

States' fiscal deficit at only 16.5% of BEs for 1QFY22

Combined spending grows only 9.4% YoY in 1QFY22

- Based on the monthly accounts available for 16 states (together accounting for ~76% of all states), total receipts of all states grew 29.7% YoY in 1QFY22, while total spending grew slowly at 18% YoY in 1QFY22. With this, states have achieved 16.8%/16.7% of their receipts/spending of FY22 budget estimates (BEs), better than 13.6%/15.4% of 1QFY21 BEs. States' fiscal deficit during 1QFY22 accounted for 16.5% of FY22 BEs, lower than 25% of 1QFY21 BEs, but higher than average 10.1% of BEs in the three years prior to the COVID-19 outbreak.
- States' total taxes grew 44.7% YoY in 1QFY22, supported by a favorable base (down 35.4% YoY in 1QFY21). States' own non-tax revenue receipts grew at a strong pace. However, 'grants from the Centre' declined by 3.6% YoY in 1QFY22 due to a massive growth (51% YoY) in 1QFY21. Within states' own taxes, the collection of stamp duty and registration charges more than doubled in 1QFY22, with all states showing sharp increases, except Odisha (OD).
- Just like receipts, states' spending too grew sharply in 1QFY22 due to a low base. Capital spending of states grew 143.1% YoY in 1QFY22 due to a 57% YoY contraction in 1QFY21. Revenue spending by states grew 10.8% YoY in 1QFY22 from a growth of 3.1% YoY in 1QFY21.
- Individual analysis of states suggests that six out of 16 states – CT, HR, KL, MP, RJ, and TS – had already achieved a quarter of their full-year fiscal deficit target in 1QFY22. In fact, KL has already exhausted 74% of its FY22 BE, while the fiscal deficit for the others was in the 23-31% range. Two states – Jharkhand (JH) and OD – have run fiscal surpluses in 1QFY22, and the fiscal deficit of remaining eight states was less than 15% of 1QFY22 BEs (only 2% of BEs in MH).
- Combining finances of states with the central government for 1QFY22 suggests that total receipts of the general government grew 115% YoY in 1QFY22 on the back of 39% YoY contraction in 1QFY21. Combined spending (after adjusting for 'grants from the Center to states') grew only 9.4% YoY in 1QFY22 from a growth of 1.6% YoY in 1QFY21. While capex grew 58% YoY on the back of a low base, the three-year CAGR has been just 5% YoY in 1QFY22.
- A sharp contraction in 1QFY21 leads to optically very-high growth in fiscal receipts/spending in 1QFY22. From a two-year CAGR (1QFY20-1QFY22) perspective, general government receipts have grown faster (14% YoY) than spending (5% YoY). Although the two-year CAGR of total spending by the Center and states (unadjusted) was ~6% each, growth in receipts was very different at just 2% for states, but 37% for the Center (partly explained by higher cess on fuel items).
- Lastly, because of strong growth in combined receipts, but weak spending growth, the fiscal deficit of the general government was only 17.6% of 1QFY22 BEs vis-à-vis 57.6% in 1QFY21 and an average of 44% in the prior three years. The fiscal deficit of the general government was 8% of GDP in 1FY22 (assuming ~30% of nominal GDP growth in 1QFY22) vis-à-vis 21.1% of GDP in 1QFY21.

On an aggregate basis, total receipts of all states grew by 29.7% YoY in 1QFY22, following a 19.9% YoY contraction in 1QFY21 and 7% YoY growth in 4QFY21

In this note, we analyze the finances of 16 states that have published their fiscal accounts data up to Jun'21. These include: Chhattisgarh (CT), Gujarat (GJ), Haryana (HR), Himachal Pradesh (HP), JH, Karnataka (KA), Kerala (KL), Madhya Pradesh (MP), Maharashtra (MH), OD, Punjab (PB), Rajasthan (RJ), Tamil Nadu (TN), Telangana (TS), Uttar Pradesh (UP), and Uttarakhand (UK). Together these 16 states account for ~76% of total spending of all states taken together.

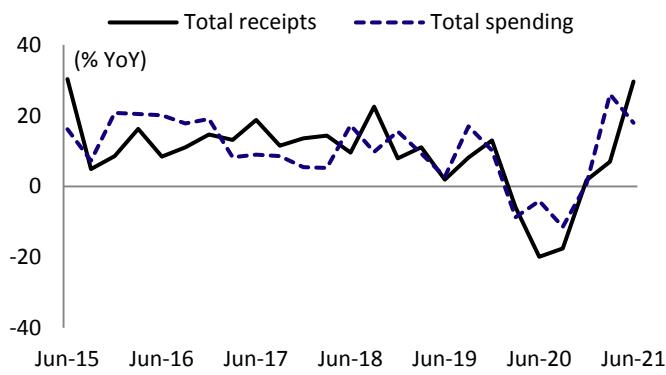
States' receipts grew ~30% YoY in 1QFY22...: On an aggregate basis, total receipts of all states grew by 29.7% YoY in 1QFY22, following a 19.9% YoY contraction in 1QFY21 and 7% YoY growth in 4QFY21 (*Exhibit 1*), implying growth in receipts in the last quarter on account of a low base. Please see *Exhibit 12* in **Appendix 1** at the end of the report for state-wise details on total receipts.

...and total spending grew 18% YoY during 1QFY22: Total expenditure grew 18% YoY in 1QFY22 on the back of a contraction of 4.1% YoY in 1QFY21. It was, however, very low compared to growth of 26% YoY in 4QFY21 (*Exhibit 1*). Please see *Exhibit 16* in *Appendix 1* at the end of the report for state-wise details on total spending.

Aggregate fiscal deficit of all states stood at 16.5% of FY22BE

States' aggregate fiscal deficit stood at 16.5% of BE in 1QFY22: As a result of faster growth in receipts vis-à-vis total spending, aggregate fiscal deficit of all states stood at 16.5% of FY22BE, way lower than 25% of BEs in 1QFY21, but higher than the average of 10.1% of BEs in the three years before COVID-19 (*Exhibit 2*).

Exhibit 1: States' receipts grew 30% YoY in 1QFY22 supported by a low base of 1QFY21

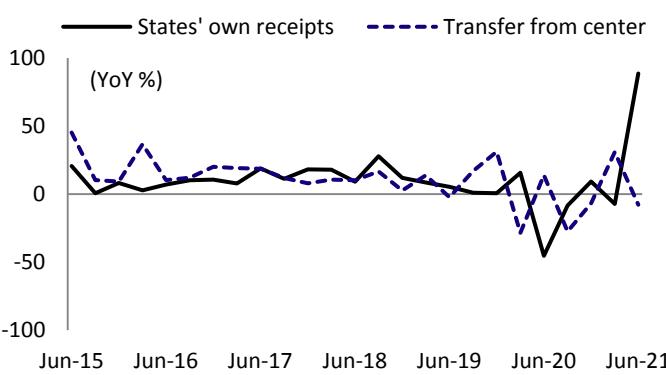


Aggregate data for all states based on monthly data of 16 states

States' own receipts grew 89% YoY, while transfer from the Center declined by 8% YoY in 1QFY22

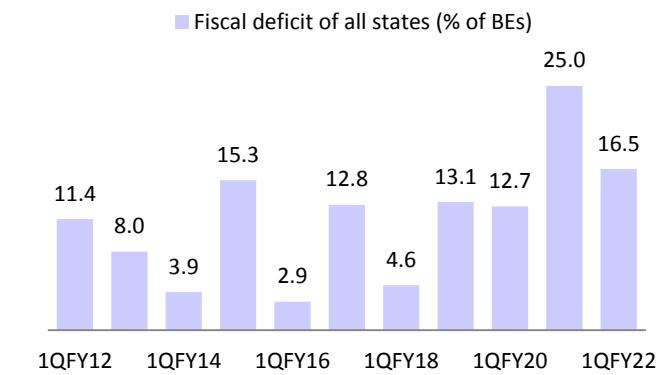
States own receipts grew, transfer from the Center declined in 1QFY22: Total taxes of all states grew ~45% YoY 1QFY22 due to a favorable base. While states' own taxes almost doubled last quarter, devolution from the Center contracted. States' own non-tax revenue receipts (SONTRR) grew 43.8% YoY in 1QFY22, but 'grants from the Center' fell 3.6% YoY last quarter. States' own receipts grew 89% YoY, while transfer from the Center declined by 8% YoY in 1QFY22 (*Exhibit 3*). Within states' own taxes, 'stamp duty and registration charges' more than doubled last quarter, with all states showing a sharp increase except OD, which saw a decline in 1QFY22 (*Exhibit 4*). Please see *Exhibit 13-15* in *Appendix 1* at the end of the report for state-wise details on receipt components.

Exhibit 3: States' own receipts grew, while 'transfer from the Center' declined in 1QFY22



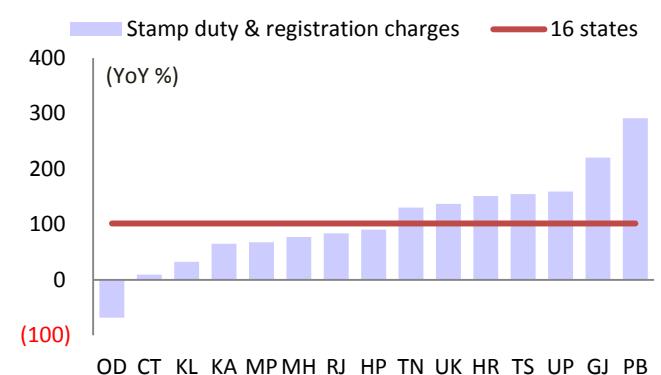
Aggregate data for all states based on monthly data of 16 states

Exhibit 2: Aggregate fiscal deficit was 16.5% of BE in 1QFY22, less than 1QFY21, but higher than pre-COVID years



Source: Comptroller and Auditor General (CAG), CEIC, MOFSL

Exhibit 4: 'Stamp duty and registration charges' more-than-doubled in 1QFY22

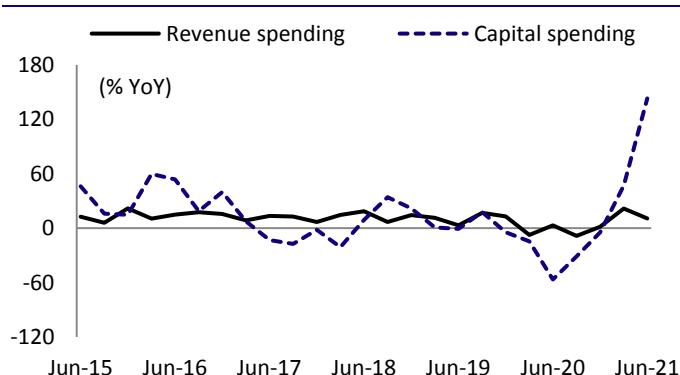


Jharkhand (JH) is not shown here, as it grew 16x in 1QFY22

Source: CEIC, CAG, State Budget Documents, MOFSL

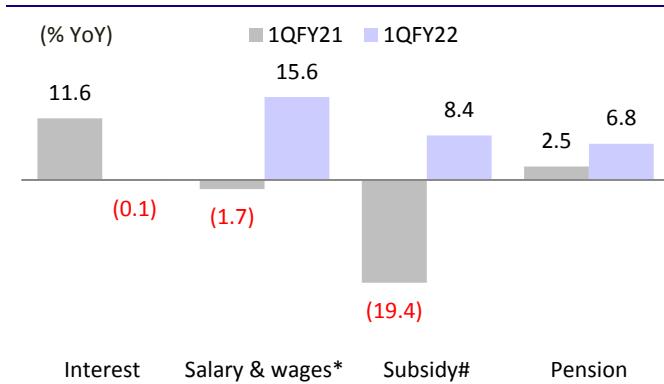
States' capital spending grew by 133.4% YoY in 1QFY22...: Like receipts, states' total spending grew by 18% YoY last quarter. Within total spending, revenue expenditure (revex) grew modestly by 10.8% YoY, while capital spending surged by 143% YoY in 1QFY22 (*Exhibit 5*). Please see *Exhibit 17-18* in **Appendix 1** for state-wise details on revenue and capital spending.

Exhibit 5: Capital spending grew sharply in 1QFY22...



Aggregate data for all states based on monthly data of 16 states
Source: CEIC, CAG, state budget documents, MOFSL

Exhibit 6: ...with an increase in non-interest spending



*Data for only 14 states (excluding KA and TN)

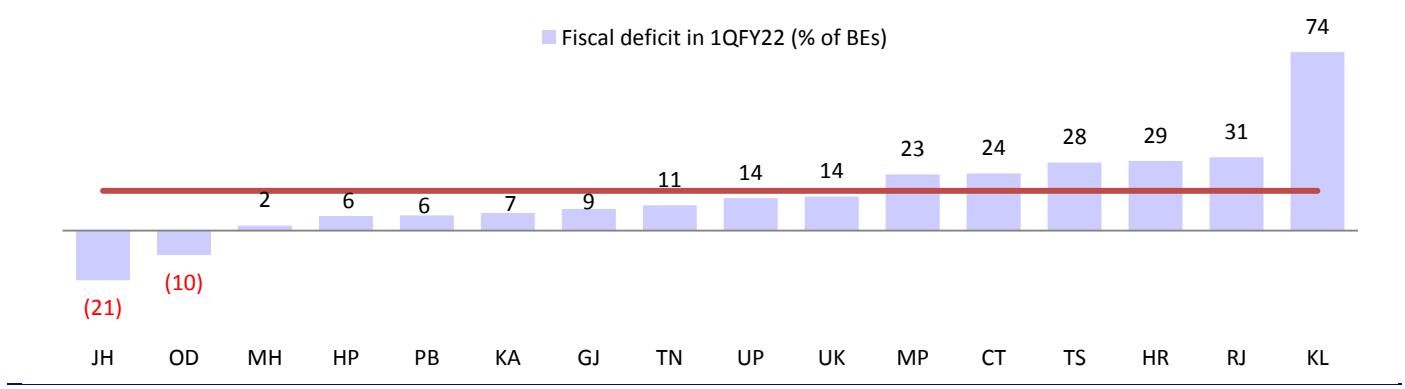
#Data for only 13 states (excluding KA, TN, and UK)

Further details regarding revenue spending suggest that interest payments declined by 10bp in 1QFY22 as against a growth of 11.6% in 1QFY21. The remaining three forms of revenue spending – salary and wages, subsidy, and pension – saw a sharp growth in 1QFY22 vis-à-vis 1QFY21 (*Exhibit 6*). Please refer *Exhibit 19-21* in **Appendix 1** at the end of the report for state-wise details.

States' own receipts grew 89% YoY, while transfer from the Center declined by 8% YoY in 1QFY22

JH and OD ran fiscal surpluses, MH had a negligible deficit, and KL's deficit was 74% of BEs in 1QFY22: As mentioned above, the aggregate fiscal deficit of all states was 16.5% of BEs in 1QFY22. A closer look at individual states shows that six states – CT, HR, KL, MP, RJ and TS – had already achieved a quarter of their full-year fiscal deficit target in 1QFY22. In fact, KL has already exhausted 74% of its FY22 BEs, while fiscal deficit for the others was in the 23-31% range. Two states – JH and OD – has run fiscal surpluses in 1QFY22 and the fiscal deficit of the remaining eight states was less than 15% of 1QFY22 BEs, with only 2% of BEs in MH (*Exhibit 7*).

Exhibit 7: Fiscal deficit by states in 1QFY22 (% of BE)



Source: CEIC, CAG, state budget documents, MOFSL

Total spending by the general government grew 9.4% YoY in 1QFY22, following a growth of 1.6% YoY in 1QFY21 and 60% YoY in 4QFY21

Fiscal deficit of the general government was 8% of GDP in 1FY22, vis-à-vis 21.1% of GDP in 1QFY21 and the average of 10.8% of GDP in the first quarters of the three years prior to the COVID-19 outbreak

When we combine the finances of the central government with that of the states for 1QFY22, we arrive at four key takeaways:

- 1) The total receipts of the general government (after adjusting for 'grants from the Center' to states) grew 115% YoY in 1QFY22 on the back of 39% YoY fall in 1QFY21. The two-year CAGR in total receipts of the general government was 14% (*Exhibit 8*).
- 2) Total spending by the general government (after adjusting for 'grants from the Center' to states) grew only 9.4% YoY in 1QFY22, following a growth of 1.6% YoY in 1QFY21 and 60% YoY in 4QFY21 (*Exhibit 8*). The two-year CAGR in total spending of the general government was just 5% (*Exhibit 8*).
- 3) Within spending, revenue spending by the government grew only 4.3% YoY in 1QFY22 (following a growth of 3.4% YoY in 1QFY21) and capital spending grew 58% YoY vis-à-vis decline of 12.9% YoY in 1QFY21 (*Exhibit 9*).
- 4) Lastly, because of strong growth in combined receipts, but weak spending growth, the fiscal deficit of the general government was only 17.6% of BEs in 1QFY22 vis-à-vis 57.6% in 1QFY21 and an average of 44% in the prior three years (*Exhibit 10*). The fiscal deficit of the general government was 8% of GDP in 1FY22 (assuming ~30% of nominal GDP growth in 1QFY22) vis-à-vis 21.1% of GDP in 1QFY21 and the average of 10.8% of GDP in the first quarters of the three years prior to the COVID-19 outbreak (*Exhibit 11*).

Exhibit 8: Total receipts grew faster than spending...

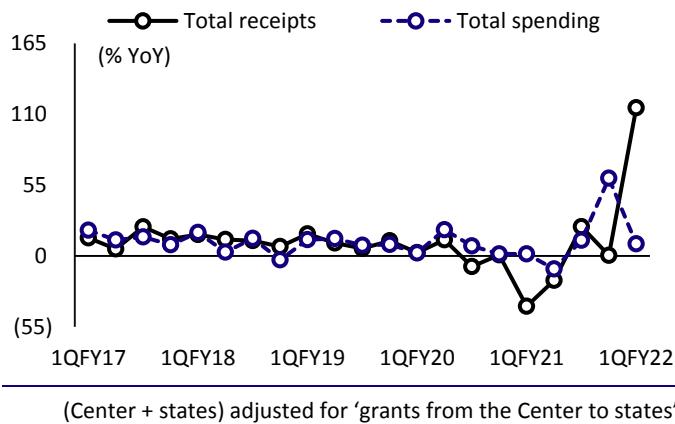


Exhibit 9: ...and capex growth outpaced revex in 1QFY22

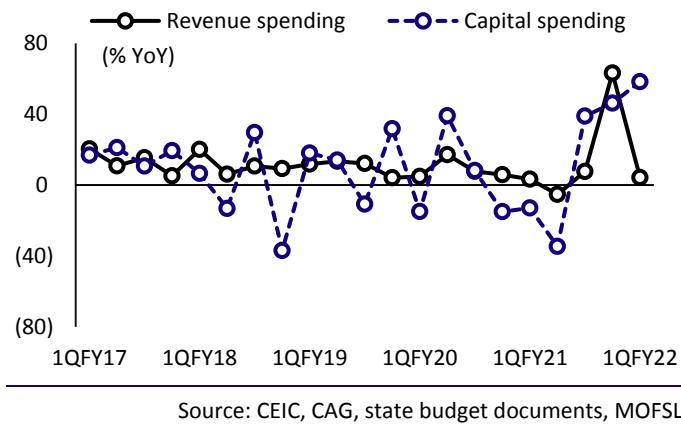


Exhibit 10: Combined fiscal deficit was only 18% of BEs...

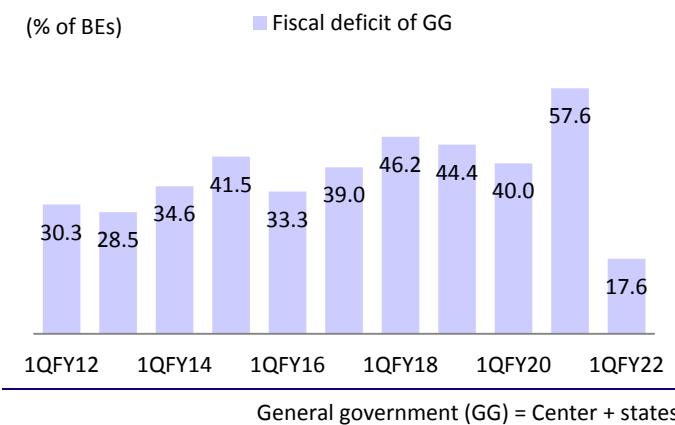
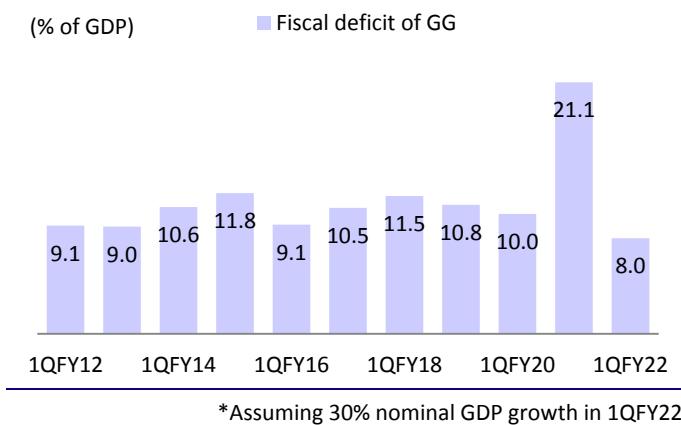


Exhibit 11: ...or just 8% of GDP* in 1QFY22



Appendix I

Exhibit 12: Details of fiscal accounts of the Centre and 16 state governments in 1QFY22 v/s 1QFY21

YoY %, unless specified	Total receipts		Total spending		Capital spending		Fiscal deficit (% of BE)	
	1QFY22	1QFY21	1QFY22	1QFY21	1QFY22	1QFY21	1QFY22	1QFY21
Chhattisgarh (CT)	7.2	(9.0)	9.6	(20.4)	151.3	(48.9)	23.8	30.6
Gujarat (GJ)	37.1	(23.2)	18.0	(12.6)	98.1	(68.6)	9.0	19.0
Haryana (HR)	94.6	(47.8)	28.0	(7.7)	92.3	(47.7)	29.0	46.9
Himachal Pradesh (HP)	5.4	(3.8)	18.7	1.0	63.2	25.0	6.1	(5.2)
Jharkhand (JH)	26.7	(22.0)	21.3	(26.3)	346.3	(97.3)	(20.6)	(15.5)
Karnataka (KA)	19.6	(14.5)	6.1	(0.8)	131.7	(58.2)	7.4	17.5
Kerala (KL)	44.2	(30.0)	26.4	17.1	24.6	29.9	74.4	68.1
Madhya Pradesh (MP)	15.7	(15.8)	21.9	(11.3)	99.6	(30.2)	23.4	17.9
Maharashtra (MH)	23.0	(27.5)	24.5	(11.7)	351.2	(93.3)	2.1	1.0
Odisha (OD)	25.4	(0.4)	22.1	(8.6)	(14.9)	(3.8)	(10.2)	(6.0)
Punjab (PB)	16.8	14.1	9.0	18.4	216.7	(70.3)	6.3	12.6
Rajasthan (RJ)	61.9	(29.1)	24.7	5.9	168.1	(57.6)	30.6	53.3
Tamil Nadu (TN)	38.7	(23.3)	4.9	0.3	37.0	(31.3)	10.6	32.4
Telangana (TS)	67.4	(22.6)	15.9	27.8	149.4	(35.7)	28.3	53.2
Uttar Pradesh (UP)	29.0	(29.2)	19.7	(15.9)	(1008.4)	(114.4)	13.6	25.9
Uttarakhand (UK)	8.0	15.6	30.8	13.7	535.5	(57.7)	14.6	(5.0)
16 states	31.2	(21.4)	18.1	(4.2)	143.7	(56.3)	16.6	26.1
All states	29.7	(19.9)	18.0	(4.1)	143.1	(56.5)	16.5	25.0
Central government	256.4	(47.0)	0.7	13.1	26.3	40.1	18.2	83.2
General government#	115.0	(39.0)	1.6	9.4	58.3	(12.9)	17.6	57.6

#Central government + all state governments

Exhibit 13: Total state-wise receipts in 1QFY22 (YoY %)

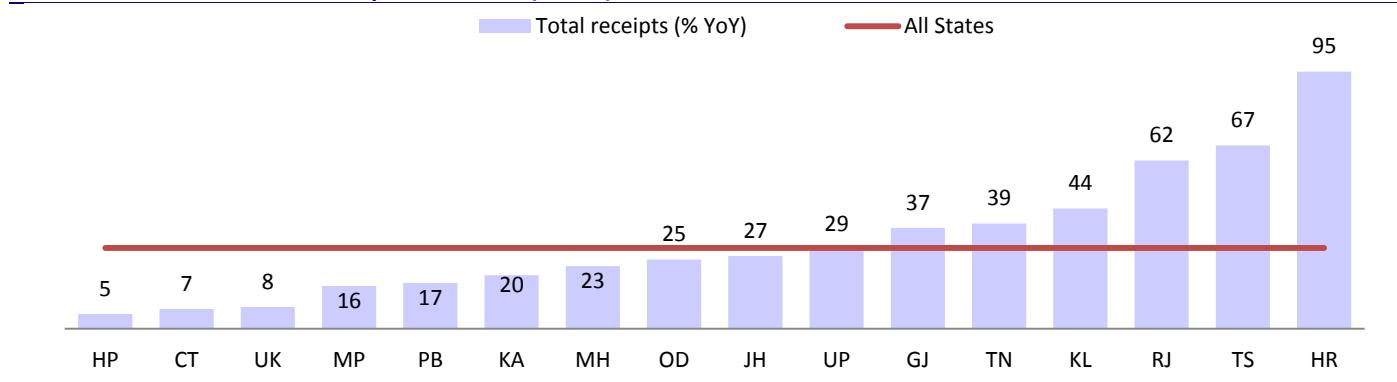


Exhibit 14: Total tax receipts (including devolution) of states in 1QFY22 (YoY %)

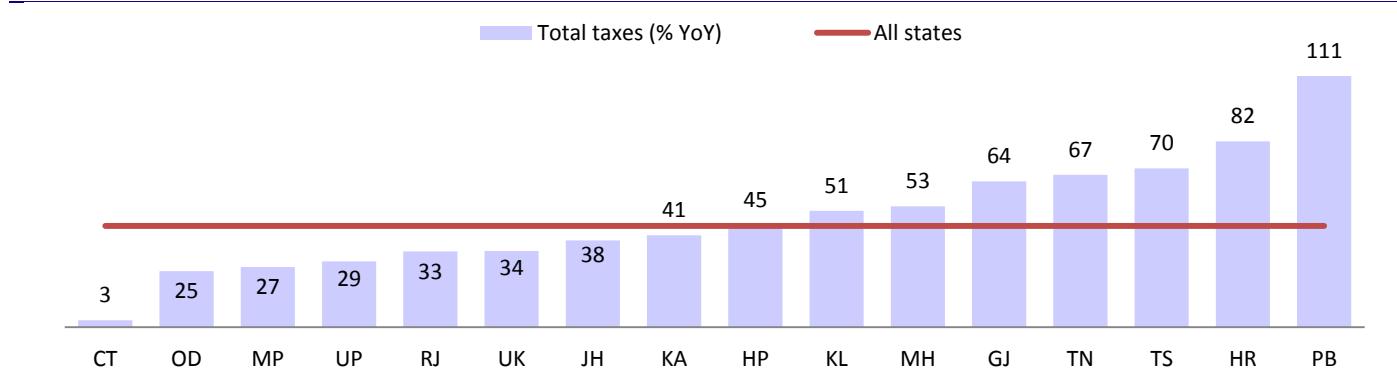
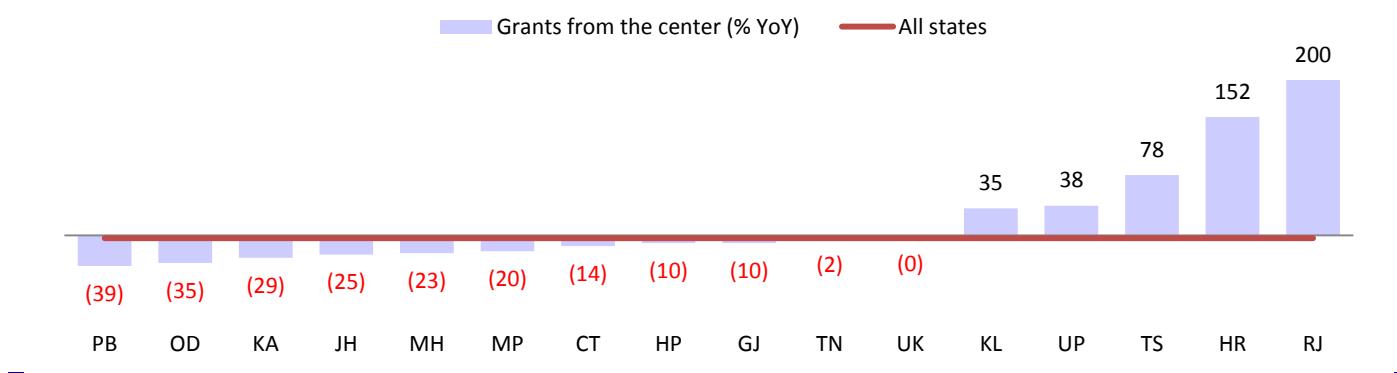
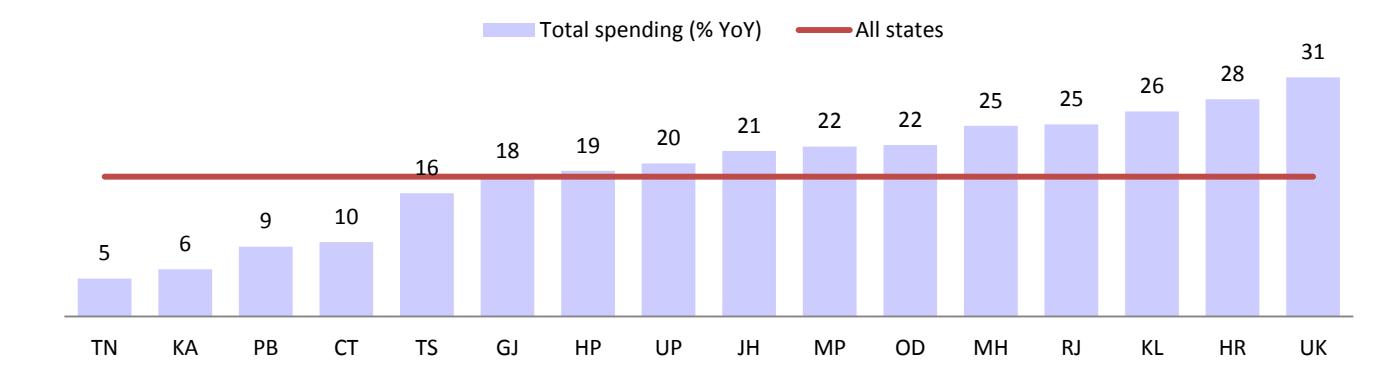
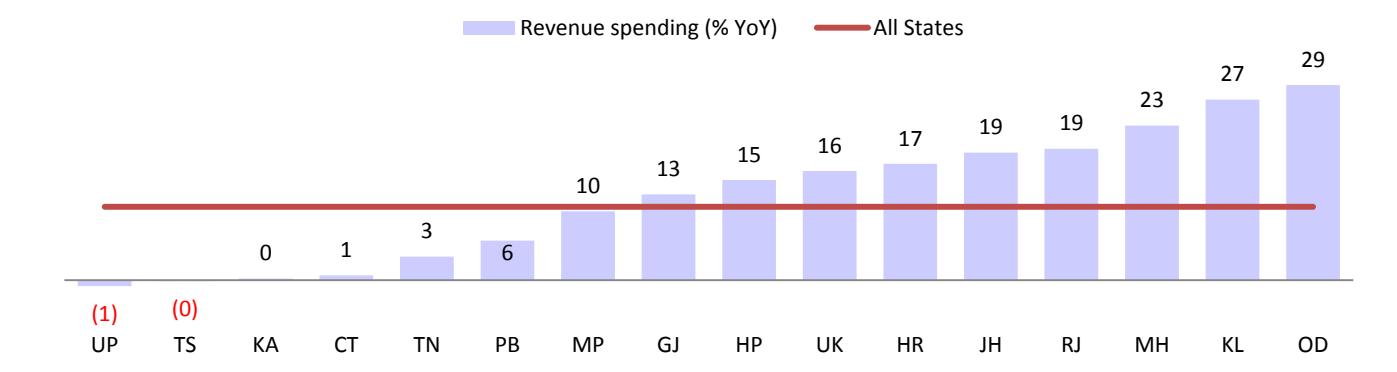
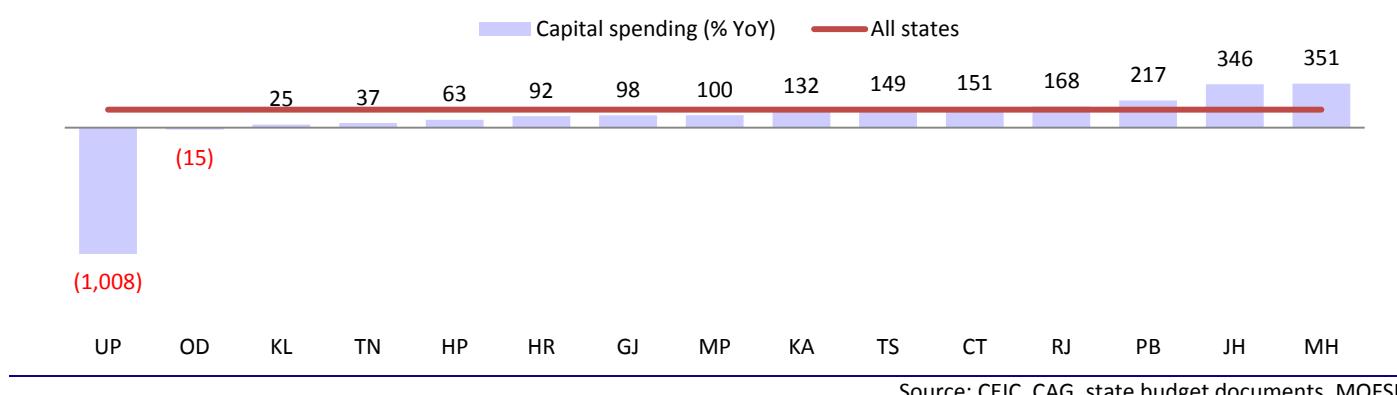
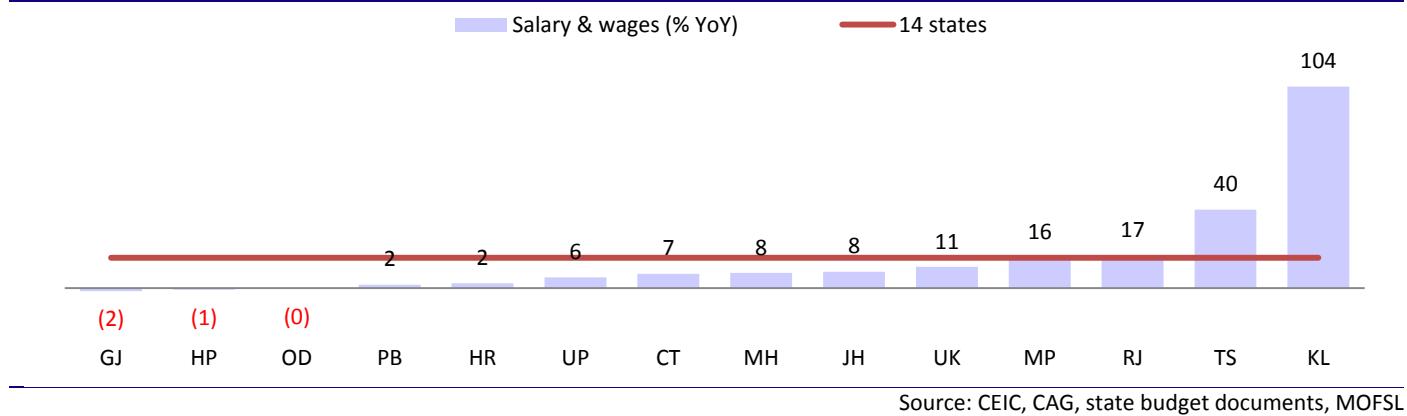
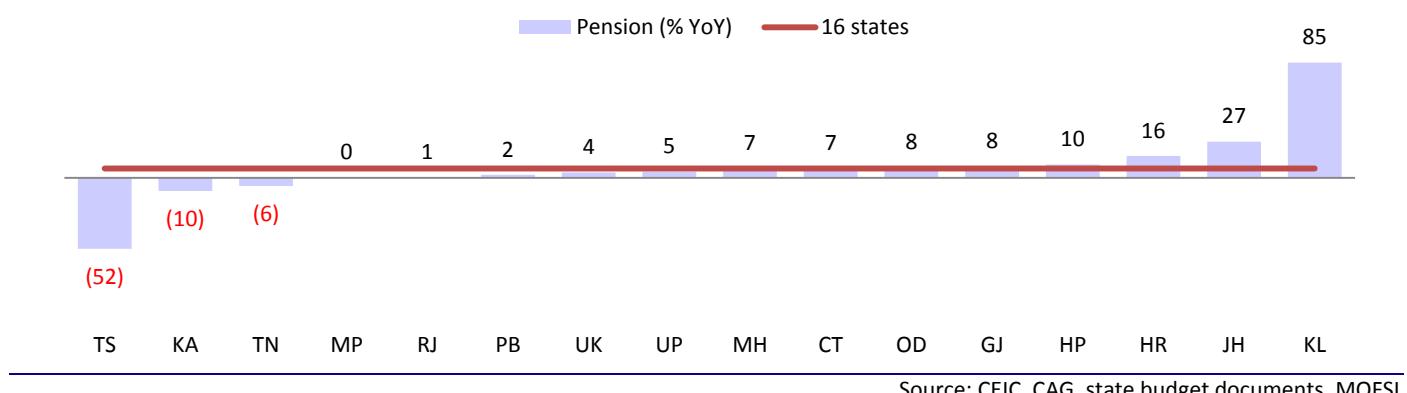


Exhibit 15: 'Grants from the Center' to states in 1QFY22 (YoY %)**Exhibit 16: Total expenditure by states in 1QFY22 (YoY %)****Exhibit 17: Revenue spending by states in 1QFY22 (YoY %)****Exhibit 18: Capital spending by states in 1QFY22 (YoY %)**

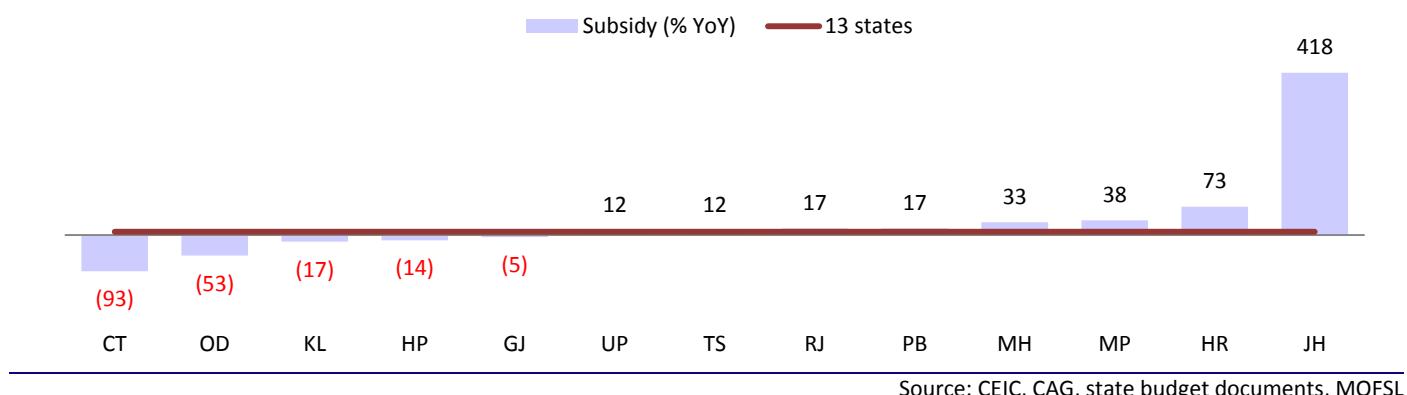
Source: CEIC, CAG, state budget documents, MOFSL

Exhibit 19: Salaries and wages by states in 1QFY22 (YoY %)

Source: CEIC, CAG, state budget documents, MOFSL

Exhibit 20: Pension payments by states in 1QFY22 (YoY %)

Source: CEIC, CAG, state budget documents, MOFSL

Exhibit 21: Subsidy payments by states in 1QFY22 (YoY %)

Source: CEIC, CAG, state budget documents, MOFSL

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