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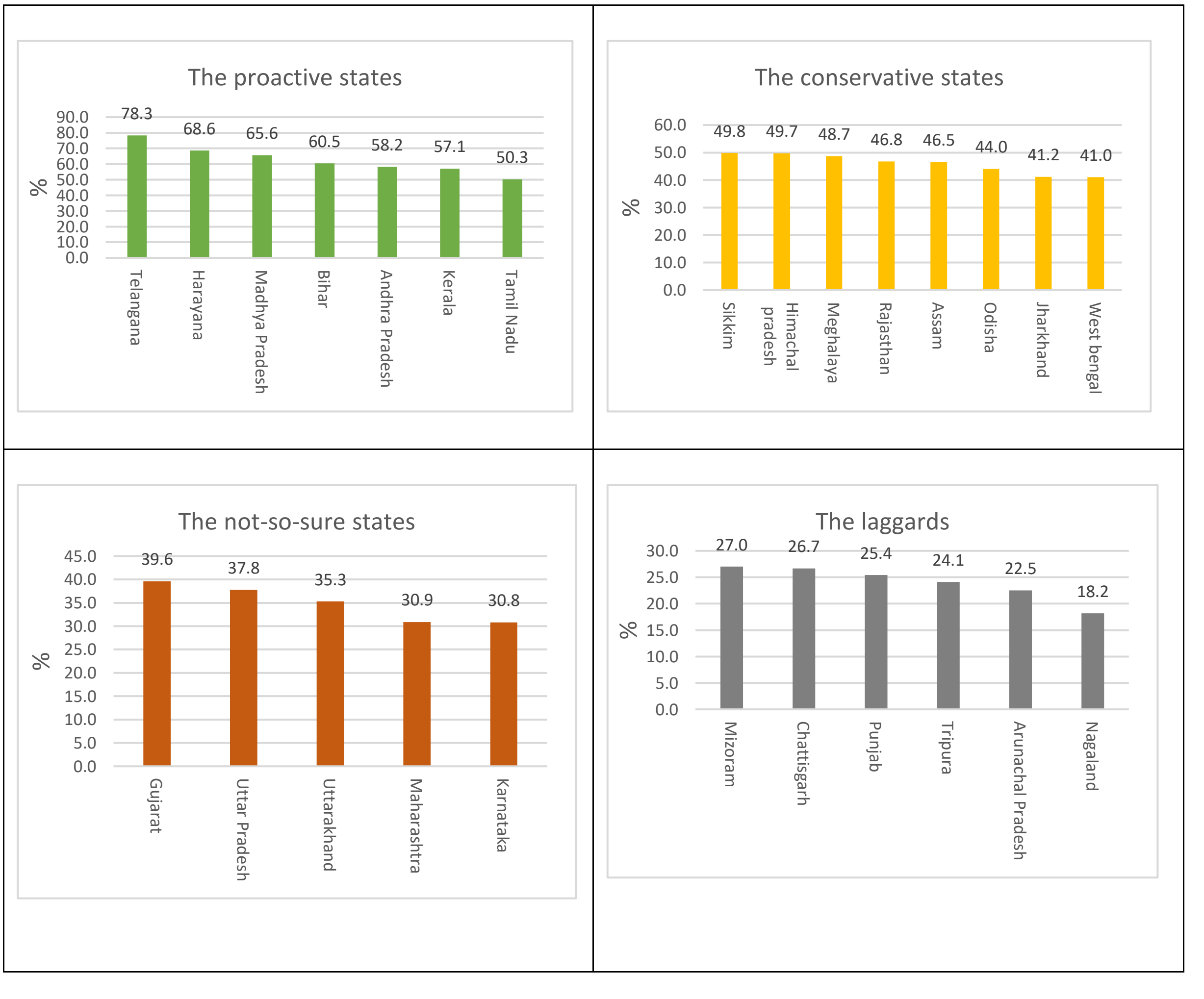
States slow on capex, but sharper on subsidies

Data on capital expenditure of the government is generally available for the centre and states up to November. Some of the smaller states, however, have not yet provided the latest data for November. For the 8-month period, the centre has spent 58.5% of the targeted amount of Rs 10.00 lkh crore which is 58.5%. This has been the trend in the past too; and the balance 4 months witness a distinct acceleration based on the progress on other fronts of the budget especially revenue collections.

The states this year have tended to lag the centre. Out of the Rs 7 lakh crore of capex that was projected by a set of 26 states (whose data is provided by the CAG), Rs 3.18 lkh crore was spent which is around 45%. Clearly there is a longer distance to be covered by these states. They have been clubbed under four headings in the charts below based on their having attained above 50%, 40-50%, 30-40% and less than 30% of the overall target.

Chart1: Achievement of annual target in first 8 months of 2023-24



Source: CAG

The states have been classified into 4 groups. The 'pro-active states' are those that have completed above 50% of their capex in the first 8 months. These will have fewer challenges in meeting their targets. 5 of the 7 states are from the south. Further, Telangana and Madhya Pradesh were states which had state elections and could have been more aggressive on this score.

The regions which achieved 40-50% of the target are called ‘conservative states’ that would have some challenges in meeting their targets but could get closer to the same. This is so because even if they do want to spend in the last couple of months based on their revenue flows, they would need to have projects in hand to enable the same. There were 8 such states of which 5 were relatively small.

The ‘not-so-sure’ states are the critical ones which met targets between 30-40% of total. This is an important category because it has 4 states which are the largest spenders on capital. These are Uttar Pradesh, Maharashtra, Gujarat and Karnataka which together account for a little over 50% of total capex of states. Their joint achievement is 35.5% of the annual target. The laggards are those which have achieved less than 30% of the annual target and Punjab and Chhattisgarh are in this set which are relatively larger in size.

CAG also provides information on subsidies disbursed by various states. Information is available for only 18 states and excludes some like Punjab and Tamil Nadu which traditionally have large outlays. Here it was observed that out of the total allocation of Rs 2.26 lakh crore for the year almost Rs 1.25 lakh crore has been disbursed with the ratio being 65.6%.

- Total target met at a consolidated level is running on par with the time period gone by.
- 5 states had spent at the same rate as the sample average or above and included Andhra Pradesh, Madhya Pradesh, Bihar, Meghalaya and Himachal Pradesh.
- Uttar Pradesh and Gujarat had achieved between 50-60% of the target.
- Maharashtra, Odisha, Chhattisgarh, Kerala, Haryana and Telangana had met 40-50% of the target.
- Uttarakhand, Jharkhand, West Bengal and Assam were less than 30%.
- The largest spenders on subsidy were Maharashtra, Gujarat, Uttar Pradesh and Rajasthan. They accounted for 46% of the total Rs 2.26 lakh crore of state subsidy. While Tamil Nadu is not included in this analysis, the state had the second highest amount of subsidy budgeted for the year at Rs 36,027 crore.
- Interestingly the coefficient of correlation between the target met for subsidy and capital expenditure was at 0.36 which is less than 50%. Though the sample is small as it consists of 18 states only, the conclusion can be that those with accelerated capex spending could be slower when it comes to disbursing subsidy and vice versa.

Some concluding remarks

Data up to December shows that private sector investment may not have yet picked up in a broad-based manner and hence the heavy lifting is still to be done by the government – both centre and states. States are more constrained by FRBM norms and could cut back on capex to ensure that the fiscal deficit targets are adhered to. Therefore, possibility of slippage would be tied to the revenue earned in the next few months. Subsidies on the other hand could be exceeded though it would be unlikely for any economies to be drawn with states having underspent as has been the case in the past.

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