

# STATE GOVERNMENT FINANCES

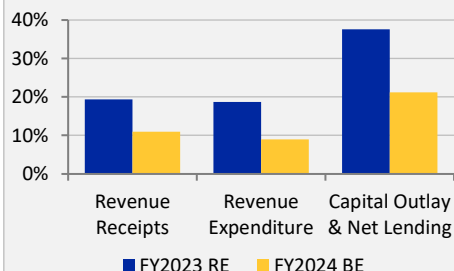
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**Fiscal deficit of 15 states budgeted  
to ease to 3.1% of GDP in FY2024,  
amidst ambitious capex plans**

**MARCH 2023**



**Exhibit: YoY growth trends\* in FY2023 RE and FY2024 BE**



Source: State Budgets; ICRA Research

\*Based on 15 states namely, Andhra Pradesh, Chhattisgarh, Gujarat, Haryana, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Odisha, Punjab, Rajasthan, Tamil Nadu, Telangana, Uttar Pradesh and West Bengal

A study of the FY2024 budgets of 15 state governments indicates an increase of ~11%, ~9% and ~21% in their combined revenue receipts, revenue expenditure and capital expenditure, respectively, relative to the Revised Estimates (RE) for FY2023. The FY2024 budget estimates (BE) indicates a healthy improvement in the revenue account balance by a majority of the 15 states. Factoring this and the expansion in capital spending, the combined fiscal deficit of the 15 states is budgeted to widen modestly to Rs. 8.0 trillion in FY2024 from Rs. 7.5 trillion in FY2023 RE. The incremental fiscal deficit of Rs. 586 billion in FY2024 BE is mild relative to the annual rise in excess of 1.0 trillion seen in recent years.

During Apr-Jan FY2023, the combined revenue receipts and revenue expenditure stood at 72% and 70% of the respective FY2023 RE levels, while the capex was limited to 54% of the FY2023 RE of Rs. 6.1 trillion. This suggests that the latter will be undershot by a considerable extent, and also raises concerns about whether the ambitious capex target, included by some states in their FY2024 budget estimates (BE), can be achieved.

**FY2023 RE for capex appears optimistic:** With eight out of the 15 states indicating a higher capex in their FY2023 RE compared to the budgeted level, the combined capex of the 15 states in their FY2023 RE is a modest Rs. 172 billion lower than the budgeted level. Notably, the combined capital spending of the 15 states during Apr-Jan FY2023 was limited to 54% of the amount indicated in FY2023 RE, based on which the latter appears likely to be undershot.

**FY2024 BE projects a sharp improvement in the revenue account position of 15 states:** The combined revenue receipts of the states are expected to increase by 11.0% in FY2024 BE, reflecting expansion in own revenues and tax devolution amidst a contraction in grants. With a lower 9.0% YoY growth in revenue expenditure, the combined revenue deficit of the 15 states is budgeted to narrow to Rs. 838 billion in FY2024 from Rs. 1.3 trillion in FY2023 RE. As many as 11 states, (except Kerala, Madhya Pradesh, Punjab and Tamil Nadu or TN) expect an improvement in their revenue account position in FY2024 BE relative to FY2023 RE.

**Despite 21% YoY increase in capex in FY2024 BE, fiscal deficit to rise moderately relative to recent years:** Incorporating the improvement in the revenue account position and a 21% YoY growth in capital spending of the 15 states, their fiscal deficit is budgeted to widen modestly to Rs. 8.0 trillion in FY2024 from Rs. 7.5 trillion in FY2023 RE. The incremental fiscal deficit of Rs. 586 billion in FY2024 BE is mildly relative to the Rs. 1.3-1.7 trillion increase seen in FY2022 and FY2023 RE. While the revenue account of the 11 of the 15 states is expected to improve in FY2024 BE, only Karnataka and Telangana indicated a narrower fiscal deficit in FY2024 BE relative to FY2023 RE.



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