

THE GOOD AND BAD OF STATE FINANCES

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A collateral casualty of pandemic seems to be the fiscal situation of states, as our comprehensive analysis of finances of 18 states demonstrates that the average fiscal deficit (as % of GSDP) has been revised upwards by 50 bps to 4.0% for FY22, with 6 states slithering towards the red line, reporting fiscal deficit more than 4% of GSDP. Fiscal deficit of seven states exceeded their budgeted target though 11 states have been able to keep their fiscal deficit equal to or lower than their budgeted numbers during FY22. Notably, Bihar (8.3% of GSDP or Rs 54,327 crore over its BE) and Assam (4.5% of GSDP or Rs 21,935 crore over its BE) exceeded their fiscal deficit significantly as per RE FY22, while Arunachal Pradesh, Jharkhand, Kerala, Maharashtra and Rajasthan too join the club of states having higher fiscal deficit than their BE. For FY23, states have budgeted lower fiscal deficit of 3.4% with combined fiscal deficit for these 18 states projected at Rs 7.2 lakh crore, though the group numbers seem shrouded in uncertainty given the constraints in receipts, adherence to fiscal discipline and hyper adventurism embraced by a select few.

An interesting anecdote in India is that if we apply a bottom up approach to estimating India's GDP by aggregating GSDP across states, the figures have significantly widened in FY21, to the extent of at least 5.7% of GDP. The dichotomy of growth numbers by the Centre and States brings forth interesting divergences in geographical aspirations, and ensuing imbalances going forward as states like Andhra Pradesh, Assam, Gujarat, Haryana, Maharashtra, Rajasthan, Telangana and West Bengal show their real GSDP growth much higher than the overall GDP growth of the country even while overall growth for 17 states (estimated by States in their budgets) is slightly lower than India's real GDP growth! There has always been a gap between India's GDP and GSDP given by the States and UTs.

States' capex in FY22 grew by a whopping 36.2% in response to the need to upscale health infrastructure in the face of the multi-year nature of pandemic. Capex outlays have also been increased for urban development, water supply and sanitation, irrigation and transport. **States' total expenditure is budgeted to increase moderately in FY23, likely to be driven by a significant slowdown in capex (average growth of 21 states is 13.8%), while revenue spending should remain compressed (average: 8.5%).**

Committed expenditure of a state typically consisting of expenditure on payment of salaries, pensions, and interest is steadily on the rise in the last three years with its share in the revenue receipts now standing at 56% in FY23 budgeted figures. **Incidentally, a larger proportion of the budget allocated for committed expenditure items limits the state's flexibility to decide on other expenditure priorities such as developmental schemes and capital outlay. It has increased by 6% in FY23 budgeted figures; salaries component up 6.8%, interest payments up 8.7% and pension payment up 12.2%.**

At the time of GST's introduction, States' revenue subsumed under GST was legislatively protected for the transition period of five years (July 2017 to June 2022) with the assumption of a constant growth of 14% per annum. Any shortfall was to be funded through additional taxation (compensation cess) on sin/luxury goods. The slowdown in economic activity ensured a shortfall in cess collection in FY20 which increased further in FY21. In Oct'20, the Union Government decided to borrow Rs 1.10 lakh crore from the market in lieu of compensation cess for shortfall in their revenue in FY21. Apart from Rs 1.10 lakh crore compensation, the Centre had also provided Rs 0.91 lakh crore to States out of the GST compensation fund in FY21.

Most states want the Union Government to pay the GST compensation for an additional five years (post Jun'22). **As for some of the states, the GST compensation as % of state's tax revenue is more than 20%. However, many states are offering freebies like farm loan waiver, restoring old pension system, etc, which are economically unsustainable given the financially bad shape of many states. For example, Telangana has committed 35% of revenue receipts of the state to finance several populist schemes. States like Rajasthan, Chhattisgarh, Andhra Pradesh, Bihar, Jharkhand, West Bengal and Kerala have all committed to spend 5-19% of their revenue receipts on such schemes. In terms of percentage of state own tax revenue, this is as much as 63% for some of the states.** Clearly, states seem to be currently living beyond their means and it is imperative that states rationalize their spending priorities in accordance with revenue receipts.

In FY23, the net borrowings of states are pegged at Rs 6.6 lakh crore, while gross borrowings are expected to come around Rs 9 lakh crore after taking a repayment of around Rs 2.4 lakh crore. Thus, total gross borrowing of the Centre and States for FY23 comes to 24 lakh crore while net borrowing stands at Rs 18.4 lakh crore.

STATE'S FISCAL DEFICIT

- ◆ The pandemic affected the state's fiscal situation adversely in FY21. However, in FY22 the impact has been relatively less.
- ◆ Our comprehensive analysis of finances of 18 states demonstrates that the average fiscal deficit as % of GSDP has been revised upwards by 50 bps to 4.0% for FY22. There are 6 states which have fiscal deficit more than 4% of GSDP.
- ◆ While 11 states have been able to keep their fiscal deficit equal to or lower than their budgeted numbers, fiscal deficit of seven states exceeded their budgeted target for FY22.
- ◆ Notably, Bihar (8.3% of GSDP or Rs 54,327 crore over its BE) and Assam (4.5% of GSDP or Rs 21,935 crore over its BE) exceeded their fiscal deficit significantly as per RE FY22. Other states having higher fiscal deficit than their BE include Arunachal Pradesh, Jharkhand, Kerala, Maharashtra and Rajasthan.
- ◆ For FY23, states have budgeted lower fiscal deficit of 3.4%. The combined fiscal deficit for 18 states is projected at Rs 7.2 lakh crore.

STATE-WISE GSDP GROWTH

- ◆ At all India level, NSO has estimated 8.9% growth in real terms and 19.4% in nominal terms for FY22. For FY23, Union Budget 2022-23 projected nominal growth of 11.1%. States have also put forward their estimates for FY22 & FY23.
- ◆ There has always been a gap between India's GDP and GSDP given by the States and UTs. India's GDP level has been higher than the State's GSDP since FY15, however, it has been lower than the State's estimates in the last two years.
- ◆ In FY20 estimated real GSDP given by the States was higher than the country's real GDP by Rs 2.1 lakh crore and this increased further to Rs 7.8 lakh crore in FY21.
- ◆ Using the average CPI inflation as a proxy for State GDP deflator, we re-estimated the real GSDP estimates of states.
- ◆ We have two observations to ponder. *First*, overall growth for 17 states estimated by States in their budgets is slightly lower than India's real GDP growth. *Second*, for some states real GSDP is much higher than the overall GDP growth of the country. The prominent states among them include: Andhra Pradesh, Assam, Gujarat, Haryana, Maharashtra, Rajasthan, Telangana and West Bengal.

States' Fiscal Deficit (% of GSDP)				
States	2020-21	2021-22 (BE)	2021-22 (RE)	2022-23 (BE)
Andhra Pradesh	5.6	3.5	3.2	3.6
Arunachal Pradesh	2.3	2.2	2.6	2.2
Assam	3.0	4.0	8.5	3.2
Bihar	4.8	3.0	11.3	3.5
Chhattisgarh	4.5	4.6	3.8	3.3
Gujarat	2.4	1.6	1.5	1.6
Haryana	2.9	3.8	3.0	3.0
Himachal Pradesh	3.6	4.5	4.1	5.0
Jharkhand	4.2	2.8	3.0	2.8
Karnataka	3.7	3.5	2.8	3.3
Kerala	4.4	3.5	4.2	3.9
Madhya Pradesh	5.4	4.5	4.2	4.6
Maharashtra	2.6	2.2	2.8	2.5
Odisha	1.8	3.5	0.4	3.0
Rajasthan	5.9	4.0	5.2	4.4
Tamil Nadu	4.6	4.3	3.8	3.6
Telangana	5.1	3.9	3.9	4.0
West Bengal	3.4	4.0	3.5	3.6
Average of 18 States	3.9	3.5	4.0	3.4
Total of 18 States (Rs crore)	673509	649432	706050	719094

Memo: Union Budget FY23 (% of GDP)

India	9.2	6.8	6.9	6.4
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Source: SBI Research

Real GDP (Rs Cr)			
	India's Overall Real GDP(A)	Total State GSDP(B)	Gap (A-B)
FY15	10527674	10304870	222803
FY16	11369493	11186824	182669
FY17	12308193	12223250	84944
FY18	13144582	13095076	49506
FY19	13992914	13964649	28265
FY20	14515958	14729660	-213702
FY21	13558473	14335601	-777127

Source: MOSPI, SBI Research, FY21 missing states are estimated from budget documents

GSDP Growth for FY22 (%)			
State	Nominal GSDP Growth as per budget	CPI inflation average FY22	Real GSDP Estimate adjusted with inflation
Andhra Pradesh	18.0%	6.0%	12.0%
Assam	16.1%	3.3%	12.8%
Bihar	9.8%	4.4%	5.4%
Chhattisgarh	13.6%	5.0%	8.6%
Gujarat	17.4%	5.5%	11.9%
Haryana	18.1%	6.1%	12.0%
Himachal Pradesh	11.9%	6.7%	5.1%
Jharkhand	2.8%	4.0%	-1.3%
Karnataka	-4.6%	6.2%	-10.8%
Kerala	12.8%	4.5%	8.3%
Madhya Pradesh	13.0%	6.5%	6.5%
Maharashtra	17.9%	5.8%	12.2%
Odisha	10.1%	3.7%	6.4%
Rajasthan	18.0%	4.4%	13.6%
Tamil Nadu	14.6%	6.1%	8.5%
Telangana	19.1%	7.1%	11.9%
West Bengal	17.9%	5.5%	12.4%
Average of 17 States	12.8%	5.4%	8.0%

Memo: NSO estimate for FY22

India Nominal GDP	-	19.4%
India Real GDP	-	8.9%

Source: SBI Research, MOSPI, State budget documents

PENSION BURDEN DUE TO REVERT TO OLD PENSION

- ◆ Some of the states have announced revert to old pension scheme. Notably Rajasthan and Chhattisgarh have formally started the process.
- ◆ It is estimated that aggregate pension liability will be of the order of Rs 31.04 lakh crore. In the absence of state specific data, the approximate burden on Rajasthan and Chhattisgarh can be made using the proportionate rule. The proportions being the share of pension outlay of state in total pension outlay of all states. For Rajasthan this works out to 6% and for Chhattisgarh at 1.9%.
- ◆ **Thus, the burden on Rajasthan works out at Rs 1.86 lakh crore and for Chhattisgarh at Rs 0.60 lakh crore.**

EXPENDITURE (REVENUE AND CAPITAL)

- ◆ States' total expenditure is budgeted to increase moderately in FY23. This expenditure growth is expected to be driven by capex (average growth of 21 states is 13.8%), while revenue spending will be compressed (average: 8.5%).
- ◆ States' capex in FY22 grew by a whopping 36.2% as a result of the need to upscale health infrastructure in the face of the multi-year nature of pandemic as higher spending is budgeted in medical and public health. Capex outlays have also been increased for urban development, water supply and sanitation, irrigation and transport.
- ◆ Revenue expenditure also increased sharply (average growth of 21 states was 20.7%), reflecting the measures taken by states to support life and livelihood.

COMMITTED EXPENDITURES

- ◆ Committed expenditure of a state typically includes expenditure on payment of salaries, pensions, and interest. A larger proportion of the budget allocated for committed expenditure items limits the state's flexibility to decide on other expenditure priorities such as developmental schemes and capital outlay.
- ◆ It has increased by 6% in FY23 budgeted figures. The salaries component has seen rise of 6.8% in FY23 budgeted figures, interest payments rise of 8.7% and pension payment have seen rise of 12.2%.
- ◆ Thus, the share of committed expenditure in the revenue receipts now stands at 56% in FY23 budgeted figures. The share is steadily rising in the last three years.

State	Revenue Expenditure (Rs crore)						
	2020-21	2021-22 (BE)	2021-22 (RE)	2022-23 (BE)	FY22 RE/ FY22 BE	FY22 RE/ FY21	FY23 BE/ FY22 RE
Andhra Pradesh	152678	182197	173818	208261	-4.6	13.8	19.8
Arunachal Pradesh	13087	15344	17696	18202	15.3	35.2	2.9
Assam	64520	84405	99753	96367	18.2	54.6	-3.4
Bihar	139493	177071	206318	191957	16.5	47.9	-7.0
Chhattisgarh	70033	83028	85016	88372	2.4	21.4	3.9
Delhi	40414	51799	50862	53687	-1.8	25.9	5.6
Gujarat	150704	166761	162306	181040	-2.7	7.7	11.5
Haryana	89947	116927	105119	116199	-10.1	16.9	10.5
Himachal Pradesh	33535	38491	37034	40279	-3.8	10.4	8.8
Jharkhand	59264	75755	73364	76273	-3.2	23.8	4.0
Karnataka	176054	187405	195814	204587	4.5	11.2	4.5
Kerala	123446	147891	149803	157066	1.3	21.4	4.8
Madhya Pradesh	164733	172971	177398	198916	2.6	7.7	12.1
Maharashtra	310610	379212	392857	427780	3.6	26.5	8.9
Mizoram	8515	9216	10487	10007	13.8	23.2	-4.6
Odisha	95311	119567	120365	144349	0.7	26.3	19.9
Rajasthan	178309	208080	225121	238466	8.2	26.3	5.9
Tamil Nadu	236402	261189	259151	284188	-0.8	9.6	9.7
Telangana	123212	169383	151732	189275	-10.4	23.1	24.7
Tripura	14368	20073	20355	21607	1.4	41.7	6.2
West Bengal	177921	213437	208995	226327	-2.1	17.5	8.3
Total of 21 States	2422555	2880203	2923364	3173203	1.5	20.7	8.5
<i>Memo: Central Government</i>							
Union Budget FY23	3083519	2929000	3167289	3194663	8.1	2.7	0.9
Source: SBI Research							

State	Capital Expenditure (Rs crore)						
	2020-21	2021-22 (BE)	2021-22 (RE)	2022-23 (BE)	FY22 RE/ FY22 BE	FY22 RE/ FY21	FY23 BE/ FY22 RE
Andhra Pradesh	18975	31198	18529	30680	-40.6	-2.3	65.6
Arunachal Pradesh	5123	6328	7372	6701	16.5	43.9	-9.1
Assam	14635	23151	36801	23184	59.0	151.5	-37.0
Bihar	26203	41231	49156	45735	19.2	87.6	-7.0
Chhattisgarh	9024	13839	14191	15241	2.5	57.3	7.4
Delhi	12054	17201	16138	22113	-6.2	33.9	37.0
Gujarat	45936	56572	54690	59394	-3.3	19.1	8.6
Haryana	7595	10557	20104	26005	90.4	164.7	29.4
Himachal Pradesh	5309	6013	7099	5647	18.0	33.7	-20.5
Jharkhand	14590	15522	15844	24828	2.1	8.6	56.7
Karnataka	45406	41358	39482	43573	-4.5	-13.0	10.4
Kerala	15438	14141	14997	16522	6.1	-2.9	10.2
Madhya Pradesh	31586	44152	40415	48800	-8.5	28.0	20.7
Maharashtra	91115	104879	103781	120627	-1.0	13.9	16.2
Mizoram	2747	1933	5904	4002	205.5	115.0	-32.2
Odisha	28798	50433	44635	55651	-11.5	55.0	24.7
Rajasthan	56784	42667	93973	107717	120.2	65.5	14.6
Tamil Nadu	33068	42181	37936	43043	-10.1	14.7	13.5
Telangana	15922	29047	25955	29728	-10.6	63.0	14.5
Tripura	1576	2651	3353	5286	26.5	112.7	57.7
West Bengal	34045	65291	52152	64703	-20.1	53.2	24.1
Total of 21 States	515931	660345	702506	799178	6.4	36.2	13.8
<i>Memo: Central Government</i>							
Union Budget FY23	426317	554236	602711	750246	8.7	41.4	24.5
Source: SBI Research							

States	Trends in Committed Expenditure					
	Committed Expenditure (Rs Crore)			Committed Expenditure as % of Revenue Receipt		
	2020-21	2021-22 (RE)	2022-23 (BE)	2020-21	2021-22 (RE)	2022-23 (BE)
Bihar	52,778	64,238	70,307	41.2	38.0	35.7
Chhattisgarh	34,399	39,941	42,667	54.4	47.6	47.9
Gujarat	75,453	76,757	82,730	58.9	47.1	45.4
Haryana	48,751	54,085	60,633	67.8	58.4	57.0
Jharkhand	24,677	28,268	30,651	43.9	36.1	36.9
Karnataka	72,705	89,004	94,699	46.4	46.9	49.9
Kerala	67,647	93,350	94,781	69.3	79.2	70.7
Madhya Pradesh	69,955	82,142	95,627	47.8	47.8	49.0
Maharashtra	1,77,775	2,02,126	2,35,049	66.0	55.8	58.3
Rajasthan	99,261	1,13,346	1,19,662	73.9	59.8	55.7
Tamil Nadu	1,18,737	1,28,933	1,55,714	68.2	63.2	67.3
Telangana	55,547	54,894	-	55.0	35.2	-
West Bengal	1,11,836	1,18,668	1,22,633	75.4	67.4	61.9
Assam	42,331	47,518	56,766	64.2	49.5	57.0
Himachal Pradesh	22,709	24,578	28,058	67.9	65.9	77.1
Tripura	9,154	11,661	12,576	68.9	59.3	59.8
Nagaland	8,190	9,301	10,706	71.7	72.7	66.6
Source: SBI Research						

GST Compensation (Grants + Loans) in Rs crore								
State	GST Compensation Grants			GST Compensation Loans			Total GST Compensation (FY22 RE)	as % to State's Tax revenue
	2020-21	2021-22 (RE)	2022-23 (BE)	2020-21	2021-22 (RE)	2022-23 (BE)		
Andhra Pradesh	3527	4500	3800	2311	2609	2500	7109	10%
Assam	2364	3046	930	994	1774	-	4820	22%
Bihar	4359	3500	3500	3609	6816	-	10316	29%
Chhattisgarh	3212	1535	1750	3109	-	-	1535	6%
Delhi	5522	6000	10000	5865	6193	-	12193	32%
Gujarat	11335	6587	5000	9222	13040	-	19627	20%
Haryana	5066	2321	2400	4352	-	-	2321	4%
Himachal Pradesh	1764	2695	1700	1717	0	0	2695	28%
Jharkhand	1958	2096	500	1689	1981	1915	4077	20%
Karnataka	13789	25267	5000	12407	-	-	25267	23%
Kerala	6721	3091	5273	5766	-	-	3091	5%
Madhya Pradesh	5293	4110	5000	4542	-	-	4110	6%
Maharashtra	17423	21218	9725	-	13782	-	35000	15%
Rajasthan	5633	4107	6768	4604	7268	-	11375	14%
Tamil Nadu	10603	6955	11972	6241	8095	6500	15050	12%
Telangana	-	-	-	2380	-	-	-	-
West Bengal	5776	5100	5500	4431	6425	-	11525	16%
Total (17 states)	104345	102128	78818	73239	67983	10915	170111	23%

Source: PRS; SBI Research

Goods and Services Tax (CGST+SGST+IGST) (Rs crore)							
State	2020-21	2021-22 (BE)	2021-22 (RE)	2022-23 (BE)	FY22 RE/ FY22 BE	FY22 RE/ FY21	FY23 BE/ FY22 RE
Andhra Pradesh	26095	39703	33325	39876	-16.1	27.7	19.7
Arunachal Pradesh	4011	4252	4585	5233	7.8	14.3	14.1
Assam	14047	17906	18714	20272	4.5	33.2	8.3
Bihar	33839	45901	44816	50001	-2.4	32.4	11.6
Chhattisgarh	13994	16665	18582	20200	11.5	32.8	8.7
Delhi	15676	23800	21500	26000	-9.7	37.2	20.9
Gujarat	35489	69758	57312	67288	-17.8	61.5	17.4
Haryana	20143	26650	34786	35755	30.5	72.7	2.8
Himachal Pradesh	4887	5927	6492	7356	9.5	32.9	13.3
Jharkhand	13794	14793	15188	17250	2.7	10.1	13.6
Karnataka	43947	53790	55003	62999	2.3	25.2	14.5
Kerala	23354	41062	30062	42637	-26.8	28.7	41.8
Madhya Pradesh	31204	39881	41582	46050	4.3	33.3	10.7
Maharashtra	80843	131392	123129	136839	-6.3	52.3	11.1
Mizoram	1356	1613	1759	1939	9.0	29.7	10.2
Odisha	21203	24737	27943	31621	13.0	31.8	13.2
Rajasthan	31357	50621	46674	55659	-7.8	48.8	19.2
Tamil Nadu	45349	51072	52565	60503	2.9	15.9	15.1
Telangana	25905	35520	35520	42189	0.0	37.1	18.8
Tripura	2315	2643	3007	3324	13.8	29.9	10.5
West Bengal	39295	49160	50545	56287	2.8	28.6	11.4
Total of 21 States	528101	746847	723089	829276	-3.2	36.9	14.7

Memo: Central Government
 Union Budget FY23 548778 630000 675000 780000 7.1 23.0 15.6
 Source: SBI Research

GST REVENUE AND COMPENSATION

- States' GST (CGST + SGST + IGST) revenue which increased by a whopping 36.9% in FY22 due to low base and opening of economy may normalise in FY23. Most of the states projected moderate growth in the range of 10-20% for FY23. Centre has also projected GST revenue growth at 15.6%.
- At the time of its introduction, States' revenue subsumed under GST was legislatively protected for the transition period of five years (July 2017 to June 2022) with the assumption of a constant growth of 14% per annum over the FY16 revenue base. Any shortfall was to be funded through additional taxation (compensation cess) on sin/luxury goods. The compensation cess collections were sufficient for the Centre to cover the shortfall in GST collections of State governments in FY18 and FY19. However, there was a shortfall in cess collection due to the slowdown in economic activity in FY20, which increased further in FY21 due to the crippling effect of the pandemic on government finances. In Oct'20, the Union Government decided to borrow Rs 1.10 lakh crore from the market in tranches and provide them as back-to-back loans to States in lieu of compensation cess for shortfall in their revenue in FY21. Apart from Rs 1.10 lakh crore compensation, the Centre had also provided Rs 0.91 lakh crore to States out of the GST compensation fund in FY21.
- States want the Union Government to pay the GST compensation for an additional five years (post Jun'22) to help them tide over the financial stress triggered by the pandemic. As for some of the states the GST compensation as % of state's tax revenue is more than 20%.

STATE GOVERNMENT BORROWINGS & STATE FINANCES

- In the Budget for FY23, Central Government has allocated Rs 1 lakh crore to assist the states in catalysing overall investments in the economy: fifty-year interest free loans, over and above normal borrowings. As per finance commission, States will be allowed a fiscal deficit of 4% of GSDP, of which 0.5% will be tied to power sector reforms, for which the conditions have already been communicated in 2021-22.
- The FRBM committee recommended a glide path to reach the combined debt to GDP of Centre and States to 60% by FY23, (40% of the Centre and 20% of the States). However, the projections of FRBM have gone awry owing to the Covid-19 pandemic with the Centre debt expected at 60% of GDP and States debt at 34% of GSDP in FY23.

Total Outstanding Liabilities				
Year	Rs Lakh Crore		% of GDP	
	Centre	State	Centre	State
2019	94	48	49.8%	25.3%
2020	105	54	52.2%	26.3%
2021	114	61	57.8%	31.1%
2022	140	69	59.0%	31.2%
2023(BE)	152	-	59.0%	33.5%

Source: SBI Research, RBI, State and union Budget Documents, FY23 State % is average of 15 States

- ◆ States' gross borrowings was Rs 7.0 lakh crore in FY22. For FY23, there is a ceiling of net borrowing at 4% of GDP and additional 0.5% of GDP conditional borrowing by States announced by the Government. Under the conditional borrowing, the states may commit to reforms and be eligible for increased borrowing space of ~Rs 80,000 Crores. In FY22, 24 states have take benefits of the same and availed additional borrowing limits of more than Rs 13,000 Crore.
- ◆ In FY23, the net borrowings are pegged at Rs 6.6 lakh crore and gross borrowings are expected to come around Rs 9 lakh crore after taking a repayment of around Rs 2.3 lakh crore. Thus, total gross borrowing of the Centre and States for FY23 comes to 24 lakh crore while net borrowing stands at Rs 18.4 lakh crore.
- ◆ As per the borrowing calendar of RBI for Q1FY23, around Rs 1.9 lakh crore is proposed to be borrowed in Q1, which is 21% of the total estimated borrowing for FY23.

STATES' FREEBIES IS A MATTER OF CONCERN

- ◆ Many states are offering freebies like farm loan waiver, restoring old pension system, etc., announced in recent assembly polls, which are economically unsustainable given the financially bad shape of many states.
- ◆ For example, Telangana has committed 35% of revenue receipts of the state to finance the several populist schemes. In terms of percentage of states' own tax revenue it is as whopping as 63%. Clearly, this is unsustainable and might be a potential recipe for fiscal disaster going forward.
- ◆ States like Rajasthan, Chhattisgarh, Andhra Pradesh, Bihar, Jharkhand, West Bengal and Kerala have all committed to spend 5-19% of its revenue receipts on such schemes. In terms of percentage of state own tax revenue, this is as much as 53% for some of the states. Clearly, states seems to be currently living beyond their means and it is imperative that states rationalize their spending priorities in accordance with revenue receipts.

State Borrowings(in Rs Cr)			
	2021-22	2022-23 (P)	Q1 FY23
Andhra Pradesh	46443	55000	17000
Arunachal Pradesh	563	1076	0
Assam	12753	11516	3700
Bihar	28489	19414	0
Chhattisgarh	4000	10400	2000
Gujarat	31054	45000	9000
Haryana	30500	35000	6000
Himachal Pradesh	4000	7202	2500
Jharkhand	5000	8465	0
Karnataka	59000	46173	0
Kerala	27000	39132	9000
Madhya Pradesh	24000	39383	9000
Maharashtra	66750	100000	32000
Mizoram	747	900	225
Nagaland	1727	974	300
Odisha	0	2259	0
Rajasthan	51149	43659	10500
Tamil Nadu	87000	101500	23500
Telangana	45716	53970	15000
Tripura	300	2795	0
West Bengal	67390	73286	10000
Others	108045	209131	40650
All States and UTs	701626	906233	190375
Repayment	209143	239562	-
Net Borrowing	492483	666670	-

Source: State Budget documents, RBI, SBI Research

Annexure 1

Major schemes and the amount allocated in FY23 BE			
State	Scheme	Allocation (Rs crore)	% of revenue receipts (% of states own tax Revenue)
Telangana	Rythu Bandhu Scheme	14800	35%(63%)
	MGNREGS	1460	
	Dalit Bandhu scheme	17700	
	2BHK housing programme	12008	
	Agriculture Loan waiver	4000	
	Aasara pensions	9947	
	National Health Mission	822	
	Transmission Corporation of Telangana Limited for subsidy to agricultural consumers	7665	
Rajasthan	Pradhan Mantri Fasal Bima Yojana and weather-based crop insurance scheme	2200	19%(42%)
	MGNREGS	3937	
	Pension scheme for widows	1754	
	Agriculture loan waiver scheme	1000	
	Chief Minister Samman Old Age pension yojana	4205	
	PM Awas Yojana (Grameen)	7146	
	Mukhya Mantri Chiranjeevi Swasthya Bima Yojana	2228	
	Mukhya Mantri Nishulk Dawa Yojana	768	
	Jal Jeevan Mission	1781	
	Pradhan Mantri Gram Sadak Yojana	1390	
	PMAY (Urban)	200	
	Parvan Pariyojana	813	
Chhattisgarh	MGNREGS	1702	17%(53%)
	Sarva Shiksha Abhiyan and PM-POSHAN	2054	
	Chief Minister Pension Scheme & National Old Age Pension	395	
	Rajiv Gandhi Kisan Nyaya Yojana	6000	
	Pradhan Mantri Fasal Beema Yojana	615	
	National Health Mission	1200	
	PMAY-Rural	800	
Free power supply to agricultural pumps	2600		
Andhra Pradesh	YSR Rythu Bharosa scheme	3900	17%(37%)
	MGNREGS	5000	
	Andhra Pradesh ST and SC Corporation	5319	
	Teaching Grants to Mandal Praja Parishads	8,015	
	Samagra Shiksha Abhiyan	2,136	
	National Health Mission	2462	
	Primary Health Centres	1009	
	Free power supply of nine hours	4500	
	Smart Cities Mission	1000	
Bihar	Allocation towards cash incentives to female students for completing senior secondary	400	11%(53%)
	Mid-day Meal Scheme	300	
	PMGSY	5014	
	MGNREGS	2500	
	Provision of health services in urban areas	3156	
	Incentives to ASHA workers	120	
	Mukhyamantri Vriddhhajan Pension Yojana	810	
	Indira Awas Yojana	8689	
	Organic Farming Including Pradhan Mantri Krishi Sinchai Yojana	221	
Housing for all-Awas yojana	524		
Jharkhand	MGNREGS	1300	11%(36%)
	Old Age Pension Scheme	945	
	Samagra Shiksha & Mid Day Meal	2588	
	National Health Mission	1467	
	Paramparagat Krishi Vikas Yojana	372	
	Tariff subsidy scheme for consumers through Jharkhand Bijli Vitran Nigam Limited	1800	
PMAY (Urban)	360		
West Bengal	Krishak Bandhu scheme	4994	10%(26%)
	MGNREGS	1560	
	Samagra Shiksha & Mid Day Meal	4047	
	Old age pension scheme for SCs and STs	1379	
	PMAY – Gramin	5832	
	Widow Pension	960	
	Housing for All	825	
	Board of Wakfs, West Bengal	143	
	Manabik Scheme under Jai Bangla	686	
	Rashtriya Uchhtar Shiksha Abhiyan	46	
Nijashree Housing Scheme for Low Income Group and Middle Income Group of the Community	2		
Rural Housing for permanent Tea Garden workers	49		
Kerala	Samagra Shiksha & Mid Day Meal	1170	5%(9%)
	Urban Employment Guarantee Scheme	125	
	National health mission	875	
	NOKRA department for welfare of non-resident Keralites	148	
	Subsidies for rubber sector	500	
	Loan for agriculture sector	250	
	Various activities of Kudumbasree	260	
	Welfare activities of SCs and STs	2671	
Jalajeevan mission	1000		

Source: SBI Research, Budget Documents, PRS

Annexure 2State-wise Key Policy Reforms

State:	Policy Reform
Andhra Pradesh	<ul style="list-style-type: none"> • Agriculture and allied activities: To address the problem of spurious seeds, fertilisers, and pesticides, 77 Agri Testing labs will be operationalised from Kharif 2022. The cost of installing electricity meters for agricultural pump sets will be borne by the state government. • Education: In phase III of the Nadu-Nedu program, infrastructure in 24,620 schools will be upgraded. • Special Development Package: To implement development programs at the constituency level, in line with local needs and preferences, a Special Development Package Fund is being established. Every Member of Legislative Assembly will have two crore rupees at their disposal to implement development programs.
Assam	<ul style="list-style-type: none"> • Tax proposals: A green tax will be levied on use of old vehicles to discourage people from using such vehicles. • Roads: Under Mukhya Mantrir Pakipath Nirman Achari, 3,000 km basic all-weather roads will be built. • Food grain procurement: Assam will set up 150 paddy procurement centres and 30 rice receiving depots for commencing decentralised procurement scheme from kharif marketing season 2022-23.
Bihar	<ul style="list-style-type: none"> • Water: In areas facing groundwater scarcity, alternative water resources harnessing surface water will be developed, which will also help in groundwater recharge. • Agriculture: For the promotion of sugarcane, the Bihar Sugarcane Industry Investment Promotion Policy is being considered. Infrastructure for animal health services will be strengthened, and a cattle development institution will be set up. Under the Saat Nischay Yojana-2, programs for the promotion of fishery will be undertaken. Under the Saat Nischay Yojana-2, 361 pucca check dams of up to 30 feet will be built.
Chhattisgarh	<ul style="list-style-type: none"> • Social security: The old pension scheme will be restored in place of the National Pension Scheme. • MLA Fund: The amount for the MLA Fund will be increased from two crore to four crore rupees. • Mukhya Mantri Resham Mission: The Mukhya Mantri Resham Mission will be launched to provide for collection of available rally cocoons in Bastar division and for subsequent yarn production and processing. • Education: The examination fees for Chhattisgarh domicile applicants will be waived off in all professional examinations conducted by the Chhattisgarh PEB and the Chhattisgarh PSC.
Delhi	<ul style="list-style-type: none"> • Startup Policy: In order to promote entrepreneurship, the Delhi government has prepared a Startup Policy (provision of Rs 50 crore has been made). • Delhi's Electronic City: A Delhi Electronic City will be set up to provide employment to people in the sector of electronic manufacturing. • Smart Urban Farming: The government will launch Smart Urban Farming to increase the green cover in Delhi. Subsidised materials and trained gardeners will be provided (especially to women) under this scheme.
Gujarat	<ul style="list-style-type: none"> • Taxation: VAT on petrol and diesel will be reduced by 4.5% and 7.5%, respectively, reducing the selling price by seven rupees per litre. The exemption threshold for professional tax on salaries or wages will be increased Rs 5,999 per month to Rs 12,000 per month. • Women and Child development: Suposhit Mata - Swasth Bal Yojana is being launched to provide for free monthly nutritional supplements to pregnant women and lactating mothers. Total budgetary outlay on the scheme is estimated to be Rs 4,000 crore over five years. • Support for economic activities: Interest subvention scheme for short-term loans to livestock owners and fishermen. Five food parks and five seafood parks will be established to boost exports. An international ceramic park will be established at Morbi for creating new export opportunities. • Increase in subsidies: The quantum of assistance under various scholarship schemes, social security pension schemes, and other financial assistance schemes will be increased.

Annexure 2State-wise Key Policy Reforms

State:	Policy Reform
Haryana	<ul style="list-style-type: none"> • Support to Urban Local Bodies (ULBs): The Divya Nagar Scheme will be introduced to for the development of infrastructural projects (such as public libraries, and sports facilities) in ULBs. • Healthcare: Families with an annual income of up to Rs 1.8 lakh will be provided free basic health check-up once in every two years. • Reimbursement on VAT for MSME sector: Industries in the MSME sector will be provided a 50% reimbursement on VAT collected on natural gas (piped or compressed).
Himachal Pradesh	<ul style="list-style-type: none"> • Social Security: The age limit for old age pension, irrespective of income will be reduced to 60 years for everyone. This will increase the number of beneficiaries entitled to old age pension. • Education: The Shreshth Shiksha Gunvatta Protsahan Yojana will be introduced. Under this scheme, government schools will be ranked on the basis of their learning outcomes. • Promoting use of drones: The Governance and Reforms Using Drones (GARUD) scheme will be launched to promote drones and drone flying schools.
Jharkhand	<ul style="list-style-type: none"> • Rural Development: Under Pradhan Mantri Awas Yojana - Grameen, construction of the remaining 5.22 lakh houses will be completed. The state government will provide an additional sum of Rs 50,000 per household for the construction of another room in the house. • Education: To facilitate the availability of credit for students availing higher education, the Guruji Credit Card Scheme is proposed. Further, the Marang Gomke Jaipal Singh Munda Trans-National Scholarship scheme will now be extended to students of Scheduled Caste, Backward and Minority communities. • Food and Public Distribution: The state government proposes to launch a scheme to distribute pulses to families (covered under the National Food Security Act and Jharkhand Food Security Scheme) at the rate of one rupee per kilogram.
Karnataka	<ul style="list-style-type: none"> • Agriculture: Raitha Shakti scheme will be launched to encourage the use of farm machinery by giving diesel subsidy of Rs 250 per acre. Yashashwini scheme will be re-introduced to provide medical facilities to farmer families of rural areas. Ksheera Samruddhi Sahakara Bank will be established for giving loans to milk producers. • Industry: Karnataka Special Investment Region Act will be formulated for the establishment, operation, control, and management of mega industrial regions. Initially, Tumakuru and Dharwad districts will be notified as Special Investment Region. • Health: Namma Clinics will be established in major cities of Karnataka and in all wards of Bengaluru. These clinics will provide testing facilities for non-communicable diseases.
Kerala	<ul style="list-style-type: none"> • Tax proposals: The basic land tax rates would be increased in a calibrated manner across all slabs. Further, a new slab of above 40.47 acres would be introduced in Gram Panchayats, Municipalities, and Corporations. Motor vehicle tax on motor cycles costing up to two lakh rupees will be increased by 1%. Green tax on old diesel vehicles (more than 15 years) will be increased by 50%. Green tax will also be levied on other diesel vehicles (except motor cycles). • Environment: The state targets to reach net-zero carbon emissions by 2050. Interest subsidy will be given to loans availed by consumers for installing solar panels in their houses. • Skill development: A pilot project for establishing employment entrepreneurship centres in all 14 districts of Kerala will be initiated.
Madhya Pradesh	<ul style="list-style-type: none"> • Welfare: For government servants, the state will increase the dearness allowance from 20% to 31%. • Medical education: MBBS seats in the state will be increased from the existing 2,350 to 3,250 seats. Further, 22 new medical colleges will be functional in the state. • Electric Mobility: The state government has announced that it will install a total of 217 EV charging stations across Bhopal, Gwalior, Jabalpur, and Indore.

Annexure 2State-wise Key Policy Reforms

State:	Policy Reform
Maharashtra	<ul style="list-style-type: none"> • Tax proposals: VAT on CNG will be reduced from 13.5% to 3%. Amnesty schemes for GST and Stamp Duty will be launched. Concession in stamp duty will continue for two more years. • Special program for accelerating economic growth: A special program for accelerating economic growth of the state called “Panchsutri of Development” will be launched. Under this program, about four lakh crore rupees will be spent over next three years in five sectors. • Agriculture: An incentive grant of Rs. 50,000 will be provided to about 20 lakh farmers who repay their loans regularly.
Rajasthan	<ul style="list-style-type: none"> • Pension scheme: Rajasthan will shift from the New Pension Scheme to the old pension scheme for all employees who have joined after January 1, 2004. • Tax proposals: Tax relief will be provided in the form of: (i) 50% rebate on additional one-time tax on used two-wheelers and cars, (ii) SGST reimbursement to purchasers of e-vehicles and up-front assistance to buyers of two-wheelers and three-wheeler e-vehicles, (iii) reduction in stamp duty from 2.5% to 1% on gift deed in favour of daughters-in-law, and (iv) no stamp duty on gift deed in favour of grandsons and granddaughters by their grandparents. • Health: Under Chiranjivi scheme, annual medical insurance cover of Rs 10 lakh for each family will be provided. 1,000 new sub-health centres and 15 new hospitals will be constructed. • Agriculture: The corpus of Chief Minister’s Krishak Sathi Yojana will be enhanced from Rs 2,000 crore to Rs 5,000 crore. 11 new missions will be launched under the scheme.
Tamil Nadu	<ul style="list-style-type: none"> • Education: ‘Perasiriyar Anbazhagan School Development Scheme’ will be launched to modernise government schools over next five years. A knowledge city will be developed through international collaboration. Girl students, who studied from Class 6 to 12 in government schools, will be provided Rs 1,000 per month till the uninterrupted completion of their UG, diploma, and ITI courses. • MSMEs and Industry: A new program will be launched to develop various clusters of micro enterprises. New industrial parks will be set up in five districts. Regional startup hubs will be set up in three districts. A new Footwear and Leather Industry Development Policy will be released. • Environment and land: Tamil Nadu Green Climate Change fund will be set up to fund climate change initiatives. • Administrative Reforms: The government will constitute a committee to propose a roadmap for reforms in HR management in view of high salary and pension burden despite high vacancy.
Telangana	<ul style="list-style-type: none"> • Education: The state’s first women university will be established. An outlay of Rs 100 crore has been proposed for the same. Over the next two years, medical colleges will be established in all districts. • Healthcare: Super specialty hospitals will be established in all four parts of Hyderabad. These institutions will be collectively known as Telangana Institutions of Medical Sciences. • Social security: From next financial year, the age limit for Aasara pension (old age pension scheme) will be reduced from 65 years to 57 years.
West Bengal	<ul style="list-style-type: none"> • Tax proposals: The state government has exempted payment of the Rural Employment Cess and the Education cess for the tea industry for the next financial year (FY23). Further, the Agricultural Income cess has been waived off for FY23 to provide relief for small tea gardens. To incentivise electric vehicles (two-wheelers and four-wheelers), the Registration Fees and Road Tax has been exempted for two years, from FY23. This will also be applicable on all categories of CNG vehicles. Further, the 2% rebate on stamp duty and 10% rebate on circle rate for property has been extended till Sep’22. • Social security: Widow pensions will be provided to new eight lakh applicants received through ‘Duare Sarkar’ from April 1, 2022. More than 21 lakh widows will be covered under the scheme.
Source: PRS India; SBI Research	

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