



STATE GOVERNMENT FINANCES

States' capex under focus amid weak start in FY2025

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ABBREVIATIONS

AP: Andhra Pradesh	GDP: Gross Domestic Product	REC: Rural Electrification Corporation
BE: Budget Estimates	GSDP: Gross State Domestic Product	RBI: Reserve Bank of India
CAG: Comptroller and Auditor General of India	GST: Goods and Services Tax	RE: Revised Estimates/Revenue Expenditure
CAGR: Compound Annual Growth Rate	GTR: Gross Tax Revenues	RB: Revenue Balance
CCS: Centrally Sponsored Schemes	GSSVA: Gross State Value Added	RR: Revenue Receipts
CGA: Controller General of Accounts	GVA: Gross Value Added	SRS: Sample Registration System
CSS: Centrally Sponsored Schemes	IMR: Infant Mortality Rate	S&R: Stamps and Registrations
DCU: Department Commercial Undertakings	IMD: Indian Meteorological Department	SERC: State Electricity Regulatory Commission
D+G/GSDP: Debt and Guarantees as a proportion of Gross State Domestic Product	IMFL: Indian-made Foreign Liquor	SC/ST: Schedule Caste/Schedule Tribe
D+G/RR: Debt and Guarantees as a proportion of Revenue Receipts	KERC: Kerala Electricity Regulatory Commission	SGS: State Government Securities
DA: Dearness Allowance	Km: Kilometre	SGST: State Goods and Services Tax
Discoms: State-owned Electricity Distribution Corporations	LPA: Long Period Average	SOTR: State's Own Tax Revenue
DR: Dearness Relief	MGNREGA: Mahatma Gandhi National Rural Employment Guarantee Scheme	SONTR: State's Own Non-Tax Revenue
FC: Finance Commission	MERC: Maharashtra ERC	SSA: Sarva Shiksha Abhiyan
G-Sec: Government Securities	MOSPI: Ministry of Statistics and Programme	T-Bills: Treasury Bills
GO: Government Order	MTFP: Medium Term Fiscal Policy	Tangedco: Tamil Nadu Generation and Distribution Corporation
Gol: Government of India	NBC: Net Borrowing Limit	TN: Tamil Nadu
GoAP: Government of Andhra Pradesh	NDRF: National Disaster Response Fund	TO: Tariff Order
GoG: Government of Gujarat	NPS: National Pension System	UDAY: Ujwal Discom Assurance Yojana
GoH: Government of Haryana	NSDP: Net State Domestic Product	UT: Union Territory
GoK: Government of Karnataka	NSSF: National Small Savings Fund	VAT: Value Added Tax
GoKe: Government of Kerala	NSO: National Statistical Office	WB: West Bengal
GoM: Government of Maharashtra	OPS: Old Pension Scheme	WMA: Ways and Means Advances
GoMP: Government of Madhya Pradesh	PA: Provisional Actuals	WSSH&UD: Water Supply, Sanitation, Housing and Urban Development
GoP: Government of Punjab	PC/PRC: Pay Commission/ Pay Revision Commission	UP: Uttar Pradesh
GoR: Government of Rajasthan	PFC: Power Finance Corporation	UPS: Unified Pension System
GoTN: Government of Tamil Nadu	PMAY: Pradhan Mantri Awas Yojana	YoY: Year-on-Year
GoTS: Government of Telangana	PPAC: Petroleum Planning and Analysis Cell	
GoWB: Government of West Bengal	PPS: Percentage Points	
GoUP: Government of Uttar Pradesh	POL: Petroleum, Oil and Lubricants	
GR: Government Resolution	POSOCO: Power System Operation Corporation	
	RDG: Revenue Deficit Grant	
	RDSS: Revamped Distribution Sector Scheme	

SOURCES

Data	Source
Geographical Area of the States, Population, Urbanisation, Literacy (2011)	Census of India, 2011
IMR (2020)	SRS Bulletins
Irrigation coverage (2022)	Land use statistics, Ministry of Agriculture and Farmers Welfare
Per-capita availability of power (2023)	Handbook of Statistics on Indian States published by the RBI in November 2023
Rainfall Statistics	Indian Meteorological Department
GDP, GVA, GSDP, GSVA	NSO (August 2024). GSDP estimate up till FY2024 for Andhra Pradesh, Haryana, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Punjab, Rajasthan, Tamil Nadu, Telangana, Uttar Pradesh, and West Bengal are taken from the NSO. FY2024 GSDP estimate is not available on the NSO's website for Gujarat. ICRA has assumed a YoY increase of 15.0% for estimating their FY2024 GSDP of these three states. For estimating FY2025 GSDP, ICRA has assumed a YoY expansion of 10.7% for all the 13 states.
Per Capita Income (FY2023)	NSO (August 2024)
SGST	GST Portal
Provisional actuals for state finances	CAG. For FY2024, the provisional actuals for revenue receipts, expenditures, revenue and fiscal deficit for 13 states available on the CAG have been used.
Others	Various Finance Commission Reports Government of India Budgets Data published by Controller General of Accounts and CAG of India Data published by the RBI, including various editions of State Finances: A Study of Budgets Budget documents of state governments, Economic Surveys of various states Data published by PPAC, Ministry of Agriculture, Lok Sabha, Rajya Sabha

DEFINITIONS

Access to Central Transfers	: Central Taxes plus Grants as a percentage of GSDP
Central Transfers	: Central Taxes plus Grants
Own Tax Effort	: SOTR as a percentage of GSDP
Committed Expenditure	: Sum of Salaries, Pension and Interest Payments
Debt Stock	: Internal Debt, Loans from the GoI and Provident Fund, etc.
Fiscal Deficit	: Revenue Balance plus Capital Receipts less Capital Outlay and Net Lending
Internal Debt	: SGS, Loans from the NSSF, Loans from Banks and Financial Institutions, Power Bonds, UDAY Bonds, WMA from the RBI etc.
Irrigation Coverage	: Net Irrigated Area as a Proportion of Net Sown Area
Leverage	: Debt and Guarantees
Per Capita Income	: Per capita NDP/NSDP at current prices
Public Debt	: Internal Debt and Loans from the GoI
Quality of Expenditure	: Sum of Capital Expenditure and Net Lending as a proportion of Total Expenditure
TOL	: Sum of Debt Stock, Reserve Funds, Deposits & Advances and Contingency Fund

NOTES:

1. The analysis in this note is based on 13 states, namely, Andhra Pradesh, Gujarat, Haryana, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Punjab, Rajasthan, Tamil Nadu, Telangana, Uttar Pradesh and West Bengal. The combined GSDP (at current prices) of these states comprised nearly 82% of India's GDP (at current prices) in FY2023.
2. For projecting various parameters for FY2025, ICRA has used the unaudited provisional actuals of FY2024 available from the CAG. The actuals for FY2024 will be available in the FY2026 state budgets, and could be different from the amounts included in the FY2024 PA.
3. ICRA makes the following adjustments in the SONTR of the state governments: (a) interest from departmental commercial undertakings (contra entry) is subtracted from revenue receipts and revenue expenditure (b) receipts from lotteries are netted for lottery expenditure (c) sale of land is treated as a capital receipt and is subtracted from SONTR and added to capital receipts. The SONTR has been adjusted for all years except FY2024 PA for all 13 states, barring Kerala and Telangana. For these two states the estimates from FY2024 RE have been adjusted from the FY2024 PA.
4. The data on the FY2024 GSDP at current prices is available for Andhra Pradesh, Haryana, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Punjab, Rajasthan, Tamil Nadu, Telangana, Uttar Pradesh, and West Bengal. Gujarat's data is not available on the NSO's website and ICRA has assumed a 15.0% growth for its FY2024 GSDP. ICRA has assumed a YoY increase of 10.7% for estimating the FY2025 GSDP of the 13 states, in line with ICRA's forecasts of the nominal GDP of India for FY2025. The comparative analysis of GSVA composition of the 12 states with the national average is for the period FY2019-FY2024, and from FY2019 to FY2023 for Gujarat.
5. The expenditure on salary for Gujarat, Karnataka, Uttar Pradesh and West Bengal is not available for FY2024 PA, and ICRA has assumed it at the FY2024 RE level; for the remaining nine states, the salary estimate included in FY2024 PA has been used.
6. In FY2024 PA, the power subsidy of the 13 states is not included as a separate line item under their revenue expenditure. Therefore, we have retained the power subsidy amount for FY2024 PA at FY2024 RE level.

OVERVIEW



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Exhibit: Revenue and fiscal balances (Rs. trillion)

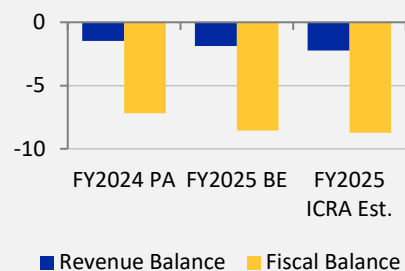
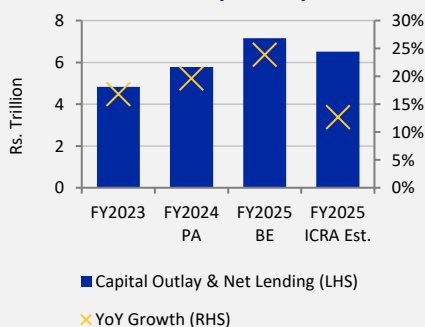


Exhibit: Trends in capital expenditure



Source: CAG; State Budgets; ICRA Research

ICRA estimates the combined revenue deficit of 13 state governments in FY2025 to exceed the level indicated in the FY2025 BE by Rs. 377 billion. The states' own tax revenues, the key driver of their revenues, are forecast to expand by a healthy 11.4% in FY2025; nevertheless, this would trail the optimistic 19.4% growth anticipated in BE. Additionally, ICRA is circumspect of the sharp turnaround in grants from the Centre budgeted by several states in the sample in FY2025, following a double-digit contraction in this revenue stream in the provisional actuals for FY2024. Lower-than-expected revenues and, more importantly, a dull start to capital spending in the initial months of FY2025 could restrict the combined capex of 13 states to Rs. 6.5 trillion in FY2025, below the budgeted Rs. 7.2 trillion. These forecasts imply a modest slippage in the combined fiscal deficit of the 13 states to Rs. 8.8 trillion in FY2025 from Rs. 8.5 trillion in BE. The fiscal deficit would be funded by a mix of market borrowings and funds under the Scheme for Special Assistance to States for Capital Investments (herein referred to as 'capex loan'). Although the Gol has enhanced the allocation for the latter to Rs. 1.5 trillion in July 2024 from Rs. 1.1 trillion in February 2024, its utilisation to the full extent in FY2025 appears somewhat unlikely.

Revenue receipts to increase by 10% in FY2025, higher than 7% in FY2024 PA, while trailing the 18% growth in BE: State GST, excise duty and S&R collections, are expected to expand by 11-13% in FY2025. After some tepidness in discretionary spending in Q1 FY2025, ICRA expects a revival of rural demand in H2 FY2025, aided by a healthy kharif harvest. Sales tax collections, in particular, are expected to grow by 5.5% in FY2025, after an insipid performance in FY2024. In the event that the Gol cuts the retail prices of auto fuels in the coming months, it could drag the modest growth expected from this revenue stream in FY2025, unless states increase their VAT rates. Additionally, we expect the tax devolution in FY2025 to be in line with that indicated by the Gol for this fiscal. In absolute terms, the YoY decline in the FC and other grants in FY2025 is expected to offset the rise projected in scheme related grants. This will lead to a mild dip in total combined grants of 13 states in FY2025 from FY2024 PA, which contrasts with the sharp turnaround in grants expected by several states in their BE.

Revenue deficit to widen and YoY growth of capex expected to moderate in FY2025: Lower-than-expected revenue receipts may warrant some recalibration of revenue expenditure by most of the sample states in FY2025 from their BE. ICRA estimates the combined revenue deficit of the 13 states at Rs. 2.2 trillion in FY2025, higher than Rs. 1.9 trillion in BE and Rs. 1.5 trillion in FY2024 PA. Additionally, with a 13.5% contraction in capital spending during 4M FY2025 and heavy rainfall in some of the states in Q2 FY2025, capital spending by the states appears set for a back-ended surge in H2 FY2025. ICRA forecasts a 12.6% expansion in combined capex of sample states in FY2025, lower than ~24% growth in BE and 19.6% growth in FY2024 PA. ICRA assesses Gujarat, Karnataka, Maharashtra and TN to have adequate fiscal space for meeting their budgeted capex in FY2025, while expecting some undershooting by the remaining sample states.

Combined fiscal deficit in FY2025 to exceed BE with leverage levels expected to rise mildly: ICRA estimates the sample's aggregate fiscal deficit for FY2025 at Rs. 8.8 trillion, modestly higher than Rs. 8.5 trillion in BE and Rs. 7.2 trillion in FY2024 PA. The combined leverage (debt+guarantees) level of the sample set is expected to inch up to 30.0% of GSDP in FY2025 from 29.2% of GSDP in FY2024 PA, with continuing variation across the states. Notably, the sharp increase in guarantees extended by a few sample states in recent years poses a concern.

ABOUT ICRA

ICRA Limited (formerly Investment Information and Credit Rating Agency of India Limited) was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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