

## Have states underperformed on capex?

Capex of government has been considered to be the prime driver of capex in the economy in the last few years. This is so as the private sector has not been in a position to invest for various reasons. These range from lower demand to excess capacity and high inflation. But how have governments done given that there are no profit related motives for such expenditure? The picture, as can be seen below, is mixed as while the centre has performed well, states have tended to disappoint in FY23.

### **Budgeted and actual capex of the centre (Rs crore)**

Centre's capex	Budget	Actual	Achievement %
Total	7,27,768	7,36,319	101.2
Loans disbursed	1,08,070	1,15,268	106.7
Own capex	6,19,698	6,21,051	100.2

The table above shows that the centre has met its target both in terms of actual capex in various areas as well as the loans disbursed to states that were to be used for capex. Therefore there has been remarkable commitment to this cause. The fiscal deficit target was also maintained in this year.

However, the states' performance has been disparate. Data is available for 25 states. A total of Rs 7.49 lakh crore was budgeted for by these states. However, they spent only Rs 5.71 lakh crore which is 76.2% of the total. The states which met above 80% of the target is provided in the table below.

### **States which have met above 80% of target in FY23 (Rs cr)**

State	Budget	Actual	Achievement %
Karnataka	43,562	56,907	130.6
Sikkim	1,929	2,420	125.5
Arunachal Pradesh	6,701	7,962	118.8
Bihar	30,943	31,089	100.5
Jharkhand	14,161	14,004	98.9
Madhya Pradesh	44,540	43,771	98.3
Himachal Pradesh	6,311	6,017	95.3
Chhattisgarh	15,076	13,596	90.2
Tamil Nadu	43,072	38,732	89.9
Gujarat	39,821	35,642	89.5
Odisha	38,492	33,462	86.9

As can be seen in the table only 4 states have over-achieved and crossed the 100% mark: Karnataka, Sikkim, Arunachal Pradesh and Bihar. Two others came close at above 98% which are Jharkhand and MP. Eleven states had crossed the 80% threshold.

The other states have registered lower than average achievement rate. The two largest states in terms of planned capex, UP and Maharashtra had an outlay of Rs 2.19 lakh crore which is 29.2% of the total capex of these 25 states. Their combined achievement was just 70% which has brought down the

average for the entire sample. The lowest performance came from Andhra Pradesh at 23% followed by Tripura, Nagaland and Haryana which had less than 50% achievement rate. Out of these 14 states, Andhra Pradesh and Punjab were the only states which had exceeded their fiscal deficit budgeted numbers and probably had some reason for under-spending on capex, though the two are not proportional.

**States which have met less than 80% of target in FY23 (Rs cr)**

State	Budget	Actual	Achievement %
Maharashtra	83,530	60,499	72.4
Kerala	19,330	13,407	69.4
Uttar Pradesh	1,35,677	93,555	69.0
Uttarakhand	11,987	8,194	68.4
Meghalaya	3,233	2,192	67.8
West Bengal	33,144	22,421	67.6
Assam	24,704	15,942	64.5
Punjab	10,930	6,674	61.1
Telangana	29,064	17,336	59.6
Rajasthan	39,148	19,650	50.2
Haryana	22,047	10,604	48.1
Nagaland	16,650	7,936	47.7
Tripura	5,285	2,185	41.3
Andhra Pradesh	29,917	6,917	23.1

There are several reasons for states not meeting their capex targets.

1. They tend to wait towards the end of the year to see how their fiscal balances are faring and are not in a position to complete the same by March.
2. There are not enough projects that can be undertaken by the states and hence a combination of lacunae in planning and execution. This ultimately leads to slippages.
3. There can be too much preoccupation with items under the revenue expenditure that there is less attention paid here.
4. There can be a case of over budgeting to begin with to create contingencies.
5. Other extraneous factors at times such as uncertainties in political climate could come in the way of project execution.

*The under-achievement phenomenon is not really new as in FY20 the rate was around 72% though in FY22 had improved in 95%. The states certainly have to improve their record here in order to push forward the investment cycle as the private sector will take some time before coming in a broad based manner. Presently the heavy lifting is being done by the centre which is not adequate as the budgeted expenditure of the two levels of government are almost similar. Hopefully the push given in FY24 would be more decisive.*

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