

Capex by state governments picks up pace in July, says Care Ratings



To encourage early capital spending, the Centre has frontloaded tax devolution to states and has released two instalments of tax devolution to states amounting to ₹1.17 trillion in August, against the normal monthly devolution of ₹58,333 crore. (Photo: iStock)

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MUMBAI: Capital spending by 21 states picked up pace in July, although their combined expenditure in the April-July period was marginally lower year-on-year, Care Ratings said in a report.

These 21 states have budgeted for a strong 39% year-on-year (y-o-y) increase in their capital spending in FY23. The report said that large states such as Uttar

Pradesh, Madhya Pradesh, Gujarat, Maharashtra and Karnataka drove capex spending, accounting for nearly 54% of the total capital expenditure in the April-July period.

Of these 21 states, Madhya Pradesh, Gujarat, West Bengal, Kerala and Chhattisgarh have budgeted for good growth in capex and have also achieved a fair portion of it in the first four months of FY23, the report said.

State governments have lagged in their capital expenditures due to liquidity constraints during the pandemic years. Usually, their combined capex is higher than that of the central government, but data for 27 states shows that in FY21 and FY22, total capital expenditure by states fell below the Centre's levels.

"Even in FY23, capital spending by the states has had a slow start due to the cessation of goods and services tax (GST) compensation and lower market borrowings by the states due to delays in the Centre's approval. The combined capital spending by 21 states in Q1 FY23 was 9% lower on a y-o-y basis," Care Ratings said.

The report said that states usually follow the wait-and-watch policy and accelerate capex only in the last quarter. To encourage early capital spending, the Centre has frontloaded tax devolution to states and has released two instalments of tax devolution to states amounting to ₹1.17 trillion in August, against the normal monthly devolution of ₹58,333 crore.

"Of the Centre's interest-free loans of ₹1 trillion to states for capex, ₹34,000 crore has been allotted to 13 states and this amount is expected to rise to ₹70,000 crore by the end of the second quarter," it said.

This, combined with a rebound in economic activities, is expected to mobilize enough revenue for states to push for higher capex. Consequently, Care Ratings said it expects an improvement in the state's capital spending in the coming months.

According to the report, at 60%, consumption is the major contributor to India's gross domestic product (GDP), but at the current juncture, this can only aid short-term boosts for the economy. To achieve a high growth trajectory in the longer term, it said, capital expenditure needs to come in with its strong multiplier effect.

