ICRA

STATE GOVERNMENT FINANCES

State capex needs to rise by 40% in H2 FY2025 to meet the target indicated in FY2025 BE

NOVEMBER 2024

Highlights

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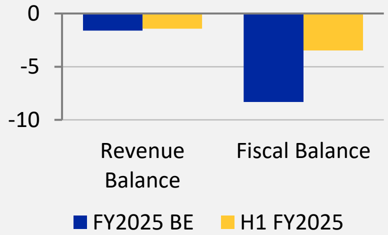
EXHIBIT: Trends in revenue and fiscal balances (Rs. Trillion)

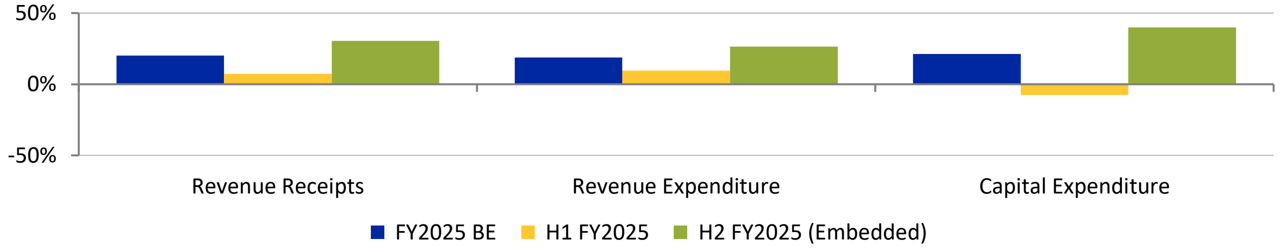


*Note: *Andhra Pradesh (AP), Chhattisgarh, Haryana, Himachal Pradesh (HP), Karnataka, Kerala, Madhya Pradesh (MP), Maharashtra, Punjab, Rajasthan, Tamil Nadu (TN), Telangana, Uttar Pradesh (UP), Uttarakhand and West Bengal (WB); Source: Comptroller and Auditor General of India (CAG); State Budgets; ICRA Research*

The combined revenue deficit of 15 states* stood at Rs. 1.4 trillion during H1 FY2025, equivalent to 89% of FY2025 BE. The combined revenue receipts of these states rose by 7.3% in H1 FY2025, sharply trailing the 20% expansion indicated in the Budget Estimates (BE) by a wide margin. This was led by lower-than-budgeted growth in the State's Own Tax Revenues (SOTR) reflecting moderation in consumer demand amid elevated inflation, elections and climate-related disruptions in economic activity in H1 FY2025. Moreover, grants reported an 18% YoY decline in H1 FY2025, which contrasts with the high 36% growth included by the states in their BE. However, on a positive note, the tax devolution increased by 19.3% in H1 FY2025, exceeding the 9.3% rise expected in BE. Tracking these trends, the combined revenue expenditure rose by 9.5% in H1 FY2025, weaker than 19% expansion included in the BE.

Partly on the back of a high base, the combined capital spending and net lending declined by 7.5% in H1 FY2025 whereas the states had pencilled in a healthy 21% YoY expansion. Amid the compression in capex, the fiscal deficit of the 15 states stood at Rs. 3.5 trillion in H1 FY2025, equivalent to 42% of the BE. Based on the FY2025 BE and the trends in H1, the combined revenue receipts, revenue expenditure and capex of the 15 states are required to expand by ~30%, 26% and 40%, respectively, in H2 FY2025, to meet the budgeted target for the fiscal. While we expect a pick-up in the growth of the revenue receipts in H2 FY2025 led by SOTR, the required rate of 30% seems challenging, led by various domestic and global factors as well as our assessment of continuing contraction in grants. Additionally, notwithstanding highly back-ended capex in FY2025, we expect it to undershoot the levels indicated in FY2025 BE.

EXHIBIT: YoY trends of key fiscal indicators of 15 states



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Thank You!