

How has State capex fared in FYTD24?

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. The laggards are Chhattisgarh, Gujarat and Karnataka, which are considerably short of target compared to same period of previous year. Thus coming two months remain crucial for these States in terms of achieving the Budget estimates.
- For Maharashtra, the current utilization rate which at 37.5%, is almost in line with last year's utilization rate of 33.74% during the same period. However, in the final two months, there has been considerable increase in capex spending of the State which has led to the utilization rate

ending the FY at 72.7%. The similar trend of capital spending noting an increase in the last two months were also visible for States such as West Bengal and Punjab.

- However, ceteris paribus, based on current numbers, Maharashtra, Gujarat, West Bengal Karnataka, Chhattisgarh and Punjab, may miss the target by a wide margin. It is important to mention that Maharashtra, Gujarat and Karnataka fall within the top 5 States in terms of share in capital expenditure. Thus, their trailing ratio is worrisome.
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Table 1: States' progress on capex in FYTD24 vis a vis FYTD23

States	Share in Capex as per FY24BE	Budget Estimates (BE), FY24 (Rs crore)	Actuals- FYTD24, (Rs crore)	Capex as % of BE, FYTD24	Capex as % of BE, FYTD23
Telangana	4.2	37,525	33,992	90.6	45.5
Madhya Pradesh	6.1	54,056	41,867	77.5	65.4
Bihar	3.4	30,357	22,677	74.7	58.3
Kerala	1.6	14,618	10,520	72.0	67.3
Haryana	2.6	23,007	16,263	70.7	47.9
Andhra Pradesh	3.5	31,061	20,942	67.4	24.0
Himachal Pradesh	0.6	5,202	3,389	65.1	66.1
Tamil Nadu	5.1	45,646	28,480	62.4	52.9
Meghalaya	0.5	4,461	2,671	59.9	45.0
Odisha	5.8	51,683	29,694	57.5	58.2
Jharkhand	2.4	21,705	12,210	56.3	41.0
Rajasthan	4.7	41,759	21,957	52.6	43.6
Arunachal Pradesh	0.6	5,584	2,919	52.3	34.8
Assam	2.9	25,785	13,201	51.2	34.6
Uttar Pradesh	17.6	1,56,315	78,180	50.0	40.3
Gujarat	7.9	70,101	32,555	46.4	56.8
West Bengal	3.8	34,026	15,203	44.7	35.1
Karnataka	6.6	58,328	23,967	41.1	74.3
Uttarakhand	1.8	16,421	6,689	40.7	41.6
Maharashtra	10.8	96,157	36,047	37.5	33.4
Mizoram	0.2	1,697	574	33.9	13.5
Punjab	1.2	10,355	3,393	32.8	34.2
Chhattisgarh	3.4	30,568	9,981	32.7	52.2
Tripura	0.5	4,438	1,358	30.6	25.4
Nagaland	0.9	7,986	1,879	23.5	77.2
Manipur	1.1	10,014	983	9.8	12.8
Total	100	8,88,853	4,71,591	-	-

Source: CAG, Bank of Baroda Research, Note: Green shaded areas are the States having capex as % of BE above 70% and beige shaded areas are the States falling far short of their target, FYTD: Apr-Jan

- The above table shows that 17 States have performed better in terms of utilization rate in FYTD24 compared to FYTD23. States such as Telangana, Andhra Pradesh and Haryana have made considerable catch up compared to same period of last year. Thus for these States achieving their Budget estimates seem feasible. Even for other States such as Bihar, Jharkhand and Madhya Pradesh, similar trend of catch is visible. However, important States with regard to their share in capex such as Gujarat and Karnataka have been a laggard.

Table 2: States' progress on capex vis a vis full year target of previous year

States	Share in Capex as per FY24BE	Capex as % of BE, FYTD24	Achievement in FY23 Capex as % of BE, FY23
Telangana	4.2	90.6	60.6
Madhya Pradesh	6.1	77.5	97.2
Bihar	3.4	74.7	100.5
Kerala	1.6	72.0	72.0
Haryana	2.6	70.7	50.6
Andhra Pradesh	3.5	67.4	24.7
Himachal Pradesh	0.6	65.1	95.3
Tamil Nadu	5.1	62.4	89.9
Meghalaya	0.5	59.9	67.8
Odisha	5.8	57.5	86.9
Jharkhand	2.4	56.3	98.4
Rajasthan	4.7	52.6	50.4
Arunachal Pradesh	0.6	52.3	121.0
Assam	2.9	51.2	64.1
Uttar Pradesh	17.6	50.0	69.0
Gujarat	7.9	46.4	89.4
West Bengal	3.8	44.7	67.7
Karnataka	6.6	41.1	130.6
Uttarakhand	1.8	40.7	68.4
Maharashtra	10.8	37.5	72.7
Mizoram	0.2	33.9	48.4
Punjab	1.2	32.8	61.2
Chhattisgarh	3.4	32.7	74.4
Tripura	0.5	30.6	41.3
Nagaland	0.9	23.5	47.7
Manipur	1.1	9.8	39.6
Total	100	-	-

Source: CAG, Bank of Baroda Research, Note: Green shaded areas are the States having capex as % of BE above 70% and beige shaded areas are the States falling far short of their target, Red highlighted ones are making considerable progress compared to full year of last year

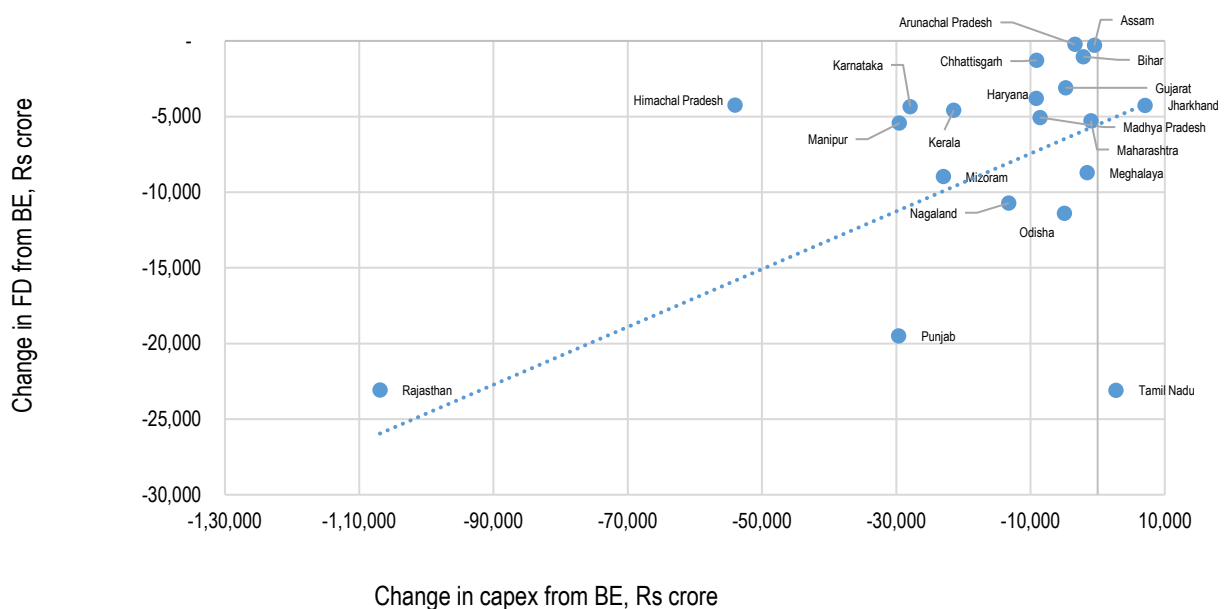
- The above table shows a comparison between achievements of utilization rate for FYTD24 against the full year utilization rate of FY23. What emerges from the table is that majority of the States in FY23 have not managed to achieve the budgeted target in terms of capital expenditure. However, for States such as Telangana, Haryana, Andhra Pradesh and Rajasthan, the momentum is far better. For example Telangana has already achieved 90.6% of capex as percentage of Budget estimates which was just 60.6% for the entire FY23. Similarly, Andhra Pradesh has already achieved 67.4% of Budget estimates whereas it was just 24.7% in FY23. Here also common set of States (as mentioned earlier) such as Gujarat, Karnataka, and Maharashtra would have challenges here.

Are States curtailing capex to meet Fiscal deficit (FD) target?

In FY23, States have been seen maintaining fiscal discipline as broadly majority of States have curtailed their fiscal deficit in absolute terms. However, there is no one-to-one relation between curtailing fiscal deficit and capital spending. But what is seen for major States whose share in capital spending is highest such as Maharashtra, Gujarat and Karnataka, there are traces of this relationship.

For example in case of Maharashtra, there has been a capital spending shortfall of Rs 1,287 crore from its Budget estimate and fiscal deficit in absolute terms during the same period has been reduced by Rs 9,086 crore from its Budget estimate. For Uttar Pradesh, capital spending has been cut by Rs 3,101 crore and fiscal deficit has fallen by Rs 4,765 crore. For Madhya Pradesh, the fiscal deficit has been reduced significantly by Rs 29,532 crore while capital spending has been brought down by Rs 5,438 crore. For Punjab, fiscal deficit has been reduced by Rs 8,578 crore, whereas capital spending has been brought down by Rs 5,060 crore. Thus, the quantum differs according to State's priority of allocating their spending profile. The exhibit below also shows the same relationship. Majority of the States are in the negative quadrant as both capital spending and fiscal deficit have fallen short of its Budget estimate. Based on the current context, where focus is on maintaining fiscal prudence by both Centre and States, some shortfall might be visible for larger states in terms of capex.

Fig 1: Fiscal deficit and capex spending of States



Source: CAG, Bank of Baroda Research

Conclusion:

- States capex as percentage of Budget estimates are trailing far behind Centre.
- Picture across states varies.
- If we compare FYTD24 utilization rate with FYTD23 number, majority States have shown considerable momentum.
- However, comparing the FYTD24 number with full year target gives conflicting signals, with States having major share in capex trailing behind, namely Maharashtra and Gujarat, amongst others.
- A plausible explanation could be cutting down capex to maintain fiscal prudence.

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