

States' capital spending: An update

With Union budget in focus, and expectations of a higher capital outlay by the central government to boost investment, we here analyse the role of state governments in the overall public sector spending. RBI data shows that in terms of capital expenditure, both central and state governments are broadly equal partners. Thus, at a time when we are looking at the central government to give public investment a nudge, performance of state governments should also be keenly watched. In this study, we note that while some states like Gujarat, Karnataka, Tamil Nadu, Madhya Pradesh are closer to meeting their budgetary targets for FY23, some other states like Uttar Pradesh and Maharashtra, are still far behind, dragging the overall capex spent to only 39% of the budgeted amount.

Performance of state capex thus far:

RBI study on state finances shows that total capital expenditure in FY23 (BE) for all the states and UTs put together had been pegged at Rs 7.54 lakh crore, up from Rs 6.34 lakh crore last year (FY22RE) and Rs 4.18 lakh crore during pre-pandemic period (FY20). This is in line with union government's target of Rs 7.50 lakh crore for FY23 (BE), Rs 6.03 lakh crore for FY22 (RE) and Rs 3.36 crore in FY20. Thus, implying that states have a marginally higher share in driving public sector investment growth.

For the purpose of this study, we have analysed state-wise capex data for 24 states and UTs and have excluded Manipur, Meghalaya and Mizoram, Goa, J&K, Delhi and Puducherry from our sample due to unavailability of latest data. Total capital outlay for these 24 states is budgeted at Rs 6.85 lakh crore for FY23 (BE) versus Rs 5.75 lakh crore as per FY22RE. This is 90% of the total amount budgeted by states. The total projected expenditure on capital for FY23 for this set of states is just tad lower than that of the centre which is Rs 7.5 lakh crore (which also includes Rs 1.40 lakh crore of loans to be given to states). If the loan part is excluded then it would mean that the states are targeting to spend higher than centre in terms of capex.

The centre for the first 8 months of the year has spent Rs 4.5 lakh crore which is 60% of the budgeted amount. The states on the other hand have been slower with just 39% of the budgeted amount being spent so far which is Rs 2.7 lakh crore. Hence, there is considerable slack here which needs to be made up during the course of the remaining 4 months of the year. If that is not the case, then we can expect downward revision in the capex print when revised estimates (RE) for FY23 are published.

Of the Rs 6.85 lakh crore, 5 major states alone contribute to 47% of the total capex. These include Uttar Pradesh (Rs 1.2 lakh crore), Maharashtra (Rs 65,000 crore), Madhya Pradesh (Rs 46,000 crore), Karnataka (Rs 44,000 crore) and Tamil Nadu (Rs 43,000 crore). If we add other major states to the list which have share more than 4% (Odisha, Gujarat, Rajasthan, W. Bengal, Andhra Pradesh, Bihar and Telangana) then share of these 12 states jumps to 81%. Thus, tracking the performance of these states can help us estimate if target for this year will be met or not.

So far, these 12 major states have spent Rs 2.12 lakh crore only, and amongst these, only Gujarat and Karnataka have spent more than 50% of the budgeted amount. There are smaller states like HP, Kerala also which have spent more than 50% so far. Amongst the top 5 states, which contribute to 47% of the budgeted amount, both Uttar Pradesh (29% of BE) and Maharashtra (30% of BE) are lagging much the target. In comparison to this, Karnataka (52% of BE), Tamil Nadu (49% of BE), and Madhya Pradesh (49% of BE) have made better progress till date.

The table below gives the states along with their budgeted capex targets along with the money spent so far which is denoted by the utilization ratio.

Table 1- States' progress on capex (April-November 2022)

States	FY23BE (Rs crore)	Amount Spent (Rs Crore)	Utilization (%)
Nagaland	3,030	4,954	163.5
Gujarat	35,898	20,400	56.8
Himachal Pradesh	5,647	3,041	53.9
Kerala	14,891	8,009	53.8
Karnataka	43,573	22,786	52.3
Tamil Nadu	43,043	21,288	49.5
Haryana	22,344	10,991	49.2
Madhya Pradesh	45,686	22,359	48.9
Bihar	29,750	14,291	48.0
Sikkim	1,592	687	43.2
Assam	18,371	7,893	43.0
Chhattisgarh	15,241	6,174	40.5
Telangana	29,728	11,774	39.6
Odisha	38,732	14,903	38.5
Rajasthan	34,809	12,028	34.6
West Bengal	33,144	10,789	32.6
Uttarakhand	10,840	3,337	30.8
Maharashtra	65,210	19,310	29.6
Uttar Pradesh	1,23,920	35,658	28.8
Jharkhand	16,606	4,335	26.1
Arunachal Pradesh	6,701	1,720	25.7
Punjab	10,981	2,641	24.1
Andhra Pradesh	30,680	6,189	20.2
Tripura	4,256	845	19.8
Aggregate	6,84,674	2,66,404	38.9

Source: CEIC, RBI, Bank of Baroda Research

There does seem a long distance to be covered for states. They have been going slow ostensibly because of caution being exercised to ensure that the fiscal targets are not breached. Hence there could be some push given in the last two months of the year. This has been a challenge as well as a pattern followed by states spending on capex where cuts are invoked at the end to meet the fiscal deficit target. Therefore while budgeted numbers for capex are indicative of intention, the final numbers reveal the capacity to go through with these plans.

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