

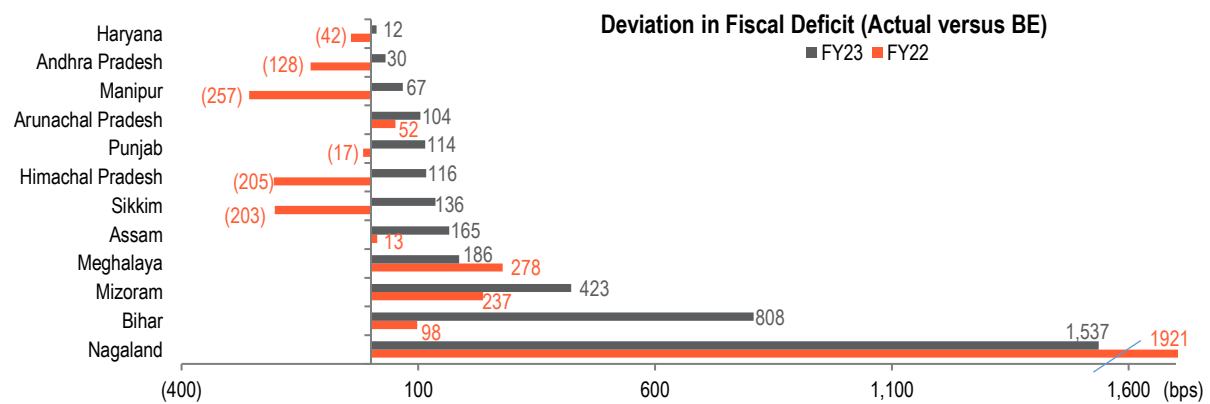
Study on state fiscal deficits

Fiscal Deficit in FY23—A Recap:

In order to analyse the health of state finances in FY23 and FY24, we start by looking at the trends in fiscal balance of states. Out of the 26 states analysed in this study, 12 exceeded their budgetary targets in FY23, while 14 reported consolidation. On an aggregate level, actual fiscal deficit these sample states came in at 2.9% of GSDP, unchanged from last year (FY22) and down from 3.4% projected in budgetary estimates (FY23BE).

In FY23, most significant breach was noted in case of states like Nagaland (+1537bps), Bihar (+808bps) and Mizoram (+423bps). Other states which exceeded their fiscal deficit targets by more than a percentage point, included North Eastern states (Meghalaya, Arunachal Pradesh, Assam, Sikkim), Himachal Pradesh and Punjab. Manipur, Andhra Pradesh and Haryana also exceeded their targets.

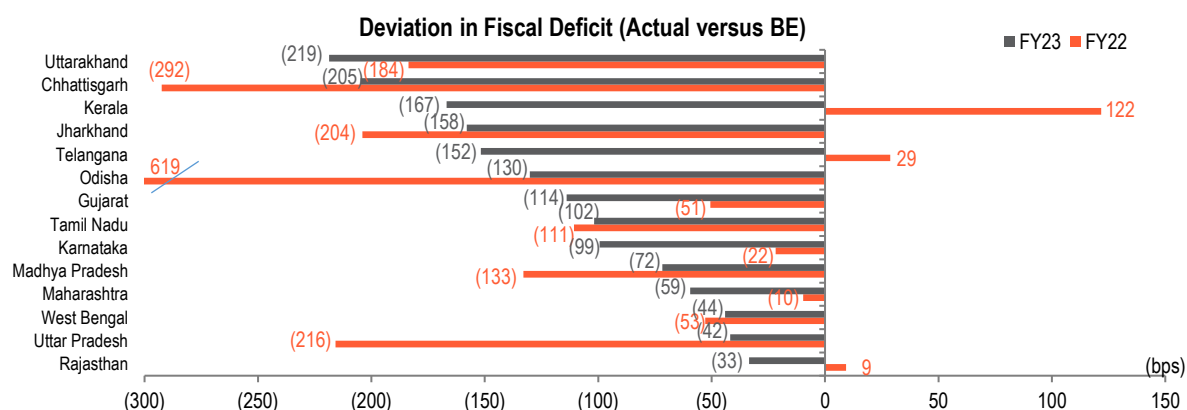
Figure 1: States which exceeded FY23 fiscal deficit ratio (BE)



Source: CEIC, Bank of Baroda Research | Note: Positive number implies breach of target, Negative implies less than target (BE)

On the other hand, states like Uttarakhand (-219bps) and Chhattisgarh (-205bps) achieved fiscal consolidation of more than two percentage points in FY23. Other states which recorded consolidation by over/near a percentage point include: Kerala (-167bps), Jharkhand, Telangana, Odisha, Gujarat, Tamil Nadu, and Karnataka (-99bps). Smaller leaps were made by Rajasthan (-33bps), UP, W. Bengal, Maharashtra and Madhya Pradesh (-72bps).

Figure 2: States which reported lower fiscal deficit ratio in FY23 versus (BE)



Source: CEIC, Bank of Baroda Research | Note: Positive number implies breach of target, Negative implies less than target (BE)

Table 1: Fiscal deficit of states

Rs Crore	FY20	FY21	FY22BE	FY22	FY23BE	FY23
Andhra Pradesh	-115	53,703	37,030	25,195	48,724	51,453
Arunachal Pradesh	1,109	1,236	1,219	964	207	1,034
Assam	15,701	10,640	43,168	18,695	53,852	25,422
Bihar	11,467	30,091	22,511	27,550	25,885	91,382
Chhattisgarh	19,262	16,976	22,422	6,811	26,046	5,729
Gujarat	24,902	49,486	43,019	21,431	66,711	12,673
Haryana	29,407	29,563	55,792	33,775	35,984	31,015
Himachal Pradesh	4,128	3,890	7,090	4,291	12,483	11,991
Jharkhand	8,704	15,108	8,839	2,609	8,786	5,413
Karnataka	33,657	63,508	59,245	60,486	61,564	38,250
Kerala	23,479	38,190	52,447	42,786	55,120	22,673
Madhya Pradesh	30,730	47,245	50,938	37,150	52,511	43,425
Maharashtra	52,546	70,187	1,22,385	65,380	1,74,137	67,229
Manipur	1,918	10,150	3,976	2,245	2,701	2,692
Meghalaya	1,134	2,428	4,265	2,603	5,037	2,658
Mizoram	3,061	2,791	1,757	1,099	2,102	2,754
Nagaland	2,098	9,658	10,155	8,126	8,313	6,758
Odisha	21,472	7,954	20,465	-19,102	21,588	13,010
Punjab	13,038	12,480	24,240	25,872	23,835	30,900
Rajasthan	37,315	60,509	73,253	49,851	78,851	57,475
Sikkim	1,951	2,166	1,988	909	2,130	2,005
Tamil Nadu	53,039	92,305	1,21,329	76,293	1,00,342	72,419
Telangana	29,902	45,639	45,510	47,691	52,167	32,119
Uttar Pradesh	-13,386	70,368	1,06,497	48,731	1,14,942	67,258
Uttarakhand	6,834	4,828	16,059	3,713	11,934	2,764
West Bengal	36,366	49,661	60,863	50,072	62,397	49,136

Source: CEIC, Bank of Baroda | Negative number implies surplus | BE-Budget Estimate

GDP growth in FY23

Out of a sample of 26 states, **nominal GDP growth** in FY23 rose only in case of 5 states, while all others witnessed moderation. States like Mizoram, Assam, Bihar, Meghalaya and Manipur noted pick up in GDP growth. Despite this, apart from Manipur, all other states significantly breached their fiscal deficit-GSDP ratio. Amongst the remaining 21 states, GDP growth in Nagaland, Uttar Pradesh, Arunachal Pradesh, Odisha and Karnataka slowed the most.

Table 2: Nominal GDP growth of states

% YoY	FY22	FY23
Mizoram	1.5	22.6
Assam	16.7	19.5
Bihar	15.0	16.8
Madhya Pradesh	18.1	16.4
Telangana	18.2	16.3
Andhra Pradesh	18.5	16.2
Rajasthan	19.5	16.0
Odisha	23.5	15.8
Gujarat	19.6	15.5
Karnataka	20.8	14.2
Haryana	17.4	14.2
West Bengal	18.0	14.0
Tamil Nadu	14.2	13.7
Maharashtra	18.3	13.5
Chhattisgarh	16.9	12.6
Kerala	17.6	12.0
Uttarakhand	14.9	11.2
Himachal Pradesh	11.8	11.1
Jharkhand	14.1	11.0
Meghalaya	9.0	10.4
Sikkim	15.8	9.8
Manipur	8.3	9.3
Punjab	10.1	9.3
Uttar Pradesh	16.8	6.9
Arunachal Pradesh	14.7	6.2
Nagaland	12.1	1.8

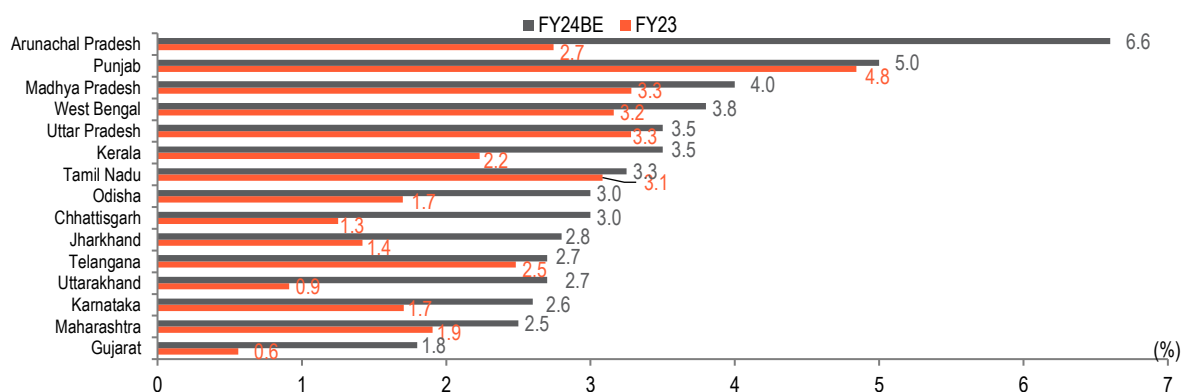
Source: CEIC, Bank of Baroda Research

State finances in FY24—More realistic fiscal targets

In FY24BE, on an aggregate level, the 26 states analysed have projected their fiscal deficits to increase to 3.2% from 2.9% in FY23 (actual). As global growth slows, domestic economy activity normalises, and effects of pent-up demand wane, states will see moderation in revenue growth (in line with centre's finances). Further, as Elections approaches, some states have accounted for higher spending. Thus, projected fiscal deficit ratio is higher than actual deficits recorded in FY23. However, this is lower than what was projected in FY23BE (3.4%).

Upon making state-wise comparisons, it can be seen that out of these 26 states, 15 expect their fiscal deficit to go up, while 11 are targeting consolidation. States expecting over 100bps increase in their deficit include: Arunachal Pradesh, Uttarakhand, Chhattisgarh, Jharkhand, Odisha, Kerala and Gujarat. Others are Karnataka, Madhya Pradesh (M.P), W. Bengal, Maharashtra, UP, Telangana, Tamil Nadu, and Punjab. Amongst these, Chhattisgarh, M.P. and Telangana are set to hold elections in Jan'24.

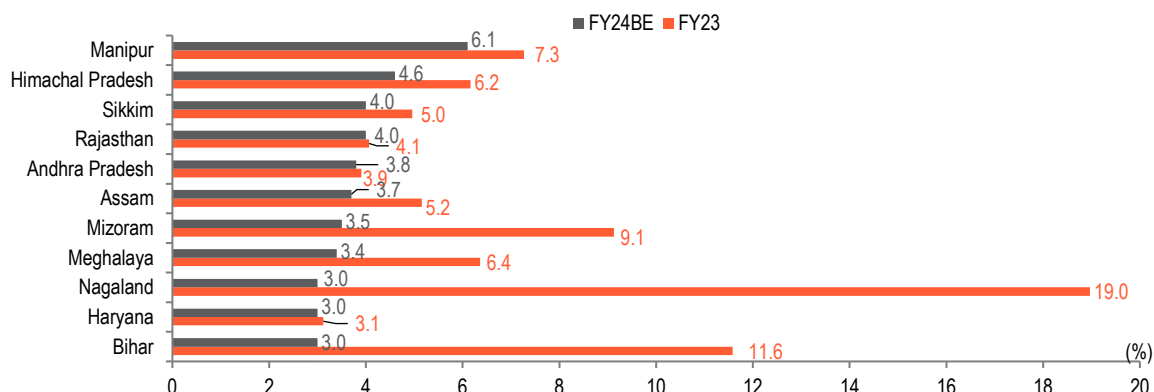
Figure 3: States which project FY24BE fiscal deficit to be higher than FY23



Source: CEIC, Bank of Baroda Research | BE- Budget Estimate

Out of the 11 states targeting consolidation, most ambitious projections have been made by Nagaland (-1597bps), Bihar (-858bps) and Mizoram (-563bps). Despite this, only Nagaland, Bihar and Haryana have targeted to bring down their fiscal deficits to 3% mark, while the deficit ratio of others (Meghalaya, Mizoram, Assam, Andhra Pradesh, Rajasthan, Sikkim, Himachal Pradesh and Manipur) will still remain above 3%. In the previous year (FY23), apart from Haryana and Andhra Pradesh, all others had significantly breached their budgeted estimates, hence progress of these states will have to be watched closely to assess if they will meet the projections this fiscal year. Rajasthan and Mizoram will be more in focus as they will hold elections during Dec'23-Jan'24 period.

Figure 4: States which project FY24BE fiscal deficit to be higher than FY23

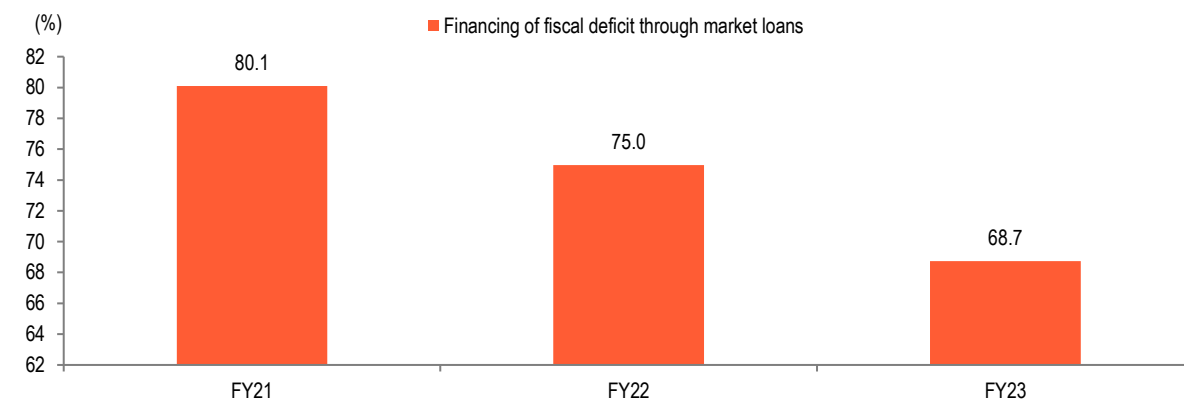


Source: CEIC, Bank of Baroda Research | BE- Budget Estimate

Financing of fiscal deficit

In previous few years we notice that states reliance on market loans to finance fiscal deficit has come down. In the pre-pandemic period (FY19), states financed ~75% of the fiscal deficit through market loans (net). Compared to this, in FY23 ~69% of the deficit was financed through market loans. Reliance was high during the Covid-19 period (FY20-21). Amongst the states, in FY23, Andhra Pradesh, Haryana, Himachal Pradesh, Tamil Nadu and Telangana have excessive reliance on borrowings. On the other hand, Uttar Pradesh, Nagaland, Bihar, and Arunachal Pradesh are least reliant on market loans to finance their fiscal deficit.

Figure 5: Share of fiscal deficit financed through (net) borrowing



Source: RBI, CEIC, Bank of Baroda Research

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