

# STATE GOVERNMENT FINANCES

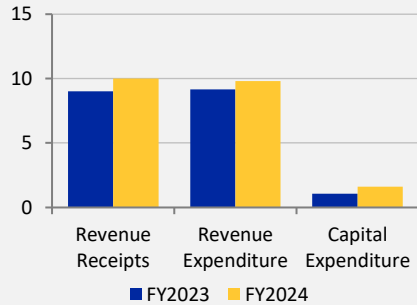
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**Capital spending needs to increase  
by 32% YoY during Aug-Mar FY2024  
to meet the FY2024 BE target**

**SEPTEMBER 2023**



**Exhibit: Trends in key fiscal indicators during Apr-Jul (Rs. Trillion)**



Source: Comptroller and Auditor General of India (CAG); ICRA Research

\*Based on 21 states (excluding Arunachal Pradesh, Assam, Bihar, Goa, Manipur, Meghalaya and Mizoram)

The combined revenue receipts, revenue expenditure and capital expenditure of the 21 states in our sample increased by ~11%, ~7% and a sharp 52%, respectively, during Apr-Jul FY2024 in year-on-year (YoY) terms. The incremental combined capital spending of 21 state governments was Rs. 551 billion during Apr-Jul FY2024, three-fourth of which was led by Andhra Pradesh (AP), Telangana, Gujarat, Madhya Pradesh (MP) and Uttar Pradesh (UP). This increase in capital spending appears to have benefitted from the release of the two instalments of the tax devolution by the Government of India (GoI) to the states in June 2023 as well as the disbursal of Rs. 296 billion interest-free capex loan during May-Jul 2022. Notwithstanding the healthy trends thus far, ICRA estimates that the combined capex would need to expand by nearly 32% in YoY terms during Aug-Mar FY2024, to meet the target of Rs. 7.9 trillion included in the FY2024 Budget Estimates (BE) by these 21 states.

**Pace of YoY growth of revenue receipts and expenditure moderated during Apr-Jul FY2024:** The growth of the combined revenue receipts and revenue expenditure of the 21 states slowed to 10.9% and 7.2%, respectively, during Apr-Jul FY2024 from 30.9% and 15.5%, respectively, during Apr-Jul FY2023. Importantly, the 21% YoY increase in tax revenues (led by tax devolution) during Apr-Jul FY2024 was partly offset by the 19% contraction in non-tax revenues, mainly due to discontinuation of the GST compensation grants as well as tapering of Finance Commission (FC) grants.

**On a low base, capex expanded by a high 52% during Apr-Jul FY2024:** The combined capital spending of the 21 states increased by a considerable 52% YoY during Apr-Jul FY2024 (to Rs. 1.6 trillion from Rs. 1.1 trillion, or a monthly step up of Rs. 138 billion) on the back of a muted 3.1% growth in the year-ago period. Despite a combined revenue surplus of Rs. 192 billion during Apr-Jul FY2024, the fiscal deficit of the 21 states widened to Rs. 1.4 trillion during this period from Rs. 1.2 trillion during Apr-Jul FY2023, reflecting higher capital spending.

**YoY increase of 32% in required in capital outlay during Aug-Mar FY2024 to meet FY2024 BE:** Based on the trends in capital spending during Apr-Jul FY2024, combined spending of Rs. 6.3 trillion would be required by the 21 states during Aug-Mar FY2024 to meet the target of Rs. 7.9 trillion included in their FY2024 BE. This implies a considerable 32% YoY growth over their capital spending of Rs. 4.7 trillion during Aug-Mar FY2023, or a step-up of Rs. 192 billion per month.



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