

Deep Dive

ANALYSIS

Most States increase their capex but fail to rein in revenue expenses

NARAYANAN V Chennai | Updated on October 04, 2021



Madhya Pradesh

Haryana

Andhra Pradesh

Bihar

Telangana

Gujarat

Rajashtan

Karnataka

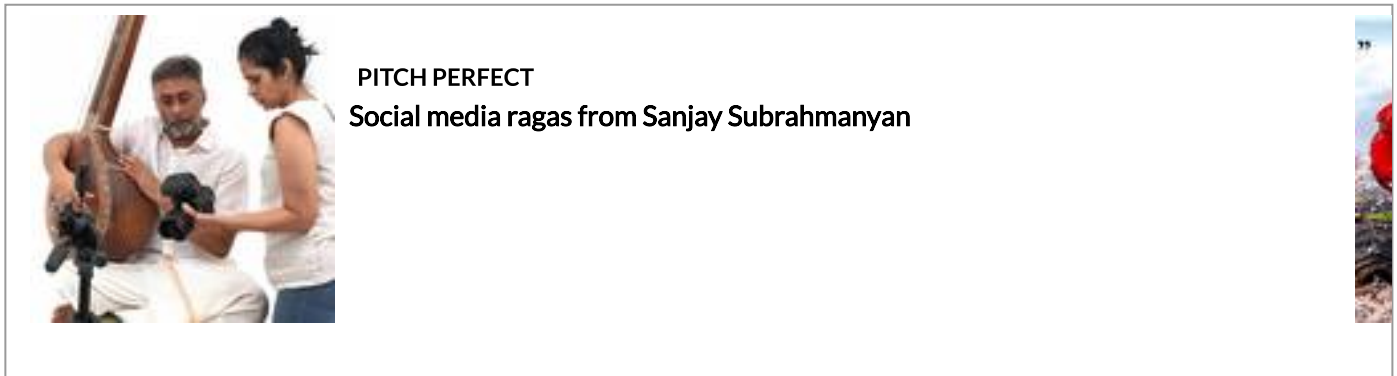
Kerala

Some States such as Maharashtra, Gujarat and TN have spent less on capex this fiscal year compared to pre-pandemic level

With growth being severely impacted by the pandemic and private capital expenditure showing no signs of picking up, the Centre had resolved to increase its capital expenditure substantially for FY22 and had also nudged States to do likewise. It has also been incentivising States to increasing their capex spending through enhanced ceilings for borrowings and interest-free loans.

A *BusinessLine* analysis of capital and revenue expenditure trend of 23 State governments based on data available from CAG showed that most States have recorded an increase in their capital expenditure in the first quarter of 2021-22 as compared to the pre-pandemic levels in Q1 FY20. However, few of the larger States such as Maharashtra, Tamil Nadu and Gujarat have shown a decline in capex. Most States have also struggled to control revenue expenditure this fiscal.

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The combined capex spending of these 23 States in the first quarter of the current fiscal stood at ₹68,659 crore, which is 15 per cent higher than the capex outlay of ₹59,344 crore in the first quarter of FY20 and nearly 62 per cent more than ₹36,216 crore of capital expenditure in the pandemic-hit first quarter of FY21.

The increased capex outlay in Q1FY22 comes notwithstanding the devastating second wave of the Covid-19 pandemic which severely affected the economy besides claiming thousands of lives.

States that lead in capex

Among the States, Uttar Pradesh topped the list in capex spending with an outlay of ₹9,734 crore in Q1FY22 as against ₹7,683 crore in the first quarter of FY20. It was followed by Madhya Pradesh (₹8,761 crore), Haryana (₹5,495 crore) and Andhra Pradesh (₹4,606 crore).

Curiously, highly industrial states such as Maharashtra, Gujarat and Tamil Nadu which contribute a substantial chunk to India's Gross Domestic Product (GDP) lagged at the bottom of the capex spending table. In fact, the capex spending of all these three States in the first quarter of the current fiscal was even lower than their spending in Q1 FY20.

Maharashtra was badly impacted by the second wave of the Covid-19 pandemic, which could be one of the major reasons for the sharp decline in capex allocation as compared to the earlier years.

Financial accounts for States like Goa and Assam and Union Territories such as Delhi, Puducherry and Jammu & Kashmir were not available on the Comptroller and Auditor General of India (CAG) portal and were, hence, excluded from the computation.

Incentivising capex

Capital expenditure, by its nature, has a high multiplier effect with an ability to crowd-in private investments which in turn enhances the production capacity leading to higher economic growth and employment generation. It is for this reason that the Centre has been constantly nudging States to boost their capital spending, especially to regain growth in the aftermath of the global pandemic. Moreover, the States' capital expenditure has higher growth multiplier potential than the Centre as it is related closer to the local community.

In April 2021, the Centre announced that it will provide an additional amount of up to ₹15,000 crore to States as interest free 50-year loan for spending on capital projects including ₹5,000 crore if States undertake asset monetisation and disinvestment of their public sector enterprises. The scheme was in continuation to last year's 50-year ₹12,000-crore interest-free capex loan provided to States to be spent on new or ongoing capital projects under the 'Atma Nirbhar Bharat package'.

Last week the Centre announced that eleven States including Andhra Pradesh, Bihar, Chhattisgarh, Haryana, Kerala, Madhya Pradesh, Manipur, Meghalaya, Nagaland, Rajasthan and Uttarakhand have achieved the target set by the Ministry of Finance for the capital expenditure in Q1 FY22.

As an incentive, the Centre allowed these States to borrow an additional amount of ₹15,721 crore (or 0.25 percent of their Gross State Domestic Product (GSDP) in the open market.

In a report titled 'Progress in States' Capital Expenditure - Q1 FY22', CARE Ratings said, "The June quarter of current financial shows encouraging trends with States' capex regaining momentum. A massive increase in the government's planned capital expenditure for FY22 coupled with various recent pro-investment announcements by the government are expected to give a much-needed boost to the States' capex in the future."

Revenue expenses surge

On the other hand, the rising revenue expenditure of States is a cause for concern.

As per the CAG data, the total revenue expenditure of the sample 23 States considered have jumped from ₹5.76-lakh crore in Q1FY20 to ₹6.28-lakh crore in the first quarter of the current fiscal.

For instance, revenue expenditure of Andhra Pradesh more than doubled to ₹51,971 crore in Q1FY22 from ₹22,583 crore at the end of first quarter in FY20. Similarly, revenue expenditure of Bihar and West Bengal went up by ₹20,878 crore and ₹16,644 crore, respectively, during the comparable period.

Speaking at a webinar recently, India's Chief Economic Advisor, KV Subramanian criticised the State governments for spending taxpayers' money on revenue expenditure in the form of freebies and populist schemes. He asked the them to instead focus on ushering supply side reforms and increase capital expenditure to attract private investment and spur growth.

Citing a study by the National Institute of Public Finance and Policy (NIPFP), Subramanian highlighted that for every rupee invested in revenue expenditure, the multiplier for the economy is between 92-98 paise while in case of capital expenditure, for every rupee put in, the addition to the economy is ₹2.25 rupees within the same year and ₹4.80 over the course of the entire capital expenditure.

Capex in social sector

Both revenue and capital expenditures of States are classified under general, social and economic sectors. Not surprisingly, a bulk of the State's capex spending went into the social sector which includes spending on building healthcare infrastructure and education. Many States have ramped up hospitals and emergency facilities to manage the Covid crisis.

For instance, Uttar Pradesh's capex spending on Social Sector jumped more than ten times to ₹2,439 crore in Q1FY22 from ₹183 crore in Q1FY20. Similarly, social sector spending of Andhra Pradesh also went up ten times to ₹3,185 crore (₹303 crore) during this period.

The economic sector expenses cover infrastructure spending on roads, railways, ports and other growth-fuelling economic activities while the general sector captures all other expenses.

The Centre has also been spending hugely on capital expenditure. The capex outlay of the Centre in the first quarter stood at ₹1.11-lakh crore, which is 55 per cent higher than ₹63,000 that the government's actual spending in Q1FY20.

The Centre has budgeted ₹5.54-lakh crore of capex spending for FY22, which is 85 per cent higher than the FY19 target of ₹2.99-lakh crore and one of the highest allocations in over a decade.

“At the central government level, the capital expenditure stood at ₹1.11 lakh crore during the first quarter of the current fiscal, which is 20% of the FY22 budgeted estimate. In relative terms, the Centre has tended to spend around one-fifth of the budgeted amount in the first quarter of the year. Clearly with uncertainty in flow of revenue being a concern, even the Centre has been slow on capex to begin with,” CARE Ratings’ report noted.

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