOTR for FY2023, in H1 FY2023. Additionally, benefitting from higher devolution in August 2022 relative to the previous months, and reflecting the highly back-ended release of such transfers in FY2022, the devolution of taxes from the GoI to the states expanded by a sharp 44.6% in H1 FY2023 on a YoY basis.
- **Despite healthy improvement in revenue deficit, capital outlay grew by a muted 2.2% in H1 FY2023:** The combined revenue spending of the 18 states increased by 15.3% in H1 FY2023 from H1 FY2022 and was equivalent to ~42% of the FY2023 BE. With a healthy growth in revenue receipts relative to revenue expenditure for 14 of the 18 states in H1 FY2023, the combined revenue deficit of the 18 states narrowed to a mild Rs. 0.3 trillion from Rs. 1.3 trillion, respectively. Despite this, their combined capital outlay stood at Rs. 1.59 trillion in H1 FY2023, a muted 2.2% higher than H1 FY2022. The capital outlay in H1 FY2023 was a modest 26% of the combined FY2023 BE, with that of Haryana, Jharkhand, Maharashtra, Odisha, Punjab, Uttarakhand and UP below/equal to 20% of their respective FY2023 BE.
- **Nearly 57% increase in capital outlay required in H2 FY2023 to meet the FY2023 BE:** Some of the states, including AP, Haryana, UP, and WB, have budgeted for a high 77-127% YoY growth in their capital outlay for FY2023. For the combined capital outlay of the 18 states to be in line with the FY2023 BE of Rs. 6.2 trillion, it would imply spending Rs. 4.6 trillion in H2 FY2023. This is a sharp 57% higher than the actual capital outlay of Rs. 3.0 trillion in H2 FY2022. Taking into account the trend of lower-than-budgeted capital outlay as well as back-ended spending in recent years, we are apprehensive that the combined spending of the 18 states could be ~23% lower than the FY2023 BE.

Combined revenue receipts of 18 states expanded by ~27% in H1 FY2023 on a YoY basis, comprising ~43% of their budgeted levels

Exhibit: Revenue receipts in H1 and proportion of PA/BE during FY2020-23

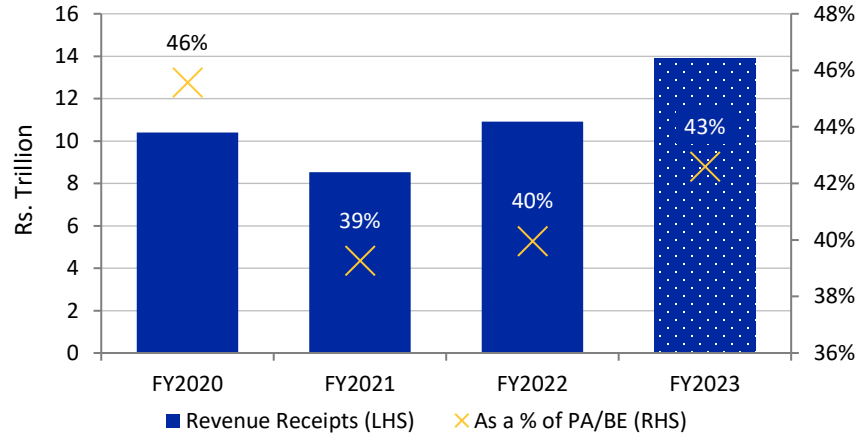
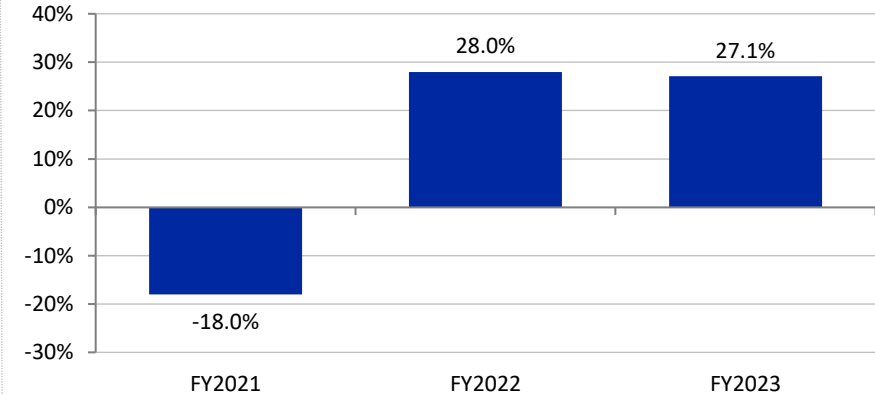


Exhibit: YoY growth of revenue receipts in H1 during FY2021-23



- As per the provisional actuals (PA) data released by the Comptroller and Auditor General (CAG) for H1 FY2023, the combined revenue receipts of the 18 states increased by ~27% to Rs. 13.9 trillion in H1 FY2023 from Rs. 10.9 trillion in H1 FY2022, led by tax revenues.
- The combined revenue receipts of the 18 states in H1 FY2023 were equivalent to ~43% of the FY2023 BE, higher than the level in H1 FY2021-22 while trailing the level in H1 FY2020.
- Himachal Pradesh (50.4%) and Karnataka (52.8%) were the only two states among the 18 states whose revenue receipts in H1 FY2023 exceeded 50% of their budgeted amounts for FY2023, whereas those for AP, Haryana, Telangana and UP were below 40%. The revenue receipts of the remaining 12 states in H1 FY2023 were between 40% and 49% of the amount included in their FY2023 BE.

Source: Comptroller and Auditor General (CAG); State budgets; ICRA Research

Combined SOTR of 18 states rose by ~29% in H1 FY2023 on a YoY basis, crossing ~47% of the budgeted level

Exhibit: SOTR in H1 and proportion of PA/BE during FY2020-23

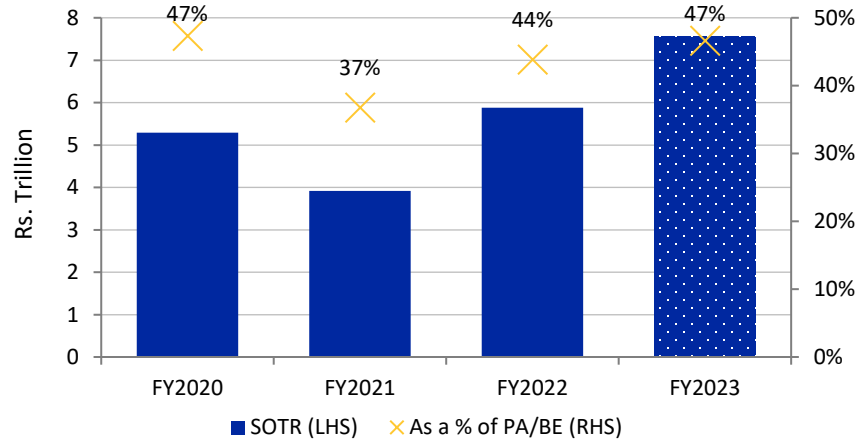
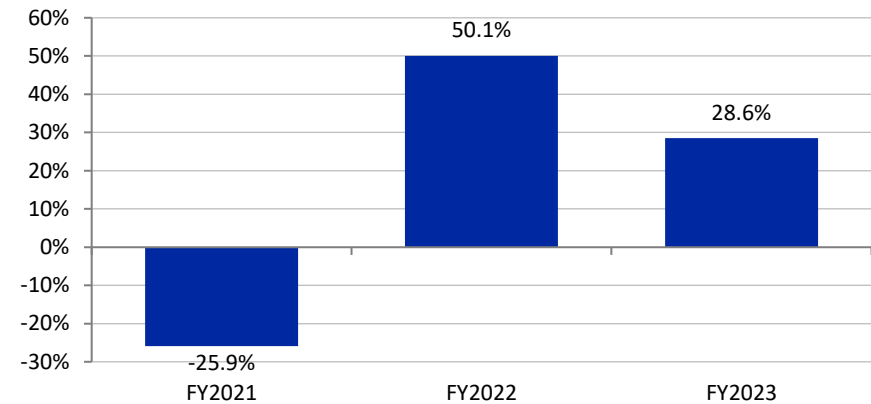


Exhibit: YoY growth of SOTR in H1 during FY2021-23



- The SOTR, which comprised nearly half of the total revenue receipts of the combined revenue receipts of the 18 states during FY2020-22, expanded by 28.6% to Rs. 7.6 trillion in H1 FY2023 from Rs. 5.9 trillion in H1 FY2022.
- The combined SOTR of the 18 states in H1 FY2023 was ~47% of the FY2023 BE, higher than the level in H1 FY2021-22 and was similar to the proportion in H1 FY2020.
- The SOTR of 12 of the 18 states in H1 FY2023 was between 40% and 49% of their respective BE level, and that of Chhattisgarh, Gujarat, Karnataka, Maharashtra, Tamil Nadu and West Bengal was moderately higher in the range of 50-53% of the budgeted amount.

ICRA estimates tax devolution for Dec-March FY2023 at Rs. 3.8 trillion

Exhibit: Tax Devolution in H1 and proportion of PA/BE during FY2020-23

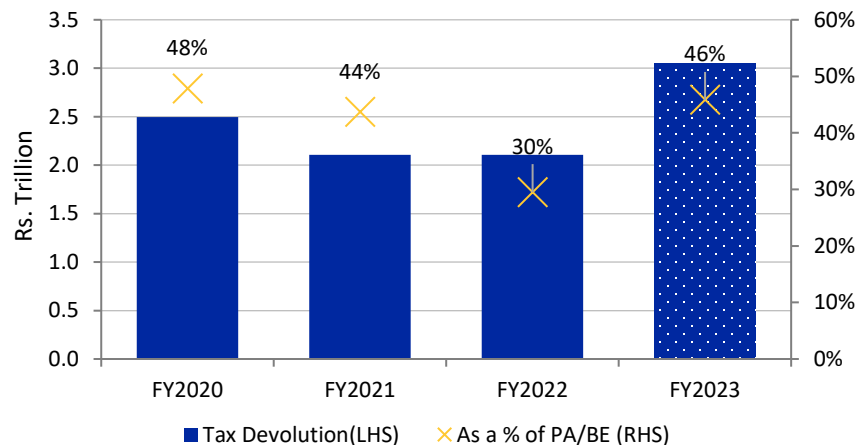
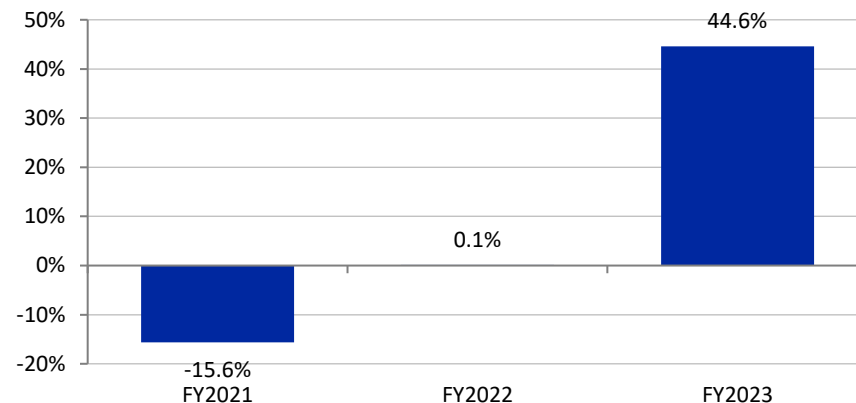


Exhibit: YoY growth of tax devolution in H1 during FY2021-23



- The aggregate tax devolution to the 18 states comprised ~24% of their combined revenue receipts during FY2020-22. Based on the inter-se of the 18 state governments, ICRA estimates the share of these states in the aggregate tax devolution during H1 FY2023 at Rs. 3.0 trillion. This is a considerable ~45% higher on a YoY basis, primarily boosted by the release of Rs. 1.2 trillion by the Gol to all the states in August 2022. Notably, the tax devolution in FY2022 was highly back-ended, with nearly 70% of the tax devolution concentrated during H2 of that year.
- Reflecting the healthy growth of the gross tax revenues of the Gol in H1 FY2023, we project the tax devolution at Rs. 9.3 trillion for FY2023, higher than the Rs. 8.2 trillion included by the Gol in Union Budget FY2023. Factoring in the taxes devolved in H1 FY2023, as well as the Rs. 583 billion and Rs. 1.2 trillion, respectively, devolved by the Gol to the states in Oct 2022 and Nov 2022, an estimated Rs. 5.6 trillion has been released during Apr-Nov FY2023. Subtracting this from the projected tax devolution implies that a balance of Rs. 3.8 trillion is left to be transferred during Dec-Mar FY2023.

Source: CAG; State budgets; ICRA Research

In H1 FY2023, 18 states received a moderate ~32% of aggregate grants budgeted for the fiscal, suggesting continued trend of overestimation by some states

Exhibit: Grants from the Centre in H1 and proportion of PA/BE during FY2020-23

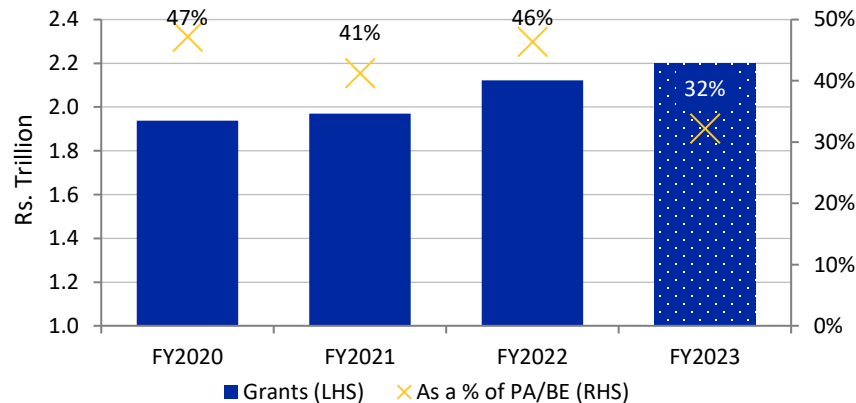
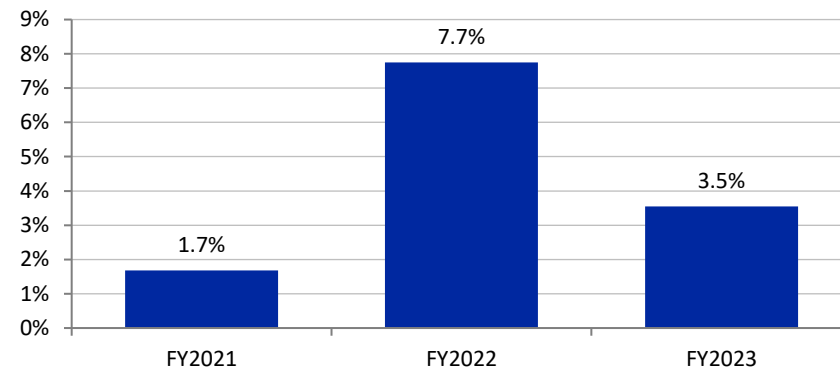


Exhibit: YoY growth of grants from the Centre in H1 during FY2021-23



- Grants from the Centre to the states include scheme related grants, Finance Commission recommended grants and other transfers, including GST compensation, and comprised around a fifth of the total revenue receipts of the 18 states during FY2020-2022.
- Grants from the Centre to the 18 states rose by a mild 3.5% to Rs. 2.2 trillion in H1 FY2023 from Rs. 2.1 trillion in H1 FY2022. This is sharply lower than the high 49.2% budgeted growth in the aggregate grants of the 18 states in FY2023 relative to FY2022 PA. Typically, actual grants tend to be lower than the budgeted levels by a sizeable magnitude, mainly led by overestimation of grants for centrally sponsored schemes and other transfers.
- The aggregate grants of the 18 states in H1 FY2023 comprise a moderate ~32% of the budgeted levels, compared to 41-47% of their provisional actuals during FY2020-22, suggesting that the budgeted grants of Rs. 6.8 trillion for FY2023 are optimistic, in line with the trend seen in recent years.
- Among the 18 states, the grants received by Haryana, Odisha, Telangana and Uttar Pradesh in H1 FY2023 were less than 20% of their budgeted level. However, the actual grants received in H1 FY2023 by Karnataka, Gujarat and Himachal Pradesh stood at a healthy 64%, 54% and 52%, respectively, of their FY2023 BE.

Revenue expenditure increased by ~15% in H1 FY2023 on a YoY basis, comprising ~42% of FY2023 BE

Exhibit: Revenue expenditure in H1 and proportion of PA/BE during FY2020-23

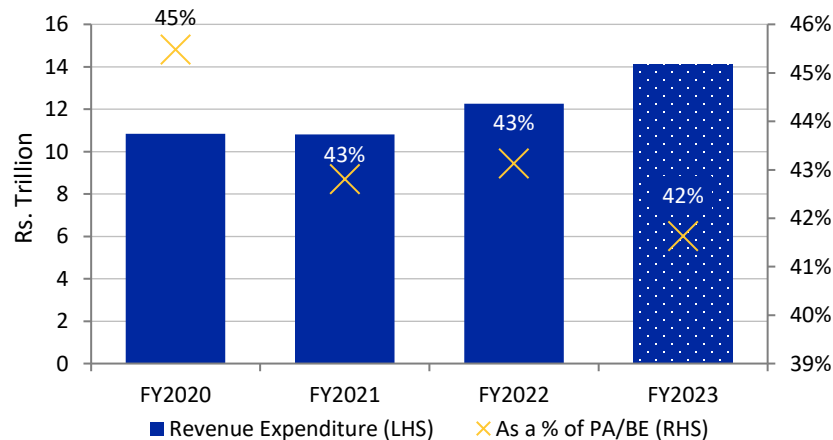
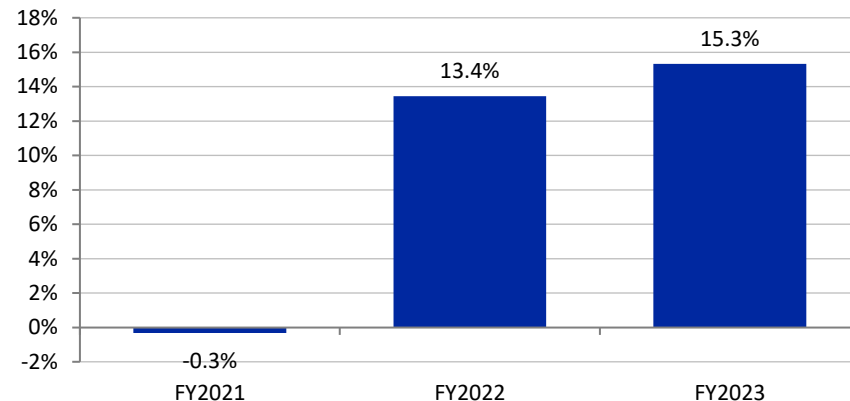


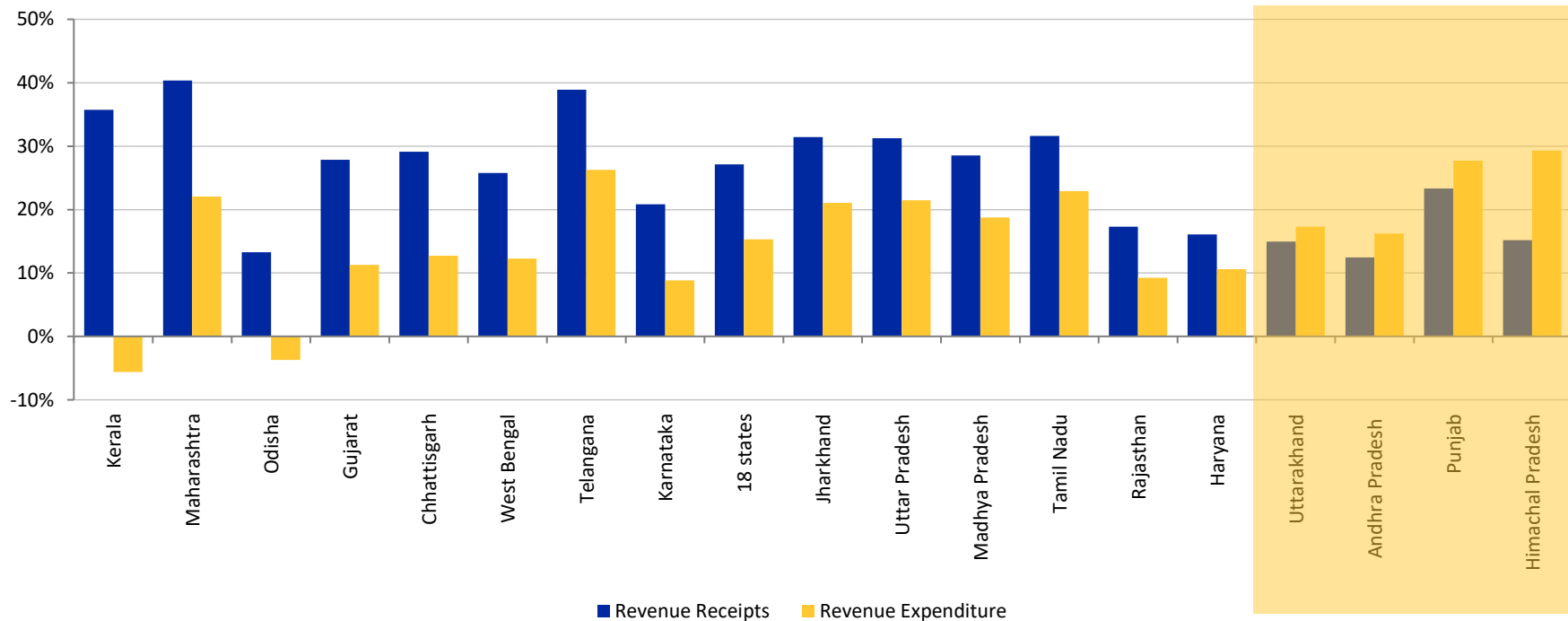
Exhibit: YoY growth of revenue expenditure in H1 during FY2021-23



- The revenue spending of the 18 states increased by 15.3% to Rs. 14.1 trillion during H1 FY2023 from Rs. 12.3 trillion in H1 FY2022.
- During H1 FY2023, the aggregate revenue expenditure of the 18 states was ~42% of the FY2023 BE, lower than the trend in H1 FY2020.
- During H1 FY2023, Andhra Pradesh spent ~55% of the revenue expenditure included in FY2023 BE, the highest among the 18 states. During the same period, Himachal Pradesh had also spent more than half of the revenue expenditure in FY2023 BE, higher than the trend in the recent years, with Assembly elections in the state in December 2022. However, the revenue spending of Maharashtra, Uttar Pradesh and Odisha in H1 FY2023 was between 30% and 40% of the budgeted amount, indicating that the actual spending could trail the budgeted level.

Pace of growth of revenue receipts of 14 of the 18 states exceeded the growth of revenue expenditure during H1 FY2023

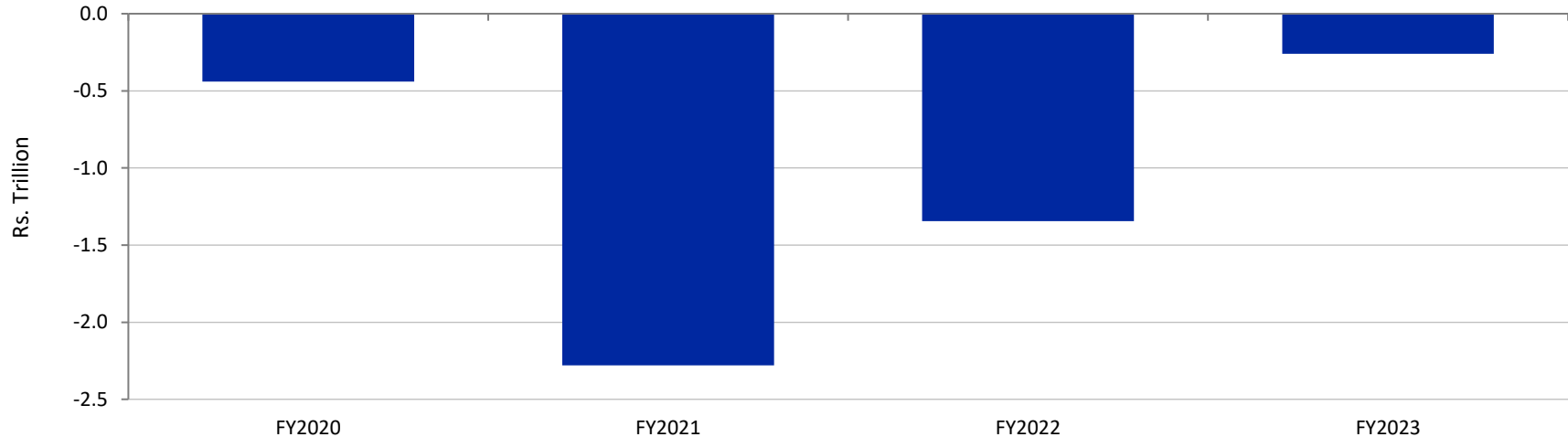
Exhibit: YoY trends of revenue receipts and expenditure during H1 FY2023



Source: CAG; State budgets; ICRA Research

Accordingly, the revenue deficit of the 18 states narrowed to Rs. 0.3 trillion during H1 FY2023 relative to last year

Exhibit: Revenue balance in H1 during FY2020-23



- The combined revenue deficit of the 18 states was budgeted to widen to Rs. 1.4 trillion in FY2023 from Rs. 1.1 trillion in FY2022.
- Reflecting the healthy growth in revenue receipts relative to revenue expenditure for 14 of the 18 states during H1 FY2023, the combined revenue deficit of the 18 states narrowed to a mild Rs. 0.3 trillion in H1 FY2023 from Rs. 1.3 trillion in H1 FY2022.

Combined capital outlay in H1 FY2023 was a muted ~26% of the BE

Exhibit: Capital outlay in H1 and proportion of PA/BE during FY2020-23

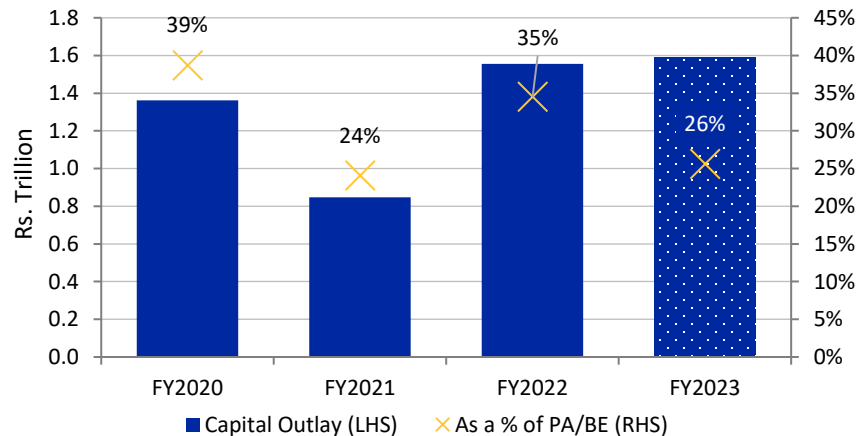
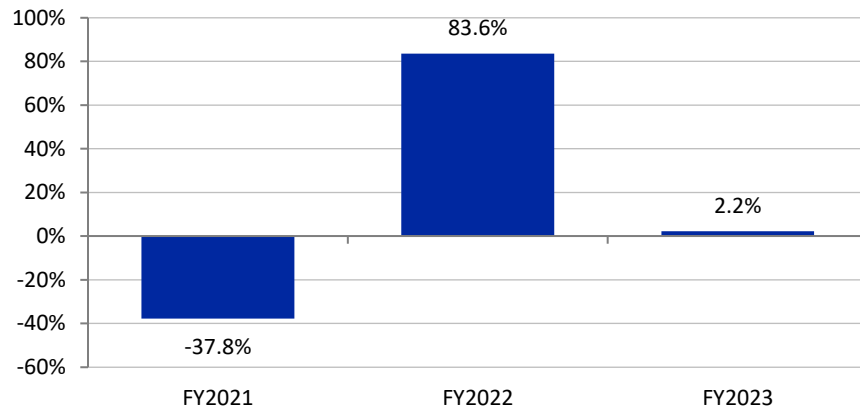


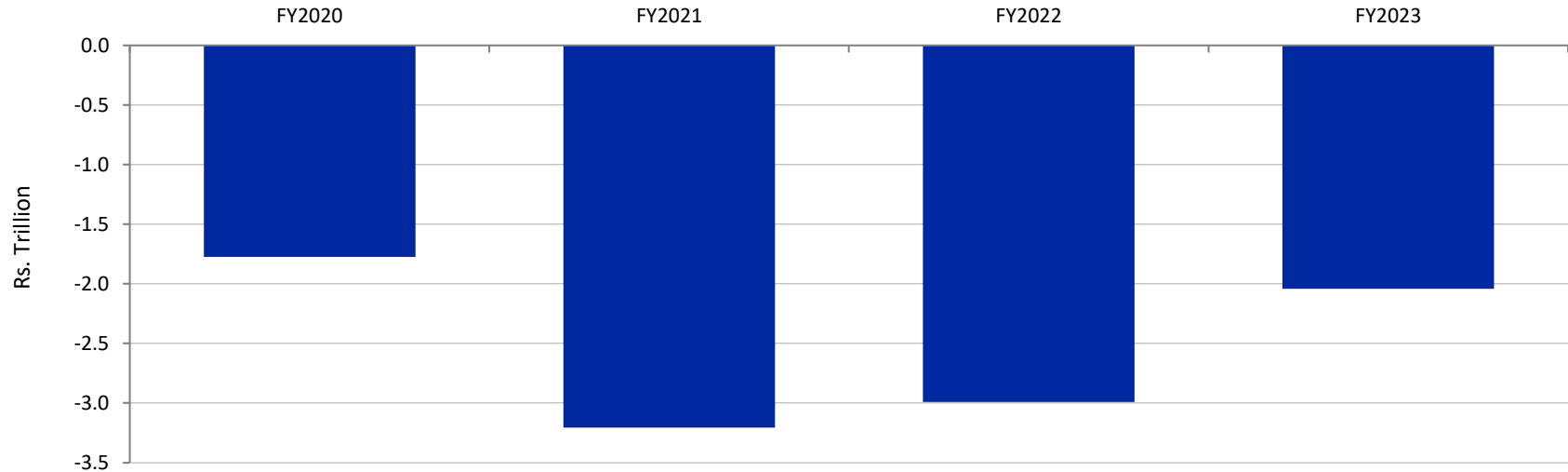
Exhibit: YoY growth of capital outlay in H1 during FY2021-23



- The 18 states had budgeted their capital outlay at Rs. 6.2 trillion in FY2023 BE, a sharp 37.8% higher than the Rs. 4.5 trillion in FY2022 PA. However, in H1 FY2023, their capital outlay increased mildly to Rs. 1.59 trillion from Rs. 1.56 trillion in the same period last year.
- Despite the improvement in revenue account for 14 of the 18 states, the combined capital outlay of these states was a subdued 26% of the FY2023 BE, lower than the trend recorded in H1 FY2020 and H1 FY2022.
- The capital outlay of Haryana, Jharkhand, Maharashtra, Odisha, Punjab, Uttarakhand and Uttar Pradesh during H1 FY2023 was below/equal to 20% of their respective BE. That of Kerala, Madhya Pradesh, Gujarat and Himachal Pradesh was relatively healthier at 38-43% of the capital outlay in FY2023 BE.

Combined fiscal deficit of the 18 states narrowed to Rs. 2.0 trillion in H1 FY2023 from Rs. 3.0 trillion in H1 FY2022

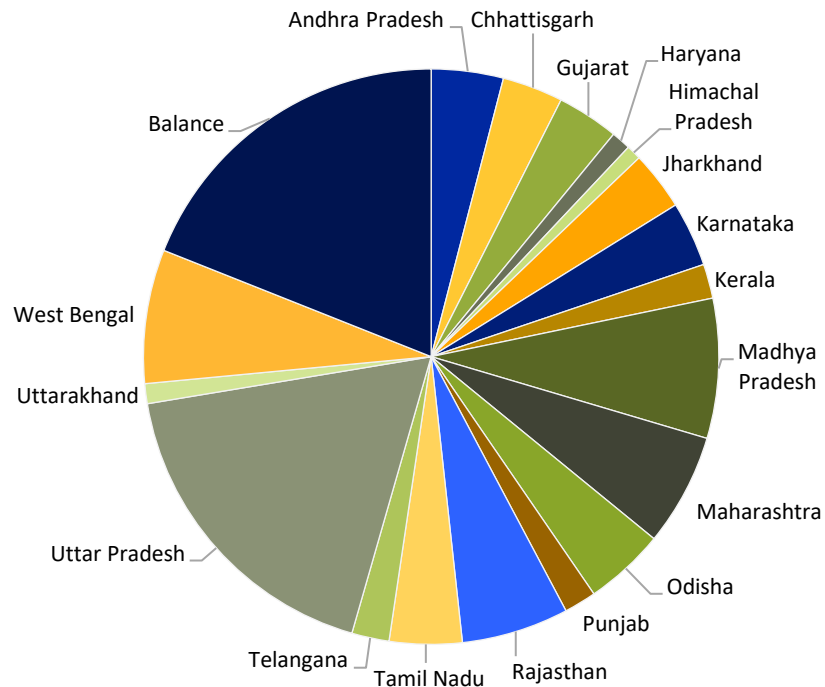
Exhibit: Fiscal balance in H1 during FY2020-23



- With a sharp 37.8% increase budgeted for capital outlay, the combined fiscal deficit of the 18 states was budgeted to widen to Rs. 8.0 trillion in FY2023 from Rs. 5.8 trillion in FY2022 PA.
- However, reflecting the improved revenue deficit and mild growth in capital outlay during the first half of the current fiscal year, the combined fiscal deficit of the 18 states during this period has narrowed to Rs. 2.0 trillion from Rs. 3.0 trillion in FY2022 PA.

Interest-free capex loan disbursement has stepped up in Oct 2022 after a subdued trend in H1 FY2023

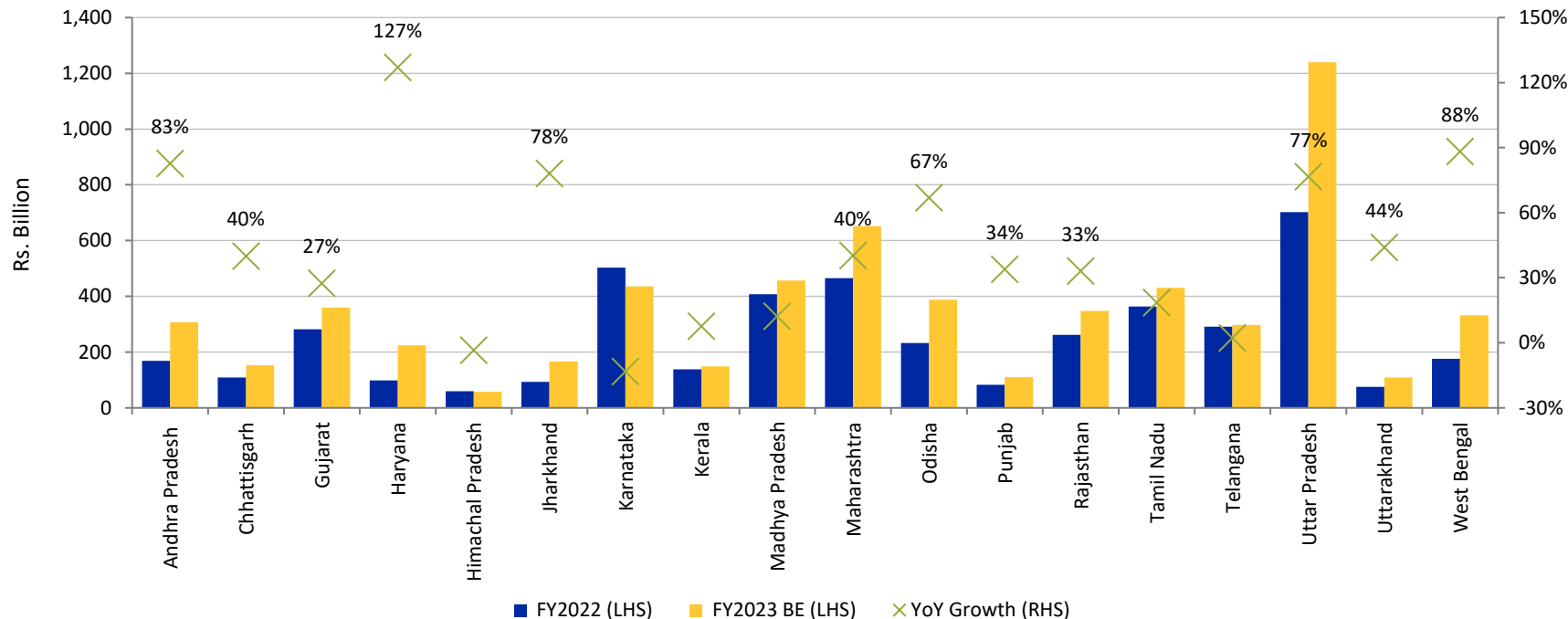
EXHIBIT: State-wise share in Rs. 800 billion (Part I) of the state 'capex' scheme



- The GoI had earmarked Rs. 1.0 trillion as a 50-year interest-free loan under the scheme for special assistance to States for capital investment ('Capex Scheme') in the FY2023 Union Budget. This loan would be over and above the net borrowing ceiling set for the states for FY2023.
- Under Part-I of this scheme (Rs. 800 billion, to be shared among the states based on the inter-se devolution formula), Rs. 511 billion was approved by the GoI for the capital projects of 18 states (Assam, Arunachal Pradesh, Bihar, Chhattisgarh, Goa, Haryana, Himachal Pradesh, Karnataka, Madhya Pradesh, Jharkhand, Maharashtra, Manipur, Meghalaya, Nagaland, Sikkim, Tamil Nadu, Tripura, Uttar Pradesh) by end-September 2022. However, a modest Rs. 59 billion had been transferred to the states during H1 FY2023.
- Subsequently, the GoI approved an additional Rs. 72 billion in October 2022, taking the total approved amount to Rs. 582 billion during Apr-Oct FY2023. Out of this, the GoI had disbursed around 45%, or Rs. 263 billion to the states, bulk of which was in H2 FY2023.

Most states had budgeted for high double-digit capital outlay growth in FY2023 relative to the FY2022 PA

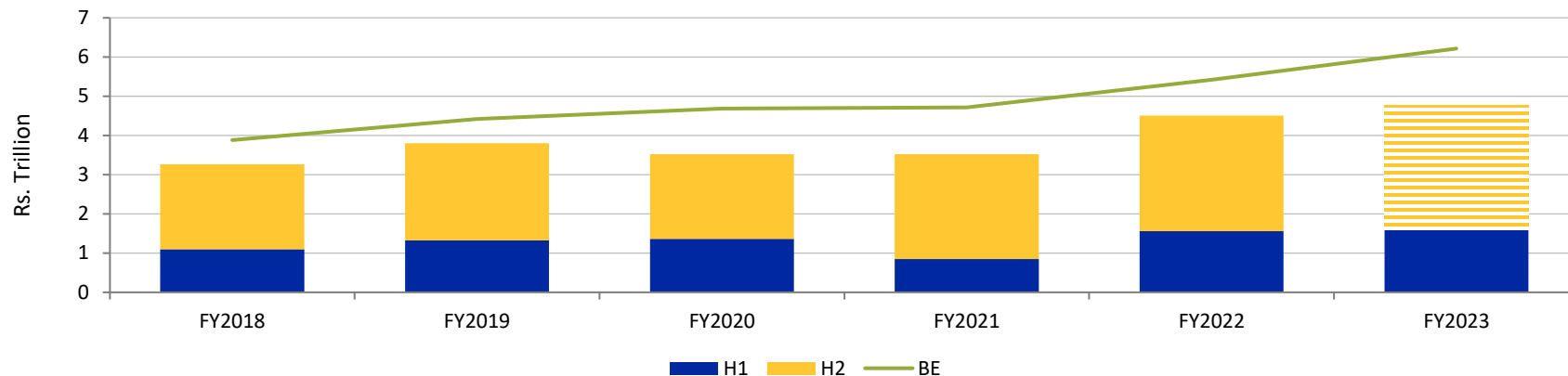
Exhibit: Trends in capital outlay



Source: CAG; State budgets; ICRA Research

Sharp YoY expansion of 57% needed in capital outlay in H2 FY2023 to meet the high growth indicated in FY2023 BE, which appears challenging

Exhibit: Trends in actual and budgeted capital outlay



- The gap between the aggregate budgeted capital outlay of 18 states and the actual spending in H1 FY2023 is as large as Rs. 4.6 trillion, ~57% higher than the Rs. 3.0 trillion spent by the 18 states in H2 FY2022.
- Discouragingly, the actual capital outlay has routinely trailed the budgeted levels in recent years by 15-25%. During FY2018-22, 60-75% of the total capital outlay expenditure was done in H2, indicating a trend of back-ended spending. Assuming that the capital outlay in H2 FY2023 will be twice as large as H1 FY2023, we estimate the combined capital outlay of these 18 states at Rs. 4.8 trillion in FY2023. The capital outlay projected in this manner will be ~23%, or Rs. 1.4 trillion lower than the Rs. 6.2 trillion included in FY2023 BE, albeit 5.8% higher on a YoY basis.
- While the step up in the disbursements under the capex loan scheme in October 2022 is encouraging, unless execution is imminently stepped up, the capital outlay target for FY2023 could be missed by a considerable extent.

Source: CAG; state budgets; ICRA Research



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