ICRA

STATE GOVERNMENT FINANCES

Fiscal space of some states can support massive expansion in capex; execution holds key

OCTOBER 2022

Aditi Nayar
+91 124 4545 385
aditin@icraindia.com

Neetika Shridhar
+91 124 4545 305
neetika.shridhar@icraindia.com

Jaspreet Kaur
+91 124 4545 853
jaspreet.kaur@icraindia.com

Table of Contents

Table of Exhibits

ABBREVIATIONS

AP: Andhra Pradesh
BE: Budget Estimates
CAG: Comptroller and Auditor General of India
CAGR: Compound Annual Growth Rate
CCS: Centrally Sponsored Schemes
CGA: Controller General of Accounts
CSS: Centrally Sponsored Schemes
DCU: Department Commercial Undertakings
D+G/GSDP: Debt and Guarantees as a proportion of Gross State Domestic Product
D+G/RR: Debt and Guarantees as a proportion of Revenue Receipts
DA: Dearness Allowance
Discoms: State-owned Electricity Distribution Corporations
DR: Dearness Relief
FC: Finance Commission
G-Sec: Government Securities
GO: Government Order
GoI: Government of India
GoAP: Government of Andhra Pradesh
GoG: Government of Gujarat
GoH: Government of Haryana
GoK: Government of Karnataka
GoKe: Government of Kerala
GoM: Government of Maharashtra
GoMP: Government of Madhya Pradesh
GoP: Government of Punjab
GoR: Government of Rajasthan
GoTN: Government of Tamil Nadu
GoTS: Government of Telangana
GoWB: Government of West Bengal
GoUP: Government of Uttar Pradesh
GR: Government Resolution
GDP: Gross Domestic Product
GSDP: Gross State Domestic Product
GST: Goods and Services Tax
GSVA: Gross State Value Added
GVA: Gross Value Added
IMR: Infant Mortality Rate
IMD: Indian Meteorological Department
Km: Kilometre
LPA: Long Period Average
MOSPI: Ministry of Statistics and Programme
MTFP: Medium Term Fiscal Policy
NBC: Net Borrowing Limit
NDRF: National Disaster Response Fund
NSDP: Net State Domestic Product
NSSF: National Small Savings Fund
NSO: National Statistical Office
PA: Provisional Actuals
PC/PRC: Pay Commission/ Pay Revision Commission
PFC: Power Finance Corporation
PPAC: Petroleum Planning and Analysis Cell
PPS: Percentage Points
POL: Petroleum, Oil and Lubricants
POSOCO: Power System Operation Corporation
RDG: Revenue Deficit Grant
REC: Rural Electrification Corporation
RBI: Reserve Bank of India
RE: Revised Estimates/Revenue Expenditure
RB: Revenue Balance
RR: Revenue Receipts
SRS: Sample Registration System
S&R: Stamps and Registrations
SERC: State Electricity Regulatory Commission
SGS: State Government Securities
SGST: State Goods and Services Tax
SDG: Sustainable Development Goals
SOTR: State’s Own Tax Revenue
SONTR: State’s Own Non-Tax Revenue
T-Bills: Treasury Bills
TN: Tamil Nadu
TO: Tariff Order
UDAY: Ujwal Discom Assurance Yojana
UT: Union Territory
VAT: Value Added Tax
WB: West Bengal
WMA: Ways and Means Advances
WSSH&UD: Water Supply, Sanitation, Housing and Urban Development
UP: Uttar Pradesh
YoY: Year-on-Yea

SOURCES

Data	Source
Geographical Area of the States, Population, Urbanization, Literacy (2011)	Census of India, 2011
IMR (2018)	SRS Bulletins
Irrigation coverage (2018)	Handbook of Statistics on Indian States published by the RBI in November 2021
Per-capita availability of power (2021)	Handbook of Statistics on Indian States published by the RBI in November 2021
Rainfall Statistics	Indian Meteorological Department
GDP, GVA, GSDP, NSDP, GSVA	NSO (August 2022). GSDP estimate uptill FY2022 for Andhra Pradesh, Haryana, Karnataka, Kerala, Madhya Pradesh, Punjab, Rajasthan, Tamil Nadu, Telangana and Uttar Pradesh are taken from the NSO. FY2022 GSDP estimate is not available on the NSO's website for Gujarat, Maharashtra, and West Bengal. ICRA has assumed a YoY increase of 17.5% for estimating their FY2022 GSDP of these three states. For estimating FY2023 GSDP, ICRA has assumed a YoY expansion of 15.0% for all the 13 states.
Per Capita Income (FY2021)	NSO (August 2022)
SGST	GST Portal.
Provisional actuals for state finances	CAG. For FY2022, the provisional actuals for revenue receipts, expenditures, revenue and fiscal deficit for 13 states available on the CAG have been used.
Others	Various Finance Commission Reports Government of India Budgets Data published by Controller General of Accounts and CAG of India Data published by the RBI, including various editions of State Finances: A Study of Budgets Budget documents of state governments, Economic Surveys of various states Data published by PPAC, Ministry of Agriculture

DEFINITIONS

Access to Central Transfers	: Central Taxes plus Grants as a percentage of GSDP
Central Transfers	: Central Taxes plus Grants
Own Tax Effort	: SOTR as a percentage of GSDP
Committed Expenditure	: Sum of Salaries, Pension and Interest Payments
Debt Stock	: Internal Debt, Loans from the GoI and Provident Fund, etc.
Fiscal Deficit	: Revenue Balance plus Capital Receipts less Capital Outlay and Net Lending.
Internal Debt	: SDL, Loans from the NSSF, Loans from Banks and Financial Institutions, Power Bonds, UDAY Bonds, WMA from the RBI etc.
Irrigation Coverage	: Net Irrigated Area as a Proportion of Net Sown Area.
Leverage	: Debt and Guarantees
Per Capita Income	: Per capita NDP/NSDP at current prices
Public Debt	: Internal Debt and Loans from the GoI
Quality of Expenditure	: Sum of Capital Expenditure and Net Lending as a proportion of Total Expenditure
TOL	: Sum of Debt Stock, Reserve Funds, Deposits & Advances and Contingency Fund

NOTES:

1. The analysis in this note is based on 13 states, namely, Andhra Pradesh, Gujarat, Haryana, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Punjab, Rajasthan, Tamil Nadu, Telangana, Uttar Pradesh and West Bengal. The combined GSDP (at current prices) of these states comprised nearly 85% of India's GDP (at current prices) in FY2021.

2. For projecting various parameters for FY2023, ICRA has used the unaudited provisional actuals of FY2022 available from the CAG. The actuals for FY2022 will be available in the FY2024 state budgets, and could be different from the amounts included in the FY2022 PA.

3. ICRA makes the following adjustments in the SONTR of the state governments: (a) interest from departmental commercial undertakings (contra entry) is subtracted from revenue receipts and revenue expenditure (b) receipts from lotteries are netted for lottery expenditure (c) sale of land is treated as a capital receipt and is subtracted from SONTR and added to capital receipts. The SONTR has been adjusted for all years except FY2022 PA.

4. The data on the FY2022 GSDP at current prices is available for Andhra Pradesh, Haryana, Karnataka, Madhya Pradesh, Punjab, Rajasthan, Tamil Nadu, Telangana and Uttar Pradesh. However, for Gujarat, Maharashtra and West Bengal, for which data is not available on the NSO's website, ICRA has assumed a 17.5% growth for their FY2022 GSDP. ICRA has assumed a YoY increase of 15.0% for estimating the FY2023 GSDP of the 13 states, in line with ICRA's forecasts of the nominal GDP of India for FY2023. The comparative analysis of GSVA composition of the 13 states with the national average is for the period FY2017-21.

5. The expenditure on salary for Gujarat, Karnataka, Uttar Pradesh and West Bengal is not available for FY2022 PA, and ICRA has assumed it at the FY2022 RE level; for the remaining nine states, the salary estimate included in FY2022 PA has been used.

6. In FY2022 PA, the power subsidy of the 13 states is not included as a separate line item under their revenue expenditure. Therefore, we have retained the power subsidy amount for FY2022 PA at FY2022 RE level.

OVERVIEW

Exhbit: Revenue and fiscal balances (Rs. Trillion)

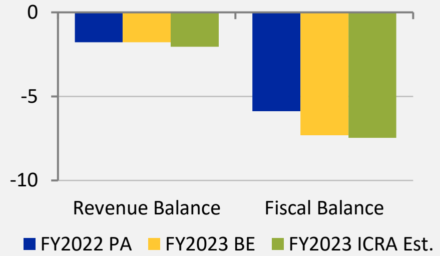
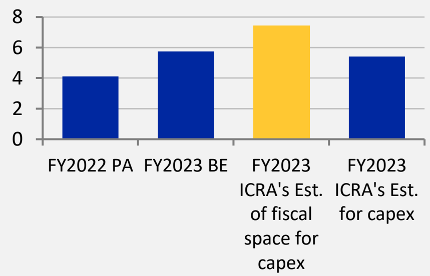


Exhibit: Trends in capital expenditure (Rs. Trillion)



ICRA estimates that a sample of 13 major state governments has a massive fiscal space of Rs. 7.4 trillion for capital spending in FY2023, ~29% higher than the budgeted Rs. 5.8 trillion. This assessment is based on the unconditional market borrowings of 3.5% of GSDP, the interest-free capex loan of Rs. 1.0 trillion to be provided by the GoI to the state governments, and the additional power sector reform-related borrowing, after setting aside the estimated revenue deficits and the adjustment of off-budget borrowings of FY2022. While considerable funds are available for capex in FY2023, the states' ability to ramp up execution relative to the Rs. 4.1 trillion incurred in FY2022 PA, will crucially affect whether the actual outcome in the current year turns out to be appreciably higher than budgeted.

Revenue deficit in FY2023 to exceed the BE despite upside in tax devolution and GST compensation grants: ICRA estimates the combined revenue deficit of the 13 states at Rs. 2.1 trillion, higher than Rs. 1.8 trillion each in FY2023 BE and in FY2022 PA. While we expect tax devolution as well as the GST compensation grants to exceed the budgeted amount in FY2023, this will not be adequate to fully offset the estimated shortfall in other revenue streams as well as higher-than-budgeted revenue expenditure in this fiscal.

Resources adequate to fully fund or exceed budgeted capex for FY2023 for eight states: The unconditional market borrowings of 3.5% of GSDP, the interest-free capex loan and additional power sector reform-related borrowing (0.5% of GSDP), after accounting for the estimated revenue deficit and the adjustment of off-budget borrowings of FY2022, form the states' resource envelope for capex for FY2023. We assess that AP, Gujarat, Karnataka, MP, Maharashtra, TN, UP and WB (Sub-set A) will have adequate resources to fully fund or exceed their budgeted capex for FY2023. However, the fiscal space available for Haryana, Rajasthan, Kerala, Punjab, and Telangana (Sub-set B) would be inadequate for funding the capex budgeted for FY2023, by a varying extent. Out of these states, the fiscal space assessed for Kerala and Telangana in FY2023 is curtailed on account of the adjustment of the incremental off-budget debt of FY2022.

Combined fiscal deficit in FY2023 to exceed the budgeted level: Given the high YoY capex growth budgeted by many of the states in Sub-set A, and the modest spending seen in the early part of the year, we remain circumspect about whether their capital spending can exceed the budgeted level. Therefore, we have assumed their capital spending to remain in line with the FY2023 BE (except Karnataka, for which we have assumed a 10% growth over the FY2022 PA, as the FY2023 BE had projected a contraction). For Sub-set B, we have assumed that their capex will be limited to the available fiscal space, which is below the FY2023 BE, by a varying extent, suggesting that additional revenue mobilisation and/or expenditure efficiency measures may need to be found to boost capex. Based on this, ICRA projects the likely combined FY2023 capex of the 13 states in the sample at Rs. 5.4 trillion, much lower than the available fiscal space of Rs. 7.4 trillion, and also smaller than the budgeted Rs. 5.8 trillion, albeit a considerable step-up from the Rs. 4.1 trillion seen in FY2022 PA. Based on the projected capex of Rs. 5.4 trillion, ICRA estimates the sample's aggregate fiscal deficit for the current fiscal at Rs. 7.5 trillion, higher than the Rs. 7.3 trillion in FY2023 BE and Rs. 5.9 trillion in FY2022 PA.

Mild improvement expected in leverage levels: The combined leverage (debt+ guarantees) level of the sample is expected to improve mildly to 28.8% of GSDP in FY2023 from 29.2% of GSDP in FY2022, with continuing variation across the states.

ABOUT ICRA

ICRA Limited (formerly Investment Information and Credit Rating Agency of India Limited) was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange.

Alliance with Moody's Investors Service

The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder. The participation of Moody's is supported by a Technical Services Agreement, which entails Moody's providing certain high-value technical services to ICRA. Specifically, the agreement is aimed at benefiting ICRA's in-house research capabilities, and providing it with access to Moody's global research base. The agreement also envisages Moody's conducting regular training and business seminars for ICRA analysts on various subjects to help them better understand and manage concepts and issues relating to the development of the capital markets in India. Besides this formal training programme, the agreement provides for Moody's advising ICRA on Rating-products strategy, and the Ratings business in general.

The ICRA Factor

Our services are designed to

- Provide information and guidance to institutional and individual investors/creditors;
- Enhance the ability of borrowers/issuers to access the money market and the capital market for tapping a larger volume of resources from a wider range of the investing public;
- Assist the regulators in promoting transparency in the financial markets;
- Provide intermediaries with a tool to improve efficiency in the funds raising process.

ICRA

Business Contacts

Mr. L. Shivakumar
E-mail: shivakumar@icraindia.com
+91 22 6114 3406 / +91 98210 86490

Mr. Jayanta Chatterjee
E-mail: Jayantac@icraindia.com
Tel: +91 80 4332 6401/ +91 98450 22459

Media and Public Relations

Ms. Naznin Prodhani
E-mail: Communications@icraindia.com
Tel: +91 124 4545 860

Registered Office

B-710, Statesman House 148,
Barakhamba Road
New Delhi-110001
Tel: +91 11 23357940-45

Corporate Office

Building No. 8, 2nd Floor,
Tower A, DLF Cyber City, Phase II,
Gurgaon - 122 002
Tel: +91-124-4545300

Ahmedabad

1809-1811, Shapath V,
Opp: Karnavati Club,
S.G.Highway, Ahmedabad - 380015
Tel: +91 79 4027 1500/501

Bengaluru 1

'The Millenia', Tower B Unit No. 1004,
10th Floor, 1 & 2 Murphy Road,
Bengaluru - 560 008
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

Email: Info@icraindia.com
Helpdesk: 9354738909
Website: www.icra.in/ www.Icraresearch.in