Data Focus

State Budgets bet on growth revival to boost revenue

Surabhi Mumbai | Updated on March 23, 2021

Focus on pushing up expenditure to spur growth

Battered by the Covid-19 pandemic and lockdown, States are trying to march ahead with expectations of improved economic growth. It is, however, moot whether the projected growth can be achieved, especially with the second wave of Covid-19 threatening to impact the economy again. With revenue projections linked to growth, States could find it hard to balance their deficits in FY22 too.

An analysis by *BusinessLine* of State Budgets 2021-22 reveal that most States have estimated a strong increase in revenue receipts for FY22 against the revised estimates for 2020-21. The jump is largely due to the contraction in receipts in the revised estimate for FY21 due to the pandemic.

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Optimistic revenue projections

Few States such as Kerala, Uttar Pradesh, Telangana and West Bengal have been especially optimistic, budgeting for more than 30 per cent increase in revenue when compared to the revised estimate for FY21.

There seems to be expectations of a strong growth in own tax revenue, particularly goods and services tax mop-up. "For major States in our sample, average expected growth rate in OTR for FY22 is 31 per cent," said a recent report by ICICI Securities.

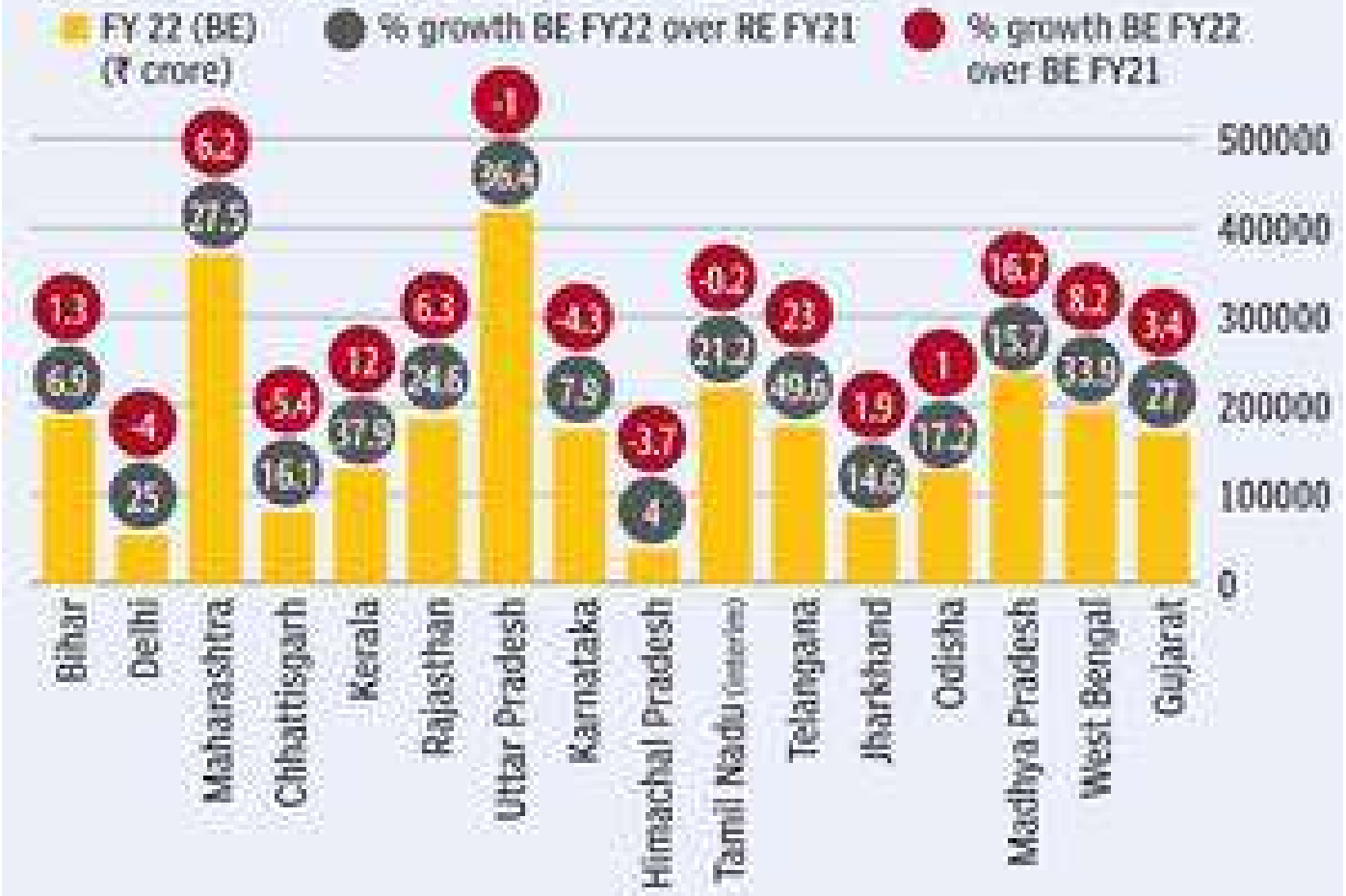
Based on GST projections by the Centre and States, the report said this could imply that average monthly collections in FY22 will have to be about ₹1.2 lakh crore to meet the Budget Estimates for the year.

This could potentially be a tall order even though GST collections have crossed the ₹1 lakh-crore mark in recent months. In February, GST collections were at ₹1,13,143 crore.

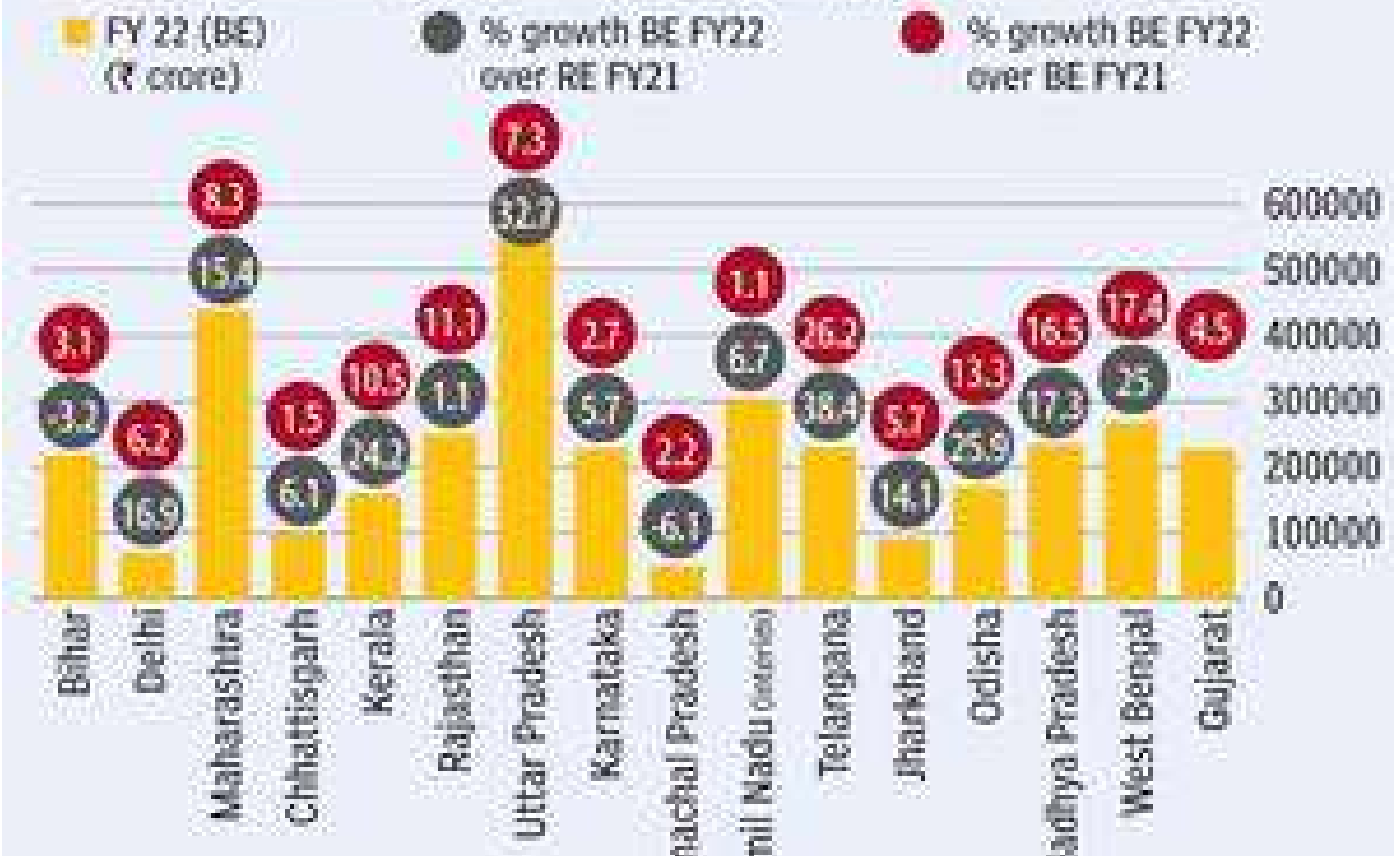
"The Budgetary targets for FY22 is based on a sharp recovery in income on account of taxes for which the economies need to revive and generate the commensurate tax revenue," said a report by CARE Ratings.

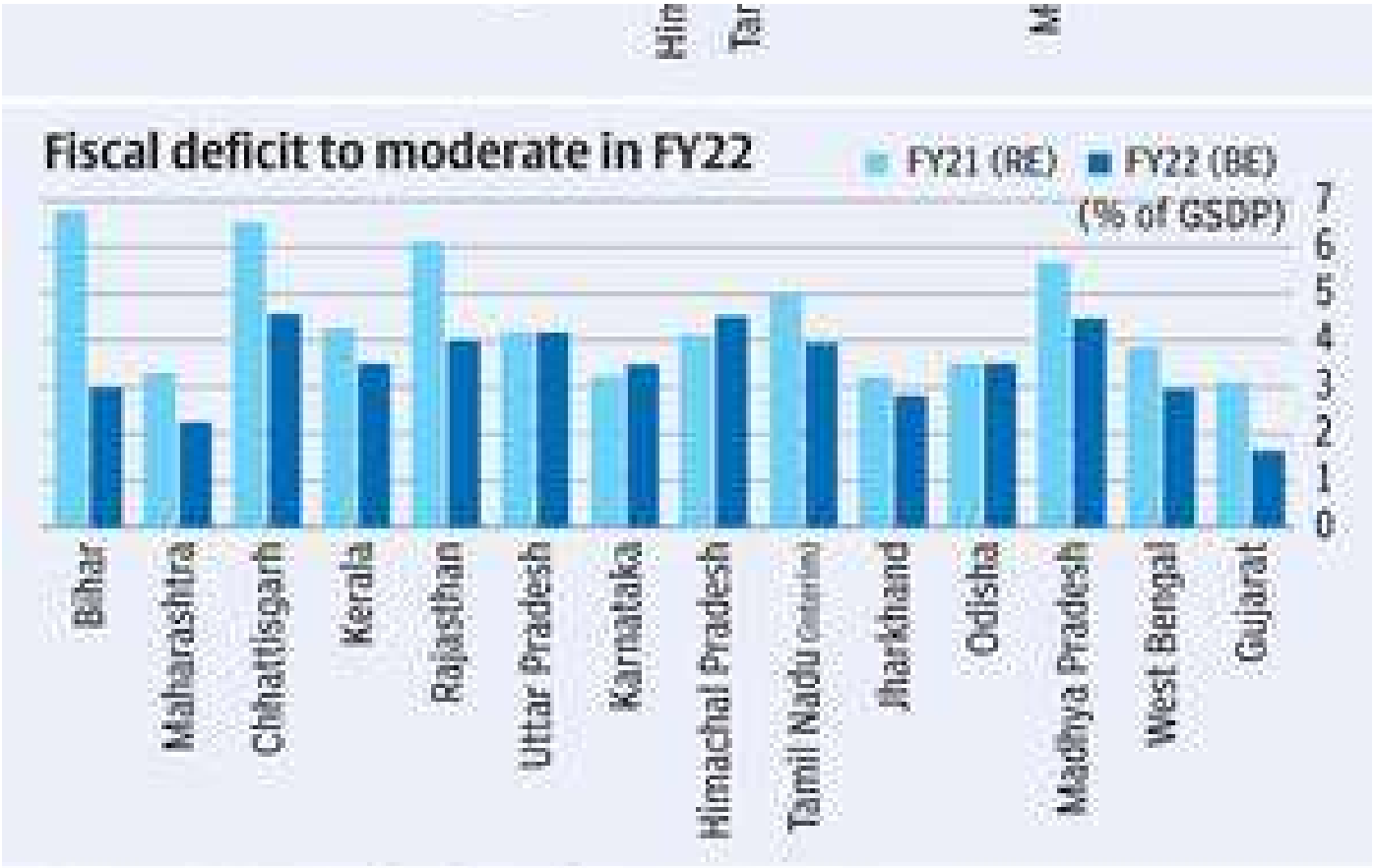
Analysis of State Budgets

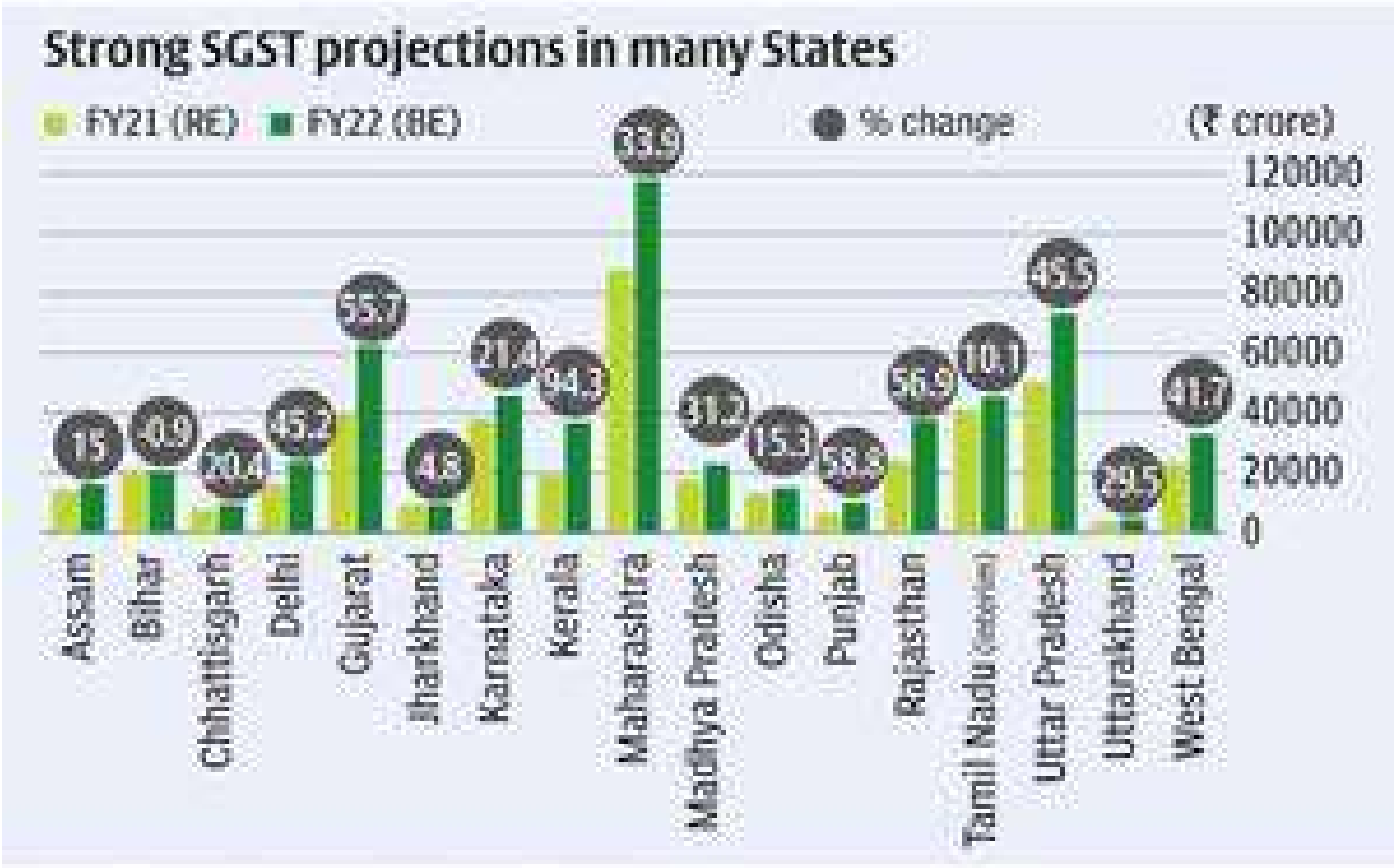
Revenues muted, but expected to grow



States continuing massive push in expenditure







Source: State Budgets, PRS India, ICICI Securities report

No let up in expenditure

However, the focus of most States on pushing up expenditure to spur growth seems clear with most outlining higher spends in the new fiscal. A few States had already increased expenditure in their RE for FY21 versus BE for the fiscal, but all of them have increased spending in BE 2021-22 over BE 2020-21. Budgeted increase in total expenditure in the new fiscal over the current fiscal's BE is in double digits for many like Madhya Pradesh, Odisha and Rajasthan.

"Our analysis shows that major States have budgeted about 15 per cent year-on-year growth in total expenditure in FY22, much higher than the Centre's muted 1 per cent growth," said ICICI Securities, adding that major States have budgeted capex of ₹7.84 lakh crore in FY22, a strong increase of 29 per cent from FY21RE.

Development schemes for health and education and capital expenditure seem to be key focus for almost all States. Investments in infrastructure have seen significant allocations by all States ranging from Maharashtra to Bihar.

Fiscal pressures on States continue and their fiscal deficits are likely to remain elevated in 2021-22, albeit at lower than the Revised Estimate for last fiscal. Fiscal deficit, as a per cent of GSDP, is projected at over four per cent for Chhattisgarh, Uttar Pradesh, Himachal Pradesh and Madhya Pradesh.

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State Budget

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