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Are states spending on capital?

The Indian economy does appear to be on the path of achieving growth of around 7% this year. In this context two engines, consumption and investment, will hold the clue. Consumption has been examined by Bank of Baroda Economic Research in the study titled: The Consumption piece: A Silver Lining or dark cloud? (Available on the web site www.bankofbaroda.com). The picture here is mixed and the indication is that the next few months will be critical in the fructification of this factor.

Investment is the tougher nut to crack. Investment by private sector could still take some time. But the centre has been fairly aggressive with capex this year with a total outlay of around Rs 7.5 lakh crore for FY23. However, states have an equally important role to play and the analysis here looks at how they have progressed so far in this fiscal year.

Data on progress of spending of states on capex is available for the period April-July for 26 states (of which data is for up to June for one of them). The total projected expenditure on capital for FY23 for this set of states is to be Rs 6.92 lakh crore which is just a bit 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 would doing about the same if not more than the centre in terms of capex.

The centre for the first 4 months of the year has already spent Rs 2.08 lakh crore which is 27.8% of the budgeted amount. The states however have been slower with just 14.7% of the budgeted amount being spent so far which is Rs 1.01 lakh crore. Hence, there is considerable slack here which needs to be made up during the course of the remaining 8 months of the year.

The interesting part of the budgeted capex by states is that of the Rs 6.92 lakh crore that has been projected, the dominant position is taken by Uttar Pradesh with a budgeted amount of Rs 1.24 lakh crore which is around 18% of the total. If this works out, it would be the second successive year where the state would lead in capex. In FY22 the state spent Rs 96,481 crore on capex against a targeted Rs 1.14 lakh crore. Interestingly in FY21, it was just around half of this amount suggesting that the state had lined up certain large scale infrastructure projects for these two years.

Further, overall capex is concentrated in the states of UP, Maharashtra, Karnataka, Tamil Nadu, Gujarat, MP, Odisha and Rajasthan which individually have a share of above 5% each and together account for 61.2% of total capex. If West Bengal is added with share of 4.8%, then the 9 states would account for 65% of capex. Therefore, the progress made by these states in particular need to be tracked as it would determine the pace of progress in meeting the targets. While the other states too would be contributing to the total capex, these states need to perform well and meet their targets to ensure that state capex is on track.

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.

States' progress on capex (April-July 2022)

| | Rs crore | | |
|------------------|-----------------|-----------------|---------------|
| | Budget FY23 | Amount Spent | Utilization % |
| Kerala | 14,791 | 4,082 | 27.6 |
| Gujarat | 35,695 | 8,959 | 25.1 |
| Madhya Pradesh | 44,540 | 11,001 | 24.7 |
| Himachal | 5,647 | 1,169 | 20.7 |
| Chhattisgarh | 15,076 | 3,015 | 20.0 |
| Tamil Nadu | 43,072 | 8,571 | 19.9 |
| Karnataka | 43,572 | 8,061 | 18.5 |
| West Bengal | 33,144 | 5,701 | 17.2 |
| Nagaland | 16,651 | 2,731 | 16.4 |
| Rajasthan | 34,658 | 5,545 | 16.0 |
| Bihar | 30,943 | 4,239 | 13.7 |
| Arunachal | 6,701 | 905 | 13.5 |
| Telangana | 29,064 | 3,720 | 12.8 |
| Maharashtra | 64,065 | 7,560 | 11.8 |
| Odisha | 38,492 | 4,504 | 11.7 |
| Uttarakhand | 10,840 | 1,171 | 10.8 |
| Haryana | 21,319 | 2,238 | 10.5 |
| Meghalaya | 2,462 | 256 | 10.4 |
| Punjab | 10,930 | 1,137 | 10.4 |
| Uttar Pradesh | 1,23,919 | 12,764 | 10.3 |
| Jharkhand | 16,530 | 1,653 | 10.0 |
| Manipur | 8,673 | 824 | 9.5 |
| Andhra | 29,916 | 1,974 | 6.6 |
| Tripura | 5,286 | 180 | 3.4 |
| Mizoram | 2,663 | 29 | 1.1 |
| Sikkim | 3,688 | - | - |
| Aggregate | 6,92,337 | 1,01,990 | 14.7 |

Source: CAG

The table shows the following:

1. 10 states had an average utilization rate of above average of 14.7%. This amounted to Rs 58,836 crore or 58% of total targeted expenditure.
2. 6 of the top 9 states that would be driving capex are in this group of 10.
3. The two largest states in the list of budgeted capex, Uttar Pradesh and Maharashtra are lagging and shortfalls here can affect the overall effort of states. Odisha is the third state in this sub-group.

There has been a tendency even in the past for states to go slow on capex in the initial months and accelerate subsequently when a clearer picture of their fiscal balances is known. Therefore, the last quarter could be the busy period for states in reckoning their capex. The GST collections this year have been very buoyant for both the centre and states and hence there is less reason for them to be circumspect at this point of time. Growth does need an equal push from both the centre and states and hence this piece is critical.

Were targets met last year?

In FY22, based on the revised numbers, Maharashtra had exceeded the budgeted target marginally. However UP had fallen short by 16%. Also the incremental capex planned this year has been placed substantially higher by 28% which may be ambitious unless there are projects that are lined up for execution.

For a set of 22 states (which includes Delhi and Goa), 13 had underachieved their capex targets in FY22 while 9 had gone ahead. The states which missed their targets this year included also the larger states of Karnataka, Gujarat, MP, Odisha, Tamil Nadu and West Bengal.

Therefore the possibility of slippages cannot be ruled out in case these larger states do not work fast on expediting projects in the next 8 months.

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