FIRST LIGHT

06 March 2024

RESEARCH

BOB ECONOMICS RESEARCH | CAPEX TRENDS

How has State capex fared in FYTD24?

BOB ECONOMICS RESEARCH | LIQUIDITY DEFICIT

Analysis of the liquidity deficit

Daily macro indicators

Indicator	01-Mar	04-Mar	Chg (%)
US 10Y yield (%)	4.18	4.21	3bps
India 10Y yield (%)	7.06	7.06	0bps
USD/INR	82.91	82.89	0.0
Brent Crude (US$/bbl)	83.6	82.8	(0.9)
Dow	39,087	38,990	(0.2)
Hang Seng	16,589	16,596	0.0
Sensex	73,806	73,872	0.1
India FII (US$ mn)	**29-Feb**	**01-Mar**	**Chg ($ mn)**
FII-D	(16.1)	(26.1)	(10.0)
FII-E	506.6	262.0	(244.7)

Source: Bank of Baroda Economics Research

SUMMARY

INDIA ECONOMICS: CAPEX TRENDS

Investment has proved to be a crucial pillar of growth this year, with major contribution coming in from government spending on capital expenditure. This year's Budget has also set an ambitious target for capital spending of Centre to nudge private investment, as a complementary effect. The actual spending on capital expenditure by Centre has been at Rs 7.2 lakh crore in FYTD24 (Apr-Jan'24). As a percentage of Budget estimates, capital expenditure of Centre is running at 75.9%.

Click here for the full report.

INDIA ECONOMICS: LIQUIDITY DEFICIT

Liquidity deficit in the system has been increasing since Sep'23, to reach a record high of Rs. 3.5 lakh crores on 24 Jan 2024. A key factor which has been impacting the banking system liquidity is the uneven growth in credit and deposits. While credit growth has been growing at a robust pace, deposit growth has been lagging in relative terms. Apart from this, government spending was heavily curtailed in Q3FY24. The deficit was further exacerbated by quarter end GST and tax outflows. However, the situation is expected to stabilize in the coming days as government spending picks up. This has also been seen in March when the system turned into a surplus. Deposit growth too has been inching up which should further ease liquidity pressure.

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CAPEX TRENDS

05 March 2024

How has State capex fared in FYTD24?

Dipanwita Mazumdar
Economist

Investment has proved to be a crucial pillar of growth this year, with major contribution coming in from government spending on capital expenditure. This year's Budget has also set an ambitious target for capital spending of Centre to nudge private investment, as a complementary effect. The actual spending on capital expenditure by Centre has been at Rs 7.2 lakh crore in FYTD24 (Apr-Jan'24). As a percentage of Budget estimates, capital expenditure of Centre is running at 75.9%.

However, for States, it is trailing the Centre. Out of an aggregate of 27 States monitored in the current set, States capital expenditure stood at Rs 4.7 lakh crore which as a percentage of Budget estimates is running far behind at 53.1% in FYTD24, compared to Centre. Notably, for these 27 States, data for 21 States are available till Jan'24 while for other States, the information is till Dec'23 (except Manipur, where information is available till Sep'23).

What comes out from the data is that States are performing better in terms of utilization rate (capital expenditure as percentage of Budget estimates) when compared to same period of previous year, with a total of 17 States faring better (Table 1). But further comparison reveals that problem areas remain for those like Maharashtra, Gujarat, West Bengal Karnataka, Chhattisgarh and Punjab, which have a long distance to cover in the balance two months (Table 2). A plausible explanation could be to maintain fiscal prudence states are going slow. States such as Telangana, Haryana and Andhra Pradesh, Bihar, Jharkhand and Madhya Pradesh are on track to achieve their target.

State wise capex picture:

- Amongst major States, Telangana, Madhya Pradesh, Bihar, Kerala and Haryana have utilized more than 70% of their Budget estimates. States such as Andhra Pradesh, Himachal Pradesh, Tamil Nadu, Odisha, Jharkhand, Rajasthan and Uttar Pradesh have utilized more than 50% of their Budget estimates. Capex spending of large States such as Maharashtra and Gujarat has been far lower at 37.5% and 46.4% of their Budget estimates, respectively. Even for West Bengal, Punjab and Chhattisgarh, it is far lower at 44.7%, 32.8% and 32.7%, respectively.
- When we compare the current utilization rate with the corresponding period of previous year, one thing which stands out is that States have fared comparatively better with most visible pickup seen for Andhra Pradesh, Haryana, and Jharkhand.

LIQUIDITY DEFICIT

05 March 2024

Analysis of the liquidity deficit

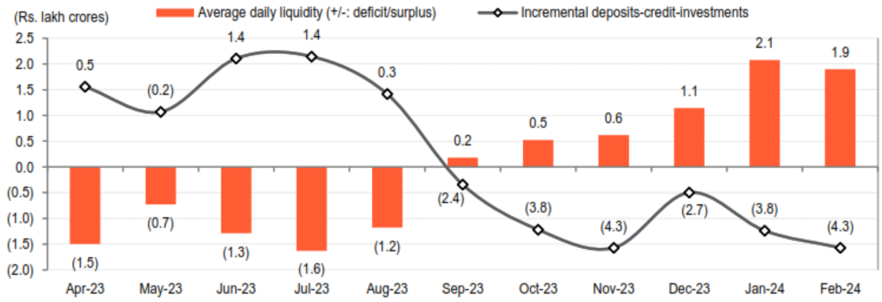
Aditi Gupta
Economist

Liquidity deficit in the system has been increasing since Sep'23, to reach a record high of Rs. 3.5 lakh crores on 24 Jan 2024. A key factor which has been impacting the banking system liquidity is the uneven growth in credit and deposits. While credit growth has been growing at a robust pace, deposit growth has been lagging in relative terms. Apart from this, government spending was heavily curtailed in Q3FY24. The deficit was further exacerbated by quarter end GST and tax outflows. However, the situation is expected to stabilize in the coming days as government spending picks up. This has also been seen in March when the system turned into a surplus. Deposit growth too has been inching up which should further ease liquidity pressure.

Situation so far:

Figure 1 gives the average daily liquidity in the system in FYTD24. As can be seen, that average liquidity remained in a surplus till Aug'23, after which there was a turnaround. Since Sep'23, when the liquidity deficit stood at just Rs. 0.2 lakh crores, the deficit has swelled and reached a peak of R. 2.07 lakh crores in Jan'24. The situation has somewhat improved in Feb'24, with the liquidity deficit moderating to Rs. 1.86 lakh crores in Feb'24. There has been some improvement in Mar'24, with daily liquidity turning surplus on 4 March 2024. This is the first time since Dec'23 that daily liquidity is in surplus.

Figure 1: Liquidity position in FYTD24



Source: CEIC, Bank of Baroda Research

One major factor influencing the liquidity situation is the disproportionate growth in credit and deposits. As of Jan'24, while credit growth increased by 16.1%, deposit growth registered an increase of only 12.5% on a YoY basis. On the other hand, investments by banks have grown at a rate of 13.2%. In FYTD24, credit growth is tracking at 13.3%, deposit growth at 10.5% and investments at 8.6%.

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