

How has state capex performed in Q1FY24?

Capital expenditure by the government continues to remain the key driver of economic growth in the last few years. The Central government has progressively increased its capital expenditure as it aims to spur investment and growth. In the Union Budget this year, the capex allotment by the Centre was increased to Rs 10 lakh crores or 3.3% of GDP. The move was aimed at kick starting a virtuous cycle of investment in the economy, nudging private investment in the process. In Q1FY24, Centre's capex spending has been robust at Rs 2.78 lakh crores which is 27.8% of FY24BE. This is higher than 23.4% in the same period last year. On a YoY basis, Centre's capex spending increased by 59.1% in Q1FY24.

Table 1: Budgeted and actual capex of the centre and states in Q1FY24 (Rs crore)

	FY24BE (Rs. Crores)	Q1FY24 Actual (Rs. crores)	Achievement %	% YoY
Centre	10,00,373	2,78,480	27.8	59.1
States	7,97,862	1,06,363	13.3	73.9

Source: CAG, Bank of Baroda Research

Another important aspect of the overall investment in the economy is states' spending on capex. The picture remains quite somber. Based on data available for a total of 23 states, out of a budgeted capital expenditure of Rs 7.98 lakh crores, actual capex is only Rs 1.06 lakh crores, which is just 13.3% of the Budgeted amount. However, when compared with the same period last year, states' capex spending has improved. In Q1FY23, state capex stood at Rs 61,222 crore or just 9% of FY23BE. On a YoY basis, states' capex has increased by a sharp 73.9% in Q1FY24.

Table 2: States capex in Q1FY24

S.No.	State	FY24BE (Rs crore)	Q1FY24, Actual (Rs crore)	% FY24BE	% FY23BE
1	Andhra Pradesh	31,061	12,669	40.8	7.0
2	Telangana	37,525	9,985	26.6	8.1
3	Madhya Pradesh	54,056	14,359	26.6	17.4
4	Kerala	14,606	3,055	20.9	16.9
5	Nagaland	7,986	1,623	20.3	8.7
6	Rajasthan	38,061	7,547	19.8	8.8
7	Gujarat	70,101	11,896	17.0	18.1
8	Haryana	18,460	2,928	15.9	10.9
9	Bihar	30,357	4,041	13.3	9.1
10	Sikkim	2,251	298	13.2	5.0
11	West Bengal	34,026	4,489	13.2	8.1
12	Himachal Pradesh	5,202	609	11.7	14.1
13	Tamil Nadu	44,380	5,196	11.7	9.2
14	Odisha	51,683	5,994	11.6	8.1
15	Uttarakhand	13,134	1,322	10.1	4.4

16	Chhattisgarh	27,514	2,385	8.7	14.5
17	Jharkhand	21,248	1,813	8.5	5.9
18	Uttar Pradesh	1,47,492	9,983	6.8	3.8
19	Maharashtra	73,901	3,562	4.8	9.3
20	Punjab	10,355	449	4.3	2.2
21	Tripura	4,438	176	4.0	1.8
22	Karnataka	58,328	1,964	3.4	10.3
23	Mizoram	1,697	19	1.1	0.2
	Total	7,97,862	1,06,363	13.3	8.8

Source: CAG, Bank of Baroda Research

As can be seen from Table 2, out of a total of 23 states, a majority showed an improvement in capex spending this year, when compared with the same period last year. In fact, only 5 states, namely, Chhattisgarh, Gujarat, Himachal Pradesh, Karnataka and Maharashtra has capex spending lower than last year.

In terms of state wise performance, the following observations can be made:

1. Andhra Pradesh has been at the forefront of capex spending, achieving 40.8% of its total budgeted capex spending in Q1FY24 itself. This is much higher than the corresponding figure in Q1FY23 which stood at 7%. It must be noted that Andhra Pradesh had been lagging in terms of capex spending in FY23, and achieved only 23.1% of its total target.
2. There are four states which have achieved more than 20% of their budgeted capex in Q1FY24. These are: Telangana, Madhya Pradesh, Kerala and Nagaland. For each of these, capex spending has been higher this year, compared with last year.
3. The next 3 states, Rajasthan, Gujarat and Haryana have achieved more than 15% of their target, which is also higher than the corresponding period last year.
4. For other states, capex spending has been lower than the sample average which stands at 13.7%.
5. Amongst major states, performance of Karnataka and Maharashtra remains worrisome.
6. Karnataka had performed exceptionally well last year in terms of capex spending, achieving ~130% of its FY23 target. This year however, capex spending has only been 3.4% of the target in Q1, which is also lower than 10.3% achieved in the same period last year. Limits on spending imposed due to elections in the state explain this. With the formation of a new government, capex spending is likely to improve in coming months.
7. For Maharashtra as well, capex spending in Q1FY24 is only at 4.8% compared with 9.3% in the same period last year.
8. Uttar Pradesh which account for ~18% of total budgeted capex of the 23 states, has only achieved 6.8% of its capex target.

Market borrowings:

Apart from revenues, states rely heavily on market borrowings to fund their capex spends. Grants from Centre also form an integral part of states' finances. In this regard, we have compared the market borrowings of all states in this year (up to 8 Aug 2023) with the same period last year. This will help us understand whether market borrowings influenced the capex decisions by different states. Table 3 summarizes the states' borrowings in this year.

Table: 3 Market borrowings by different states

	FYTD23		FYTD24		% actual to notified	
	Amount notified	Actual	Amount notified	Actual	FYTD23	FYTD24
Nagaland	550	876	450	900	159.3	200.0
Manipur	570	650	300	500	114.0	166.7
Andhra Pradesh	29,000	33,890	28,000	34,500	116.9	123.2
Tamil Nadu	35,500	21,000	37,000	45,000	59.2	121.6
Kerala	12,000	3,500	13,500	14,500	29.2	107.4
Telangana	20,000	15,500	16,500	17,500	77.5	106.1
Rajasthan	15,500	20,000	21,500	22,500	129.0	104.7
Assam	7,300	5,600	6,700	7,000	76.7	104.5
Bihar	1,000	1,000	4,000	4,000	100.0	100.0
Jammu and Kashmir	2,150	2,250	3,700	3,700	104.7	100.0
Punjab	13,900	10,600	18,400	18,250	76.3	99.2
Mizoram	315	540	460	430	171.4	93.5
Maharashtra	44,000	30,000	37,000	32,000	68.2	86.5
Meghalaya	650	600	850	700	92.3	82.4
Haryana	11,500	16,500	17,500	12,000	143.5	68.6
Chhattisgarh	2,000	-	5,000	3,000	-	60.0
Himachal Pradesh	4,500	2,500	3,000	1,800	55.6	60.0
Madhya Pradesh	11,000	4,000	14,000	6,000	36.4	42.9
Sikkim	650	150	750	300	23.1	40.0
Uttar Pradesh	32,000	-	26,500	9,500	0.0	35.8
Gujarat	15,000	12,000	16,000	5,500	80.0	34.4
West Bengal	18,000	16,500	19,000	6,500	91.7	34.2
Goa	1,100	100	1,300	400	9.1	30.8
Karnataka	-	-	5,000	-	-	-
Puducherry	400	200	200	-	50.0	-
Tripura	-	-	300	-	-	-
Uttarakhand	3,500	-	2,900	-	-	-
Total	2,82,085	1,97,956	2,99,810	2,46,480	70.2	82.2

Source: CAG, Bank of Baroda Research

The following points stand out:

1. State borrowings this year have been higher at Rs. 2.46 lakh crores, compared with Rs. 1.97 lakh crores in the same period last year, rising by 24.5% on a YoY basis.
2. In both the years, the actual borrowings have been lower than the amount indicated in the auction calendar.

3. As a % of the amount notified in the auction calendar, market borrowings by states has been higher this year at 82.2% compared with 70.2% in the same period last year.
4. Performance amongst states diverges. Amongst major states, states which have borrowed in excess of their planned borrowings as per the auction calendar include: Andhra Pradesh, Tamil Nadu, Kerala, Telangana and Rajasthan. It is interesting to note that capex spending in some of these states has also been on the higher side. This is true for Andhra Pradesh, Telangana, and Kerala and to some extent Rajasthan.
5. On the other hand, borrowings of states such as Bihar and Punjab has been more or less in line with what had been indicated in the auction calendar.
6. For Maharashtra, market borrowings have remained almost unchanged at ~Rs 30,000 crore in both the periods.

Apart from this, in the Union Budget for FY24, the Central government extended the scheme for providing Special Assistance to States for Capital Investment this year as well. Under this scheme, Centre provides financial support to state governments in the form of interest free loans of 50 year tenure subject to fulfillment of some pre-set conditions. In FY23, Centre disbursed Rs. 81,195 crores under this scheme to states. In FY24, Rs. 56,415 lakh crores has already been disbursed to 16 states this year, as against an allocation Rs. 1.3 lakh crores set out in the Budget. Approval has been given for a number of capital investment projects in sectors such as health, education, power, roads, railways etc. Table 4 gives state wise details of the same. Bihar has received the maximum allocation at Rs. 9,640 crores, followed by Madhya Pradesh at Rs. 7,850 crores and West Bengal at Rs. 7,523 crores.

Table 4: Allocation under Special Assistance to States for Capital Investments in FYTD24

S.No.	State	Amount approved in Rs. Crore
1	Bihar	9,640
2	Madhya Pradesh	7,850
3	West Bengal	7,523
4	Rajasthan	6,026
5	Odisha	4,528
6	Tamil Nadu	4,079
7	Jammu and Kashmir	3,647
8	Gujarat	3,478
9	Chhattisgarh	3,195
10	Telangana	2,102
11	Arunachal Pradesh	1,255
12	Haryana	1,093
13	Himachal Pradesh	826
14	Mizoram	399
15	Sikkim	388
16	Goa	386
	Total	56,415

Source: CAG, Bank of Baroda Research

Conclusion:

With private investment still nascent, government spending continues to be the major driver of growth. Given the known multiplier effect of capital expenditure, government has focused its attention on increasing its spending on growth and employment generating capital intensive projects. This is evident in a substantial increase in the Centre's capex spending in Q1FY24. An encouraging sign is a commensurate increase in state capex. While the picture diverges between states, the initial trends have been encouraging. To fund this, states have relied on increased market borrowings despite the higher costs. Apart from this, Centre is also providing assistance to state governments through interest free loans. Approvals under this scheme have already crossed 40% of the total allocation for this year, which also suggests there has been a substantial pickup in state capex. This bodes well for India's growth trajectory going forward.

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For further details about this publication, please contact:

Economics Research Department

Bank of Baroda

+91 22 6698 5143

chief.economist@bankofbaroda.com

aditi.gupta3@bankofbaroda.com