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STATE GOVERNMENT FINANCES

Fiscal outcomes to vary across states in FY2022, depending on regional impact of infections-restrictions-vaccinations on economic activity

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SUMMARY

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Revenue deficit projected to narrow to Rs. 1.2 trillion in FY2022 BE, similar to the pre-Covid-19 levels

Budgeted growth in SOTR unlikely to be achieved in light of second wave of Covid-19

Expedited funding of GST compensation shortfall through back-to-back loan could ease revenue crunch

Restrictions imposed by states to contain infections and pace of vaccination to influence fiscal outcomes for state governments in FY2022

The disruption caused by the Covid-19 pandemic on the economic activity substantially worsened the aggregate revenue deficit of 24 state governments to Rs. 4.0 trillion in the revised estimates (RE) for FY2021 from the modest Rs. 353 billion in the budget estimates (BE) for that year. Despite a 16.0% cut in capital spending, their fiscal deficit deteriorated to Rs. 8.7 trillion in FY2021 RE, from the budgeted Rs. 6.0 trillion.

The BE for FY2022, which had been published by mid-March 2021 by most of the 24 state governments in our sample, had projected a decline in their aggregate revenue deficit to Rs. 1.2 trillion, similar to the pre-Covid-19 level of Rs. 1.3 trillion in FY2020. This benefitted from the considerable 24.7% expansion forecast in their revenue receipts in FY2022 BE, compared to the moderate 12.4% increase in their aggregate revenue expenditure. The anticipated shrinking of the revenue deficit allowed the states to plan for a substantial 34.1% expansion in their capital expenditure and net lending, while still attempting a modest correction in their fiscal deficit to Rs. 7.6 trillion in FY2022 BE from Rs. 8.7 trillion in FY2021 RE. Regardless, the capital spending budgeted by certain states for FY2022 appears optimistic.

The second wave of Covid-19 is likely to curtail the consumption of discretionary items and contact-intensive services in the immediate term, dampening the growth of states' own tax revenues (SOTR) in FY2022. A revival in the sentiment and the consumption may be linked to the timelines with which the availability of vaccines improves in different states, whereas the risk of another wave of Covid-19 in FY2022 in some regions cannot be discounted. Overall, we expect the SOTR collections of the states to trail their FY2022 BE.

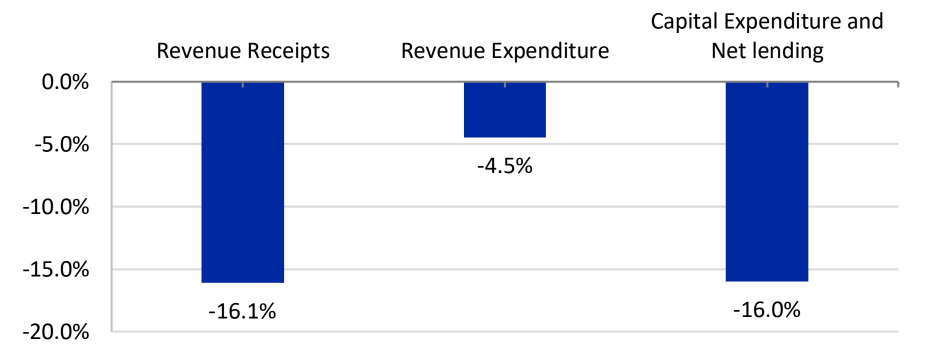
Additionally, we project the GST compensation requirement of all the states for FY2022 at Rs. 2.65 trillion, 38% of which may be met through the collections of the GST compensation cess. If the balance Rs. 1.65 trillion is funded through back-to-back loans raised by the Government of India (GoI), as was done in FY2021, it would alleviate the states' anticipated revenue crunch over the next two months.

Our baseline estimate of the cost of vaccinating people between the age of 18 years and 44 years is Rs. 594 billion. A portion of this could be met from the additional devolution of taxes of Rs. 450 billion by the GoI to the state governments at end-March 2021. Nevertheless, the state governments may have to recalibrate their planned revenue spending to accommodate such expenditure, and the likely shortfall in revenues from the budgeted level, to prevent a cutback in capital spending or a sharp rise in the fiscal deficit.

Overall, we emphasise that fiscal outcomes could vary appreciably across states in FY2022, depending on the impact of infections-restrictions-vaccinations on economic activity.

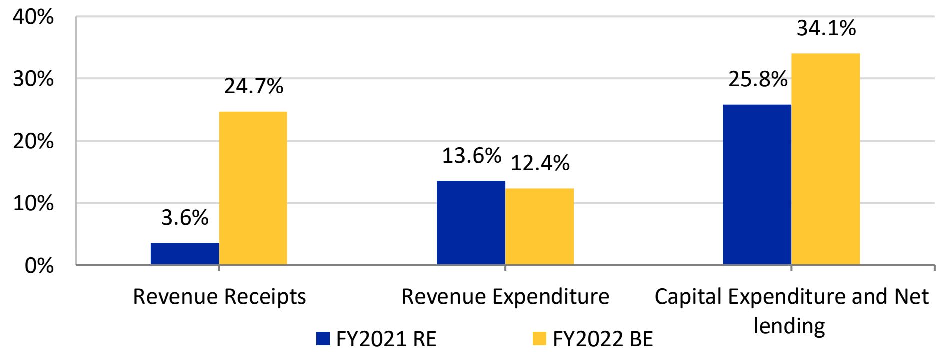
Sharp worsening in deficits of state governments in FY2021 RE relative to the budgeted level, led by the adverse impact of the pandemic: The disruption to the economic activity caused by the Covid-19 pandemic resulted in the revenue receipts of the 24 state governments[1] (except Goa, Manipur, Meghalaya and Sikkim) in the RE for FY2021 being 16.1% lower than that budgeted (refer Exhibit 1). Around 40% of the downward revision in the states' revenues in absolute terms was because of the SOTR[2], which has been pared by 14.8% to Rs. 11.9 trillion in FY2021 RE. The revised amount is 1.6% higher than the Rs. 11.7 trillion collected in FY2020, allaying concerns regarding a sharp contraction in the consumption-based taxes of the state governments in FY2021, relative to the pre-Covid-19 levels. The impact of the Covid-19 pandemic and the associated lockdowns on some of the components of the SOTR were cushioned in FY2021 by the increase in tax rates on certain commodities effected by several states, as well as a recovery in consumption and tax revenues in H2 FY2021. As many as 17 out of the 24 state governments had increased the rate of value added tax (VAT) on retail fuels consumed in their state and/or levied a fixed charge on every litre of fuel consumed. In addition, 18 state governments of the 24 state governments increased the excise duty rate on liquor consumed in their state.

Exhibit 1: Variance between key fiscal estimates of 24 states governments in FY2021 RE and FY2021 BE



Source: Various state budgets; ICRA research

Exhibit 2: YoY growth of key fiscal indicators of 24 state governments for FY2021 RE and FY2022 BE



Source: Various state budgets; ICRA research

Relative to the sharp 16.1% downward revision in the revenue receipts in FY2021 RE from the budgeted level, the combined revenue expenditure of the 24 state governments is indicated at Rs. 30.2 trillion, a modest 4.5% lower than the Rs. 31.6 trillion that was initially budgeted for FY2021. Many of the state governments incurred pandemic-related unplanned expenditure (supply of additional food-grains, income support etc.) in FY2021, while undertaking modest cuts in other routine expenditures. On a YoY basis, the combined revenue expenditure of the 24 state governments increased by a moderate 13.6% (refer Exhibit 2) from Rs. 26.5 trillion in FY2020. These trends led to a considerable worsening of the revenue deficit of the 24 state governments to Rs. 4.0 trillion in FY2021 RE from Rs. 0.4 trillion in FY2021 BE and Rs. 1.3 trillion in FY2020.

[1] *Analysis for the 24 state governments has been done based on their respective budgets; Assam, Kerala, Tamil Nadu and West Bengal had presented interim budgets for FY2022 ahead of Assembly elections.*
[2] *SOTR includes sales tax/VAT on petroleum and petroleum products and alcohol, state goods and services tax (SGST) on specified goods and services, excise duty on alcoholic liquor for human consumption, stamps and registrations duties levied on purchase of immovable properties, motor vehicles tax on purchase of automobiles etc.*

To prevent a sharper deterioration in their fiscal position, the state governments curtailed their planned capital spending and net lending by a substantial 16.0% in FY2021 RE to Rs. 4.8 trillion from the budgeted Rs. 5.7 trillion. Nevertheless, the combined capital outlay and net lending of the 24 state governments increased by a healthy 25.8% from Rs. 3.8 trillion in FY2020. The large revenue deficit and capital outlay and net lending led to a substantial rise in the fiscal deficit of the 24 state governments to Rs. 8.7 trillion in FY2021 RE from Rs. 5.0 trillion in FY2020 and Rs. 6.0 trillion in FY2021 BE. Reflecting the funding of the enlarged deficit by borrowings, the stock of debt[3] outstanding of the 24 state governments rose by a high 18.3% to Rs. 52.8 trillion in FY2021 RE from Rs. 44.6 trillion in FY2020.

Revenue-led fiscal correction projected by the BE for FY2022: The BE for FY2022[4] projected a healthy decline in the aggregate revenue deficit of the sample to Rs. 1.2 trillion in the current fiscal from the Rs. 4.0 trillion indicated in their RE for FY2021, similar to the pre-Covid level of Rs. 1.3 trillion in FY2020. This benefitted from the considerable 24.7% expansion that they forecast in their revenue receipts in FY2022 BE, compared to a moderate 12.4% increase in their aggregate revenue expenditure for this fiscal. The anticipated shrinking of the revenue deficit allowed the states to plan for a substantial 34.1% expansion in their capital expenditure and net lending, while still attempting a correction in their fiscal deficit to Rs. 7.6 trillion in FY2022 BE from Rs. 8.7 trillion in FY2021 RE. Despite this, the stock of debt outstanding of these states is budgeted to rise by 13.4% to a substantial Rs. 59.8 trillion in FY2022 from an already high Rs. 52.8 trillion in FY2021 RE.

Second wave of Covid-19 to restrict SOTR collections in FY2022 below the budgeted level: Most of the state governments had presented their FY2022 budgets by mid-March 2021 (except Andhra Pradesh, which presented its budget in May 2021), when the second wave of the Covid-19 infections was confined to a few regions in the country. The aggregate SOTR of the 24 state governments is budgeted to expand by a considerable 28.9% to Rs. 15.3 trillion in FY2022 BE from Rs. 11.9 trillion in FY2021 RE (refer Exhibit 3). The state budgets of 22 of the 24 state governments (excluding Assam and Tripura) contain projections for nominal gross state domestic product (GSDP) growth for FY2022; for these 22 states, the combined nominal GSDP growth for FY2022 is placed at 11.0%, much lower than their projected aggregate SOTR growth of 29.2%. This indicates the states' expectation of a high buoyancy of taxes with the normalisation in economic activity in the ongoing fiscal, from the pandemic-led disruption that was witnessed in FY2021.

Exhibit 3: Key fiscal indicators during FY2020-22 BE of 24 state governments

Amount in Rs. Trillion	FY2020	FY2021 BE	FY2021 RE	FY2022 BE
Revenue Receipts	**25.3**	**31.2**	**26.2**	**32.7**
SOTR	11.7	13.9	11.9	15.3
Revenue Expenditure	**26.5**	**31.6**	**30.2**	**33.9**
Revenue Deficit	**-1.3**	**-0.4**	**-4.0**	**-1.2**
Capital Expenditure and Net lending	3.8	5.7	4.8	6.4
Fiscal Deficit	**-5.0**	**-6.0**	**-8.7**	**-7.6**

Source: Various state budgets; ICRA research

[3] *Includes internal debt; loans from the Centre; provident fund etc.*
[4] *The state budgets included the audited fiscal indicators for FY2020, the RE for FY2021 and the BE for FY2022.*

However, by the end of April 2021, the Covid-19 infections had spread to several parts of the country and the daily infection counts have remained at an elevated level in May 2021, despite some moderation in the recent days. Unlike the nationwide lockdown that was imposed in Q1 FY2021, restrictions have been imposed at a localised level in the recent months. In April 2021, Rajasthan, Maharashtra, Uttar Pradesh and Chhattisgarh had imposed a curfew either statewide or in some districts, while Punjab, Haryana, Kerala, Tamil Nadu, Gujarat, Odisha and Karnataka had announced weekend lockdowns and/or night curfews. In May 2021, lockdowns/restrictions have been extended in the states where they were already in place, and several other states have also imposed fresh restrictions, making the situation increasingly similar to a nationwide lockdown.

Reflecting less stringent restrictions in April 2021 relative to the nation-wide lock down in April 2020, the consumption of petrol and diesel was 145% and 105% higher in April 2021 than the year-ago levels. However, the consumption of petrol and diesel in April 2021 was 3.1% and 8.8% lower than the level of fuels consumed in pre-Covid-19 period of April 2019. In addition, with the increase in the restrictions imposed by the states in May 2021, the consumption of retail fuels in that month is likely to display a sequential dip, which would temper the sales tax/VAT collections of the state governments, a key component of their SOTR.

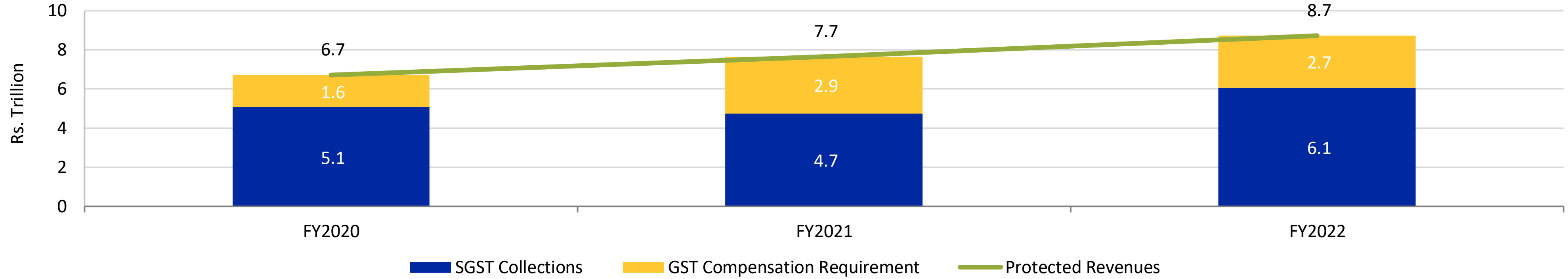
Additionally, the second wave of Covid-19 is likely to curtail the consumption of various discretionary goods (clothing, footwear, home furnishing and décor, automobiles etc.) and services (restaurants, traveling, salon and spas, cinemas and other forms of entertainment etc.) reflecting factors including weak sentiment, health-related expenditure, uncertainty regarding future income etc. Moreover, the online retailers have reportedly been delivering only essential goods in certain places. Such supply-side constraints could lead to some loss of consumption in the near-term, which would be reflected in the SGST collections, a major component of the SOTR.

The GST collections reported in a month reflect the tax on goods and services consumed in the previous month. Therefore, on a cash flow basis, the GST collections related to a particular month, become part of the Central and state Governments' revenues in the subsequent month. For instance, the record high headline GST collections of Rs. 1.4 trillion which were reported in April 2021, reflected the economic activity in March 2021. We expect the SGST collections that would be reported during May-July 2021 to be appreciably lower than the reported collections in April 2021, reflecting the negative impact of the lockdowns and associated factors on economic activity in April-May 2021, and possibly in June 2021, if the restrictions are continued in that month in some states. Based on the GST e-way bills in April 2021 and the first half of May 2021, we estimate the total GST inflows in Q1 FY2022 at around Rs. 3.4 trillion, 85.7% higher than in Q1 FY2021. Assuming the full settlement of IGST into SGST and CGST, we project the SGST collections at half of the headline GST collections or Rs. 1.7 trillion in Q1 FY2022, nearly twice as high as the Rs. 0.9 trillion in Q1 FY2021.

A revival in the economic activity, sentiment and consumption may be linked to the state-wise trends in Covid-19 infections going forward, the timelines with which the availability of vaccines improves in various states, whereas the risk of another wave of Covid-19 infections in FY2022 cannot be discounted. If the average aggregate SGST collections during July 2021-September 2021 are around Rs. 450 billion, before rising to Rs. 500 billion during October-March FY2022, it would imply total SGST collections of Rs. 4.4 trillion in 9M FY2022, 13.8% higher than Rs. 3.8 trillion in 9M FY2021. Accordingly, the combined SGST collections of all the states are projected at Rs. 6.1 trillion in FY2022, 27.8% higher than the Rs. 4.7 trillion collected in FY2021. However, this is lower than the 34.1% growth in SGST projected by the 24 state governments in ICRA's sample. Overall, we expect the SOTR collections of the states to trail their FY2022 BE.

The protected revenues[5] of the all the states are estimated at Rs. 8.7 trillion in FY2022 (refer Exhibit 4). The GST compensation requirement or the gap between the estimated protected revenues and the SGST collections (Rs. 8.7 trillion less Rs. 6.1 trillion) is, therefore, estimated by ICRA at Rs. 2.65 trillion for FY2022. Around 38% of this may be met through the collections of the GST compensation cess, which the GoI estimated at Rs. 1.0 trillion in the Union Budget FY2022. We presume that the options for funding the shortfall in GST compensation to the state governments will be discussed in the upcoming meeting of the GST Council to be held on May 28, 2021. If the GoI opts to bridge the GST compensation shortfall for FY2022 by borrowing from the market and lending it to the state governments on a back-to-back basis, as it did in FY2021, it could ease the expected upcoming revenue crunch of the states related to the second surge of Covid-19.

Exhibit 4: Estimated protected revenues, SGST collections and GST compensation required by the state governments/Union Territories (UTs)



Source: GST portal; PIB releases; ICRA research

Devolution of taxes in FY2022 likely to be similar to the GoI's estimate, modestly trailing the states' projection: Apart from the SOTR, other tax revenues of the state governments comprise devolution of the shareable tax collections (gross tax revenues less cesses and surcharges not shareable with states) by the GoI. The Central tax devolution (CTD) to the state governments is based on the recommendations of the successive Finance Commissions (FCs). The share of each state government in the CTD is based on the inter-se share of a state as recommended by the most recent FC. Based on the recommendations of the 15th FC, the GoI would be transferring 41% of the sharable taxes as CTD to the state governments during FY2022-FY2026, same as in FY2021.

[5] *As per the provisions laid down in the GST (Compensation to States) Act, 2017, the GST compensation grant is required to be provided by the GoI to the state governments for the first five years after the transition to this regime from July 2017, if the SGST collections of the states are lower than the protected revenues for that year. Protected revenues of a state are arrived at by growing the revenues subsumed into GST in FY2016 at an annual rate of 14%. The GST compensation is the difference between the protected revenues of a state and the actual SGST collections. The GST compensation is funded by a cess that is levied on specified items, which are predominantly sin and luxury goods, including automobiles.*

In the Union Budget FY2022, the GoI had pegged the combined CTD for all the state governments at Rs. 5.5 trillion in the RE for FY2021. However, the GoI released an additional Rs. 0.5 trillion CTD to the states in end-March 2021 (refer Exhibit 5). Accordingly, in aggregate, the CTD of Rs. 6.0 trillion was released to all the states in FY2021, 8.5% lower than Rs. 6.5 trillion in FY2020.

In the Union Budget for FY2022, the GoI has budgeted Rs. 6.7 trillion as CTD to all states for the current fiscal. This implies a moderate 11.9% increase from the estimated actual CTD of Rs. 6.0 trillion to all states in FY2021. The CTD indicated by the GoI for our sample states is Rs. 6.5 trillion in its FY2022 BE, whereas, these states had pegged CTD at a higher Rs. 7.0 trillion in their FY2022 BE.

Exhibit 5: Share of CTD of all states and the sample states in FY2021 RE and FY2022 BE

Amount in Rs. Trillion	FY2021 RE	FY2022 BE	Growth (%)
CTD for all states as per the Union Budget FY2022 (A)	5.5	6.7	21.0%
Additional CTD released in March 2021 (B)	0.5		
Total (C=A+B)	**6.0**	**6.7**	**11.9%**
Estimated share of 24 sample states in the total CTD (D=C*98%^)	**5.82**	**6.5**	**11.9%**
CTD as per budgets of 24 state governments	5.76	7.0	21.4%

Note: ^ The aggregate inter-se share of these 24 states in the CTD for all 28 states, is 98% for the 15th Finance Commission's award period

Source: Various state budgets; Press Information Bureau releases; Union Budget; ICRA research

The presumed CTD growth of 11.9% in the GoI's FY2022 BE relative to FY2021 is moderate, and lower than ICRA's estimate of a nominal YoY GDP growth of 15.0% for India for FY2022. Nevertheless, the extent of the impact of the second wave of Covid-19 on the GoI's tax revenues needs to be monitored over the coming months. Similar to the concern for the SOTR, the indirect tax revenues of the GoI may be adversely impacted in May-July 2021, related to the impact of the now-widespread state lockdowns on the level of consumption on discretionary items and contact-intensive services. The possibility that fuel cesses would be cut to reduce their inflationary impact and enhance disposable incomes cannot be ruled out. Moreover, high commodity prices at a time when demand and pricing power are subdued, would dent the margins of corporates in many sectors, compressing the growth in direct tax collections. While we remain watchful of an escalation of risks, as of now, we expect the devolution of taxes in FY2022 to be similar to the GoI's estimate, modestly trailing the states' projection.

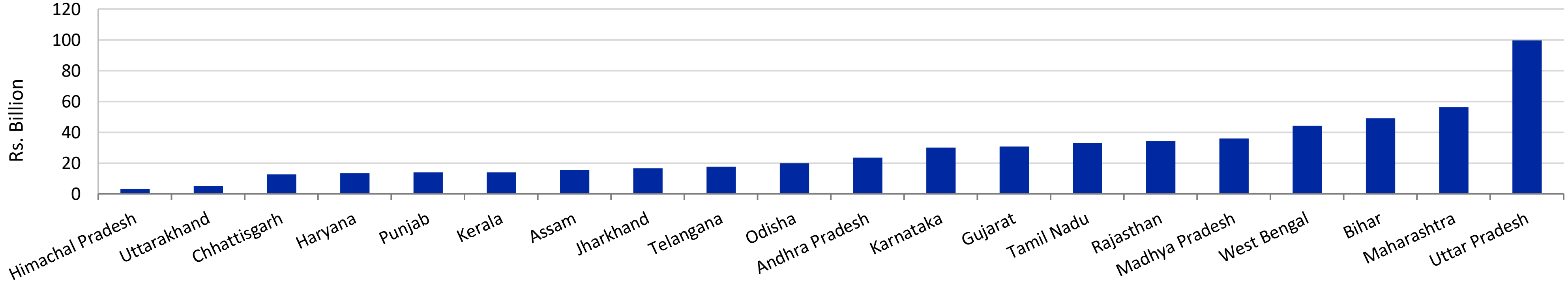
Planned revenue spending may have to be recalibrated in FY2022, if revenues fall short of expectations and healthcare spending exceeds its outlay: The 24 state governments have budgeted an aggregate revenue expenditure of Rs. 33.9 trillion for FY2022, 12.4% higher than the revenue expenditure included in FY2021 RE. Typically, half of the revenue expenditure is incurred on salaries, pensions, and interest payments, which has limited scope for large reduction even in the wake of a sharp decline in revenues.

After the presentation of the FY2022 state budgets, the GoI had announced the third phase of its Covid-19 vaccination strategy in April 2021. Under this strategy, the state governments and the private players are expected to purchase 50% of of the vaccines manufactured in India at a price determined by vaccine manufacturers for inoculating their local population between the age of 18 years and 44 years. Additionally, the state governments have been permitted to import vaccines for the eligible population. We estimate that a substantial 44% of India's population or 594 million people are between the age of 18 years and 44 years. The population in this cohort is a key engine for economic revival, and vaccinating them at an accelerated pace would allow a faster normalisation of economic activity.

We expect vaccination and other healthcare expenditure to be a key priority area of spending for the state governments in FY2022. While the domestic vaccine manufacturers have announced a single price for sales to all the state governments, the actual cost of domestic vaccines for each state may vary, reflecting transportation, storage and other related costs. Moreover, with the demand for vaccines outpacing the domestic supply, some states have reportedly floated tenders for procuring imported vaccines. The cost of the imported vaccines would also vary for each state, depending on the size of the order, and the negotiating ability of the state governments among other factors. However, as of now, it appears that some vaccine manufacturers have declined to negotiate with individual state governments, creating uncertainty regarding both the cost and the timelines of eventual procurement of adequate vaccines by the states for the 18-44 age group.

Our baseline estimate assumes that the state governments/UTs purchase vaccines for the entire eligible population at an estimated cost of Rs. 1,000 for two doses and administer them free of cost; based on this, we project the total cost of vaccine administration to the 18-44 age group at Rs. 594 billion for FY2022. The total cost of vaccinating the eligible population free of cost for our sample of 20, out of our sample 24[6] state governments, is estimated at 568 billion (refer Exhibit 6).

Exhibit 6: Estimated cost of vaccinating populace in the age group 18-44



Source: MoHFW; ICRA research

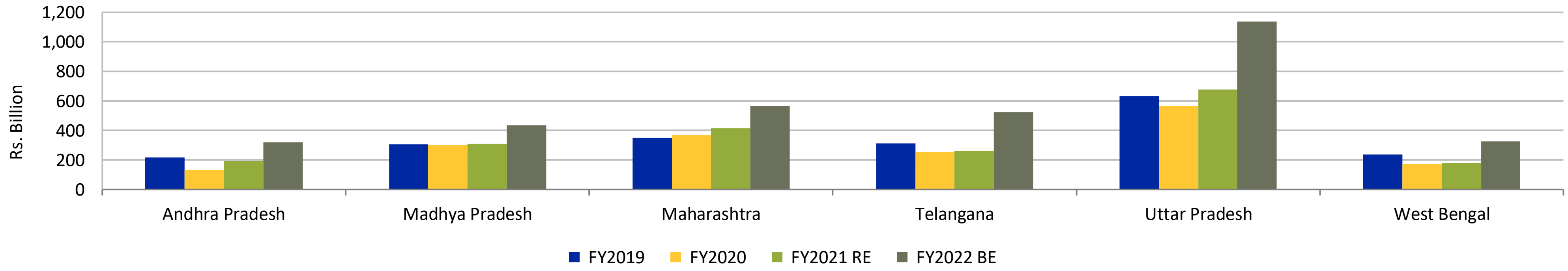
[6] *Population estimates for Arunachal Pradesh, Mizoram, Nagaland and Tripura are not available from the "Report of the Technical Group on Population Projections" published by the Ministry of Health and Family Welfare (MoHFW).*

A portion of the additional unexpected CTD of Rs. 450 billion released by the GoI to the state governments in March 2021, could be utilised by them for undertaking the unplanned health care expenditure in the ongoing fiscal. We expect the pace of vaccinating a sizeable proportion of the population to vary across the states, which in turn will influence the revival of sentiment, the pace of economic recovery and fiscal outcomes across different regions.

Decline in revenue deficit creates space for ramp-up of capital spending, although some states' estimates seem optimistic: The revenue deficit of the 24 state governments is projected at Rs. 1.2 trillion in FY2022 BE, similar to the pre-Covid-19 level of Rs. 1.3 trillion in FY2020, but sharply lower than Rs. 4.0 trillion in FY2021 RE. This allowed the states to plan for a substantial expansion in their capital expenditure and net lending, while still attempting a modest correction in their fiscal deficit. The 24 state governments forecast a robust 34.1% growth in their combined capital outlay and net lending to Rs. 6.4 trillion for FY2022 from Rs. 4.8 trillion in FY2021 RE. Notably, the GoI has fixed a target for capital expenditure for each state for FY2022[7], which aggregates to Rs. 5.8 trillion. The FY2022 BE for the combined capital outlay and net lending of the 24 states in our sample exceeds this target by a healthy margin.

However, some of the state governments have included a sharply higher capital spending and net lending for FY2022 relative to the trend seen in the previous three fiscals. For instance, after spending Rs. 565 billion-677 billion during FY2019-FY2021 RE, Uttar Pradesh has budgeted a large step up in its capital expenditure and net lending to Rs. 1,139 billion for FY2022, (refer Exhibit 7). Similarly, Andhra Pradesh, Madhya Pradesh, Maharashtra, Telangana and West Bengal have indicated a relatively sharp increase in their capital expenditure and net lending in FY2022, relative to the previous years. **In our assessment, the actual capital spending by the state governments could lag the budgeted level of Rs. 6.4 trillion, with the expectedly constrained spending in Q1 FY2022 led by localised restrictions, as well as the traditional lull seen during the monsoon season during June-September.**

Exhibit 7: Trends in capital outlay and net lending of six large borrowers during FY2019-22 BE



Source: Various state budgets; ICRA research

[7] *Out of the normal Net Borrowing Ceiling of 4.0% of GSDP permitted by the GoI to the state governments for FY2022, a borrowing ceiling of 0.5% of GSDP equivalent to Rs. 1.1 trillion in aggregate has been earmarked for incremental capex to be incurred by the state governments*

Fiscal deficits lower than estimated base borrowing limit, offering cushion to absorb shocks: Despite the sharp planned increase in capital spending and net lending, the combined fiscal deficit of the 24 state governments is forecast to improve to Rs. 7.6 trillion for FY2022 BE from Rs. 8.7 trillion in FY2021 RE. Based on the recommendation of the 15th FC, the GoI has fixed the net borrowing limit of the state governments at 4.0% of GSDP for FY2022. **We estimate the total net borrowing limit[8] of all the state governments at Rs. 8.5 trillion and of the 24 states in our sample at Rs. 8.4 trillion. This exceeds their budgeted fiscal deficit of Rs. 7.6 trillion, and, therefore, indicates a cushion of around Rs. 0.8 trillion to absorb lower-than budgeted revenues or higher-than-estimated revenue expenditures of the state governments.**

Condition-linked additional borrowing limit, and interest-free loans for capex offer further cushion: The 15th FC has also recommended an additional conditional borrowing of 0.5% of GSDP for the state governments during FY2022 to FY2025. Based on ICRA's estimate of FY2022 base GSDP, the power-sector related additional borrowing would be equivalent to Rs. 1.0 trillion for FY2022, provided the states complete the conditions linked to power sector reforms.

Additionally, the GoI has allocated a total of Rs. 100 billion[9] for all state governments for encouraging spending on capital projects in FY2022. **In our view, while this amount is modest, it is unconditional and over and above the enhanced borrowing limit permitted to the state governments for this fiscal. Unlike the GoI, which has included the allocation of Rs. 100 billion in the Union Budget FY2022, it is unclear if all the state governments have partly/fully included the same in their FY2022 state budgets.**

An additional interest-free loan of Rs. 50 billion will be provided, contingent on the state governments monetising the assets and disinvesting the state public sector enterprises (SPSEs). **In light of the current challenging Covid-19 led health crisis experienced by several states, it may be difficult for them to fulfil the conditions required for availing this loan. Overall, the Rs. 150-billion interest-free loan by the GoI to the states governments provides modest additional space for incurring capital expenditure for FY2022, assuming that the state governments have not accounted for it in their budgets.**

The aggregate fiscal deficit of the 24 states is lower than their combined Net Borrowing Ceiling. Moreover, the condition-linked additional borrowing limit, and interest-free loans for capex offer a further cushion to absorb lower revenues related to the second wave of Covid-19, or a rise in expenditures, including towards vaccine procurement. Overall, we emphasise that the revenue and fiscal outcomes and accordingly the borrowings could vary appreciably across states in FY2022, depending on the impact of infections-restrictions-vaccinations on economic activity.

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[8] The borrowing limit for the 24 state governments is projected by calculating the base GSDP estimate from the Net Borrowing Ceiling recommended by the Department of Expenditure for the states in FY2021 and FY2022.
[9] The GoI would be providing Rs. 100 billion to the states governments in FY2022 as interest free 50-year loan for encouraging spending on capital projects. The balance Rs. 50 billion would be given as an incentive by the GoI to those state governments which undertake asset monetization and disinvestment the state public sector enterprises (SPSEs) in their states.

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Tel: +91 80 4332 6400

Bengaluru 2

2nd Floor, Vayudooth Chamber
15-16, Trinity Circle, M.G. Road,
Bengaluru - 560 001
Tel: +91 80 4922 5500

Chennai

5th Floor, Karumuttu Centre
634, Anna Salai, Nandanam
Chennai - 600 035
Tel: +91 44 4596 4300

Hyderabad 1

4th Floor, 'Shoban'
6-3-927/A&B. Somajiguda
Raj Bhavan Road,
Hyderabad - 500 082
Tel: +91 40 4067 6500

Hyderabad 2

No. 7-1-58, 301, 3rd Floor, 'Concourse',
Above SBI-HPS Branch, Ameerpet,
Hyderabad - 500 016
Tel: +91 40 4920 0200

Kolkata

A-10 & 11, 3rd Floor,
FMC Fortuna 234/3A,
A.J.C. Bose Road,
Kolkata -700 020
Tel: +91 33 7150 1100/01

Mumbai

3rd Floor, Electric Mansion
Appasaheb Marathe Marg,
Prabhadevi,
Mumbai - 400 025
Tel: +91 22 6169 3300

Pune

5A, 5th Floor, Symphony, S. No. 210
CTS 3202 Range Hills Road,
Shivajinagar, Pune - 411 020
Tel: +91 20 2556 1194

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