

ARE STATES BECOMING FISCALLY RESPONSIBLE EVEN AS STATE GST COLLECTIONS SHOW A HUGE 25% JUMP IN FY23!

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Our comprehensive analysis of finances of 18 major states demonstrates that the average fiscal deficit as % of GSDP is around 3.6% of GDP for FY23. There are 5 states which have fiscal deficit 4% or more than 4% of GSDP. **Notably, Bihar (8.8% of GSDP or Rs 54,327 crore over its BE) and Punjab (5.2% of GSDP or Rs 21,935 crore over its BE) exceeded their fiscal deficit significantly as per RE FY23. However, these two states have a history of showing higher fiscal deficit in RE which are eventually reduced in the final estimates, mainly because of lower actual expenditure than what their RE suggested. For Bihar (Punjab) fiscal deficit for FY22 RE was 11.3% (5.7%) of GSDP which has been revised down to 3.8% (4.8%) of GSDP. This indicates complete lack of planning fiscal numbers by these states. For FY24, the 18 states have budgeted lower average fiscal deficit of 3.2% of GDP or Rs 8.5 lakh crore.**

Looking at the expenditure side, states have budgeted a growth of around 9% in FY24 compared to over 24% in FY23. This expenditure growth is expected to be driven by capex (average growth of 18 states is 18%), while revenue spending is expected to grow modestly (average: 8%). States' capex in FY23 as per revised estimates is higher than the budgeted estimates by around Rs 25,000 crore. **However if we look at the actual capex by states so far this fiscal till Jan'23, some states like Andhra Pradesh, Jharkhand, Haryana, Punjab, Maharashtra, Rajasthan, Uttar Pradesh and West Bengal have not even achieved 50% of the full year capex estimates so far.** But it seems that the trend is almost similar to FY22 when the average capex of 19 major states was 51.8% of the BE during Apr-Jan period (Apr-Jan FY23: 48.3%). This is despite the Centre's special assistance for capital spending by states, most of which is not linked to any specific reform by states and the compliance conditions are also not rigorous. Further, the stipulation that the amount would be available in tranches with the next instalment available only after a certain percentage of utilisation of the first instalment amount is to promote the adequate utilisation of funds. **Thus it seems that the states do not have the capacity to push up their capital spending.**

The revenue expenditure in FY23 has been revised upwards by Rs 51,000 crore when compared to the BE. The increase in expenditure has been mainly in areas of social welfare and nutrition, education, sports and culture, transport, urban development. For FY24 as well, states have higher allocation to various pension schemes, power subsidies and assistance for electricity boards all of which do not help in enhancing growth capacity. **For instance, Bihar has committed 21% of states own tax revenue on just three schemes including pension for elderly, subsidies for power and agriculture sector. Even Andhra Pradesh has allocated a significant amount of 27% of its own tax revenue to two schemes, loan waiver for SHGs women and pension for senior citizen, disabled and transgenders.** The larger proportion of the budget allocated to committed expenditure (salary, interest and pension) items limits their flexibility to decide on other priorities such as developmental schemes and capital outlay. In FY24, the states have projected committed expenditure to increase further by 9.7%, with pension outlay expected to increase maximum by 13.8%, followed by interest payments (9.7%) and salaries (8.9%). Clearly, this is unsustainable and might be a potential recipe for fiscal disaster going forward. States seem to be currently living beyond their means and it is imperative that states rationalize their spending priorities in accordance with own tax revenue/revenue receipts. Instead of such expenditures, states should have made provision for areas like PLI scheme or renewable energy which are essential for long term development.

On the revenue front, States' GST (CGST + SGST) revenue increased by a whopping 25% in FY23 owing to higher compliance. For FY24, GST revenue is budgeted to increase by 16% with most of the states projecting moderate growth in the range of 10-20%. Only a few states have budgeted small amount of GST compensation indicating the end of GST compensation regime after the expiry of the initial five years. **Meanwhile, the states own tax revenue is expected to grow at 21% in FY23 and for FY24 states have budgeted the average growth of 16% to around Rs 19.5 lakh crore.** However, this seems to be on the higher side as some state as Uttar Pradesh has budgeted 42% yoy growth in FY24 over FY23. Even Jharkhand has budgeted higher growth of 25% in FY24.

As far as borrowing for FY24 is concerned, the Central Government has allocated Rs 1.3 lakh crore to assist the states in catalysing investments in the economy through 50 year interest free loans, over and above normal borrowings. As per the Finance Commission, states will be allowed a fiscal deficit of 3% of GSDP, with additional 0.5% tied to power sector reforms. Under the conditional borrowing, the states may commit to reforms and be eligible for increased borrowing space of ~Rs 1.5 lakh crore. Additionally, the Centre is making states to reduce their off-balance sheet borrowing which limits their spending capacity but it is essential and will enhance transparency. In FY24, the net borrowings are pegged at Rs 5.3 lakh crore and gross borrowings are expected to come around Rs 8.2 lakh crore after taking a repayment of around Rs 2.9 lakh crore. Thus, state finances have improved and the allocation to capital expenditure as given by the budget numbers has been increasing but it remains to be seen how much of the capex will states actually achieve.

FISCAL SITUATION MANAGED WELL IN FY23

- ◆ Our comprehensive analysis of finances of 18 major states demonstrates that the average fiscal deficit as % of GSDP has been revised upwards by 20 bps to 3.6% for FY23. There are 5 states which have fiscal deficit 4% or more than 4% of GSDP.
- ◆ While 13 states have been able to keep their fiscal deficit equal to or lower than their budgeted numbers, fiscal deficit of five states exceeded their budgeted target for FY23.
- ◆ Notably, Bihar (8.8% of GSDP or Rs 54,327 crore over its BE) and Punjab (5.2% of GSDP or Rs 21,935 crore over its BE) exceeded their fiscal deficit significantly as per RE FY23. Other states having higher fiscal deficit than their BE include West Bengal, Haryana and Maharashtra.
- ◆ For FY24, states have budgeted lower fiscal deficit of 3.2%. The combined fiscal deficit for 18 states is projected at Rs 8.5 lakh crore.

HIGHER CAPITAL EXPENDITURE BUDGETED

- ◆ States’ total expenditure is budgeted to increase around 9% in FY24 compared to over 24% in FY23. This expenditure growth is expected to be driven by capex (average growth of 18 states is 18%), while revenue spending is expected to grow modestly (average: 8%).
- ◆ States’ capex in FY23 as per revised estimates is higher than the budgeted estimates by around Rs 25,000 crore however if we look at the actual capex by states so far this fiscal till Jan’23, some states like Andhra Pradesh, Jharkhand, Haryana, Punjab, Maharashtra, Rajasthan, Uttar Pradesh and West Bengal have not even achieved 50% of the full year capex estimates so far. But it seems that the trend is almost similar to FY22.
- ◆ Revenue expenditure is budgeted to increase by an average growth of 7.9% in FY24, reflecting the measures taken by states to support life and livelihood. For FY23, the revenue expenditure has been revised upwards by Rs 51,000 crore when compared to the budgeted estimates.
- ◆ An in-depth analysis reveals that states have revised their expenditure upwards in FY23 on various areas including social welfare and nutrition, education, sports and culture, transport, urban development. For FY24 as well, states have higher allocation to pension, power subsidies and assistance for electricity boards, crop insurance (in case of West Bengal) all of which do not help in enhancing growth capacity. State have not made provision for areas like PLI scheme or renewable energy which are essential for long term development.

States' Fiscal Deficit (% of GSDP)				
States	2021-22	2022-23(BE)	2022-23(RE)	2023-24(BE)
Andhra Pradesh	2.1	3.6	3.6	3.8
Bihar	3.8	3.5	8.8	3.0
Chhattisgarh	1.5	3.3	3.2	3.0
Gujarat	1.2	1.6	1.5	1.8
Haryana	2.8	3.0	3.3	3.0
Jharkhand	0.8	2.8	2.3	2.8
Karnataka	3.8	2.8	2.8	2.6
Kerala	4.1	3.9	3.6	3.5
Madhya Pradesh	3.3	4.6	3.8	4.0
Maharashtra	2.1	2.5	2.7	2.5
Odisha	-3.1	3.0	2.9	3.0
Punjab	4.8	3.8	5.2	5.0
Rajasthan	4.0	4.4	4.3	4.0
Tamil Nadu	3.4	3.6	3.0	3.3
Telangana	4.1	4.0	3.2	2.5
Uttar Pradesh	2.1	4.0	4.0	3.5
Uttarakhand	1.4	2.8	2.7	2.7
West Bengal	3.7	3.6	4.0	3.8
Average of 18 States	2.5	3.4	3.6	3.2
Total of 18 States (Rs crore)	581358	807048	831611	850097
Memo: Union Budget FY23 (% of GDP)				
India	6.7	6.4	6.4	5.9
Source: SBI Research				

Capital Expenditure (Rs crore)						
State	2021-22	2022-23(BE)	2022-23(RE)	2023-24(BE)	FY24/FY23	FY23/FY22
Andhra Pradesh	16373	30680	16847	31061	84.4	2.9
Bihar	33903	45735	56137	54037	-3.7	65.6
Chhattisgarh	10504	15241	17079	18660	9.3	62.6
Gujarat	53692	53394	62676	97903	56.2	16.7
Haryana	12012	26005	17465	22658	29.7	45.4
Jharkhand	15087	24828	25023	31742	26.9	65.9
Karnataka	47874	43573	52766	58328	10.5	10.2
Kerala	17046	16522	17535	16728	-4.6	2.9
Madhya Pradesh	44463	48800	48880	56256	15.1	9.9
Maharashtra	49106	67624	77396	81805	5.7	57.6
Odisha	44209	54273	53961	72239	33.9	22.1
Punjab	8010	10981	8513	10355	21.6	6.3
Rajasthan	81401	107717	134150	131973	-1.6	64.8
Tamil Nadu	37011	43043	38347	44366	15.7	3.6
Telangana	28874	29728	26934	37525	39.3	-6.7
Uttar Pradesh	102382	159430	160363	187888	17.2	56.6
West Bengal	49933	64703	52225	65601	25.6	4.6
Uttarakhand	11711	16558	18159	24659	35.8	55.1
Total of 18 States	663592	858834	884458	1043784	18.0	33.3
Memo: Central Government						
Central CapEX	592874	750246	728274	1000961	37.4	22.8
Source: SBI Research						

Capital Expenditure as % of Budgeted (Apr-Jan)					
States	FY23	FY22	States	FY23	FY22
All Major States	48.3	51.8	Madhya Pradesh	65.4	74.4
Andhra Pradesh	24.0	38.7	Maharashtra	33.4	31.6
Arunachal Pradesh	38.7	31.2	Odisha	58.2	49.3
Bihar	58.3	46.2	Punjab	34.2	46.6
Chhattisgarh	52.2	50.6	Rajasthan	37.0	61.0
Gujarat	67.3	60.6	Tamil Nadu	52.9	57.6
Haryana	47.9	66.8	Telangana	45.5	83.0
Jharkhand	41.0	40.5	Uttar Pradesh	40.3	40.0
Karnataka	74.3	59.2	Uttarakhand	41.6	43.9
Kerala	67.3	70.0	West Bengal	38.2	33.7
Source: CAG, SBI Research					

BUT STILL HIGH COMMITTED EXPENDITURE

- ◆ 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 12.5% in FY23 revised figures. The salary component has seen rise of 14.7% in FY23 revised figures, interest payments rise of 9.8% and pension payment have seen rise of 10.9%. In FY24, the states have projected committed expenditure to increase further by 9.7%, with pension outlay expected to increase maximum by 13.8%, followed by interest payments (9.8%) and salaries (8.9%). States like Haryana, Kerala, Maharashtra, Punjab, Rajasthan, UP, Uttarakhand and West Bengal all have committed expenditure well above 50% of their revenue expenditure.
- ◆ Overall, the share of committed expenditure in the revenue receipts now stands at 46% in FY24 budgeted figures. Though the share has declined modestly in the last three years, it is still significant. It is a significant 90% of states' own tax revenue in FY24.

BUOYANT STATES GST REVENUE COLLECTION

- ◆ States' GST (CGST + SGST) revenue which increased by a whopping 25% in FY23 owing to higher compliance, with most of the states experiencing higher growth except Jharkhand, Odisha and West Bengal. For FY24, GST revenue is budgeted to increase by 16% with most of the states projecting moderate growth in the range of 10-20%. Centre has also projected GST revenue growth at 12% in FY24.
- ◆ Only a few states have budgeted small amount of GST compensation indicating the end of GST compensation regime which ended in mid-2022 after the expiry of the initial five years of the introduction of GST.
- ◆ States' sales tax/VAT is expected to grow by an average 13.6% in FY23 (and 13.6% in FY24) with Gujarat projecting maximum growth followed by Chhattisgarh, Telangana, West Bengal, Tamil Nadu and Maharashtra. Meanwhile, as per the revised estimates for FY23, the states own tax revenue is at 21% and for FY24 states have budgeted the average growth of 16% to around Rs 19.5 lakh crore. However, this seems to be on the higher side as some state as Uttar Pradesh has budgeted 42% yoy growth in FY24 over FY23. Even Jharkhand has budgeted higher growth of 25% in FY24.

States	Committed Expenditure					
	as % of RR			as % of Own Tax Revenue		
	2021-22	2022-23 (RE)	2023-24 (BE)	2021-22	2022-23 (RE)	2023-24 (BE)
Andhra Pradesh**	27%	22%	22%	60%	54%	49%
Bihar	35%	36%	37%	162%	173%	159%
Chhattisgarh	46%	42%	42%	134%	126%	117%
Gujarat	48%	46%	46%	83%	67%	69%
Haryana	61%	61%	58%	85%	91%	83%
Jharkhand	39%	36%	33%	127%	120%	104%
Kerala	81%	70%	70%	162%	128%	117%
Madhya Pradesh	42%	46%	48%	118%	121%	124%
Maharashtra	59%	54%	58%	89%	85%	88%
Odisha	32%	32%	32%	120%	112%	113%
Punjab	79%	75%	75%	166%	159%	144%
Rajasthan	59%	56%	56%	145%	131%	114%
Tamil Nadu	61%	58%	63%	103%	95%	94%
Telangana*	47%	34%	-	66%	54%	0%
UP	54%	49%	57%	136%	134%	130%
Uttarakhand	60%	58%	57%	182%	179%	163%
West Bengal	69%	65%	61%	173%	160%	148%
Total for 17 States	49%	46%	46%	102%	95%	90%

Source: SBI Research, PRS, Budget Documents, *Estimation for allocation towards salaries in 2023-24 is not available, ** salaries estimate not available

State	Goods and Services Tax (CGST+SGST) (Rs crore)					
	2021-22	2022-23(BE)	2022-23(RE)	2023-24(BE)	FY24/FY23	FY23/FY22
Andhra Pradesh	34262	39877	42226	47616	12.8	23.2
Bihar	44706	50001	55725	64331	15.4	24.6
Chhattisgarh	18112	20200	22196	25281	13.9	22.5
Gujarat	52302	67288	74030	77517	4.7	41.5
Haryana	25685	35756	31817	37090	16.6	23.9
Jharkhand	17924	17250	18887	22476	19.0	5.4
Karnataka	59087	62999	74354	82548	11.0	25.8
Kerala	29002	42637	36419	43384	19.1	25.6
Madhya Pradesh	41884	46050	52432	57928	10.5	25.2
Maharashtra	113322	136839	144005	156905	9.0	27.1
Odisha	27826	31621	30854	36959	19.8	10.9
Punjab	20122	25395	24516	28968	18.2	21.8
Rajasthan	42763	55659	52253	68850	31.8	22.2
Tamil Nadu	55584	60503	67835	80440	18.6	22.0
Telangana	34490	42189	42390	50943	20.2	22.9
Uttar Pradesh	100513	136367	131266	167462	27.6	30.6
West Bengal	50296	56287	56963	62639	10.0	13.3
Uttarakhand	8803	9198	10687	12480	16.8	21.4
Total of 18 States	776685	936116	968855	1123817	16.0	24.7
<i>Memo: Central Government</i>						
Union Budget FY23	698114	780000	854000	956600	12.0	22.3

Source: SBI Research

State	State VAT/Sales Tax (Rs crore)					
	2021-22	2022-23(BE)	2022-23(RE)	2023-24(BE)	FY24/FY23	FY23/FY22
Andhra Pradesh	20808	28481	20098	25402	26.4	-3.4
Bihar	6872	7210	7210	7934	10.0	4.9
Chhattisgarh	5341	4929	6643	7900	18.9	24.4
Gujarat	29044	31412	38000	39246	3.3	30.8
Haryana	11221	14100	11500	12950	12.6	2.5
Jharkhand	5213	6450	6226	8695	39.7	19.4
Karnataka	19274	17640	18640	20100	7.8	-3.3
Kerala	22487	24965	24965	28646	14.7	11.0
Madhya Pradesh	16185	16968	18064	19514	8.0	11.6
Maharashtra	45924	50200	55000	56200	2.2	19.8
Odisha	10000	11208	11801	13273	12.5	18.0
Punjab	6869	6250	6400	7600	18.8	-6.8
Rajasthan	20605	25000	23500	27300	16.2	14.0
Tamil Nadu	48668	57204	58857	65860	11.9	20.9
Telangana	26974	33000	33000	39500	19.7	22.3
Uttar Pradesh	27058	36213	31542	41788	32.5	16.6
West Bengal	9951	10100	12134	13898	14.5	21.9
Uttarakhand	2302	2204	2353	2603	10.6	2.2
Total of 18 States	334796	383534	385934	438408	13.6	15.3
<i>Memo: Central Government Excise duty</i>						
Union Budget FY23	394644	335000	320000	339000	5.9	-18.9

Source: SBI Research

STATE GOVERNMENT BORROWINGS

- ◆ In the Budget for FY24, Central Government has allocated Rs 1.3 lakh crore to assist the states in catalysing overall investments in the economy through 50 year interest free loans, over and above normal borrowings.
- ◆ 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 pandemic.
- ◆ States’ gross borrowings was Rs 7.4 lakh crore in FY23. For FY24, there is a ceiling of net borrowing at 3.0% of GDP and additional 0.5% of GDP conditional borrowing by States tied to power sector reforms. The reforms include a reduction in operational losses, revenue gap, payment of cash subsidy by adopting direct benefit transfer and tariff subsidy as a percentage of revenue. Under the conditional borrowing, the states may commit to reforms and be eligible for increased borrowing space of ~Rs 1.5 lakh crore.
- ◆ In FY24, the net borrowings are pegged at Rs 5.3 lakh crore and gross borrowings are expected to come around Rs 8.2 lakh crore after taking a repayment of around Rs 2.9 lakh crore. Thus, total gross borrowing of the Centre and states for FY23 comes to 23.6 lakh crore while net borrowing stands at Rs 17.2 lakh crore.

QUALITY OF EXPENDITURE MATTERS SIGNIFICANTLY: STATES SPENDING A LOT ON SUBSIDIES

- ◆ Many states have announced significant amount of budgetary allocation to pensions, subsidies for electricity or power which are economically unsustainable given the financially bad shape of many states.
- ◆ For example, Bihar has committed 21% of states own tax revenue on just three schemes including pension for elderly, subsidies for power and agriculture sector. Even Andhra Pradesh has allocated a significant amount of 27% of its own tax revenue to two schemes, loan waiver for SHGs women and pension for senior citizen, disabled and transgenders. Clearly, this is unsustainable and might be a potential recipe for fiscal disaster going forward.
- ◆ States seem to be currently living beyond their means and it is imperative that states rationalize their spending priorities in accordance with own tax revenue/revenue receipts.

Market Borrowings through Dated Securities (Rs lakh crore)			
Centre	FY 22	FY23 (RE)	FY 24 (BE)
Gross Borrowing	9.7	14.2	15.4
Repayments	2.6	3.1	3.6
Net Borrowing	7.0	11.1	11.8
State			
Gross Borrowing	7.0	7.6	8.2
Repayments	2.1	2.4	2.9
Net Borrowing	4.9	5.2	5.4
Total			
Gross Borrowing	16.7	21.8	23.6
Net Borrowing	12.0	16.3	17.2

Source: SBI Research

Major schemes and the amount allocated in FY24 BE			
State	Scheme	Allocation (Rs crore)	% of Revenue Receipts (% of own tax revenue)
Bihar	MGNREGS	3852	12% (50%)
	PMGSY	3610	
	Mukhyamantri Vridhjan Pension Yojana	1029	
	Subsidies for affordable power	9103	
	Subsidies by the Agriculture Department	415	
	Indira Awas/Pradhan Mantri Awas Yojana	6789	
Haryana	Pension under social security schemes	7094	10% (14%)
	Pradhan Mantri Fasal Yojana	650	
	Panchayati Raj	2739	
Jharkhand	PM-POSHAN	401	6% (20%)
	Rural Employment Guarantee Schemes including MGNREGS	1467	
	State Old Age Pension Scheme	1587	
	Pradhan Mantri Krishi Sinchai Yojana	164	
	Tariff subsidies for Jharkhand Biji Vitran Nigam Limited customers	2300	
	Grants in Aid for PMAY (Urban)	390	
Kerala	Child welfare	1484	6% (10%)
	Crop husbandry	1427	
	MGNREGS	4297	
	LIFE – Parppida Mission for rural housing	525	
	Jal Jeevan Mission	500	
Odisha	Mukhya Mantri Swasthya Seva Mission	3003	7% (25%)
	Biju Swasthya Kalyan Yojana	2380	
	MGNREGS	3,300	
	Madhubabu Pension Yojana	2501	
Rajasthan	Krushak Assistance for Livelihood and Income Augmentation	1879	9% (19%)
	Grants to public enterprises and other subsidiaries	16928	
Telangana	MGNREGS	4251	12% (19%)
	Investment Support Scheme for farmers	11704	
	Aasara pensions	2740	
UP	Construction of two-bedroom houses for rural and urban poor	11000	3% (8%)
	Power subsidies	13100	
	Maintenance of destitute widows	1073	
	MGNREGS	5041	
	Pradhan Mantri Fasal Bima Yojana	754	
WB	Food grain crops	2684	5% (12%)
	Crop insurance	1125	
	Rural employment guarantee schemes	5067	
	JAIBANGLA	1623	
MP	Assistance to electricity boards	9246	8% (22%)
	Women welfare	9553	
AP	YSR Aasara scheme (loan waiver for SHGs women)	6700	12% (27%)
	YSR Pension Kanuka	21434	

Source: SBI Research, Budget Documents, PRS

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