Pandemic impact on state finances: What Budgets of 11 states indicate?

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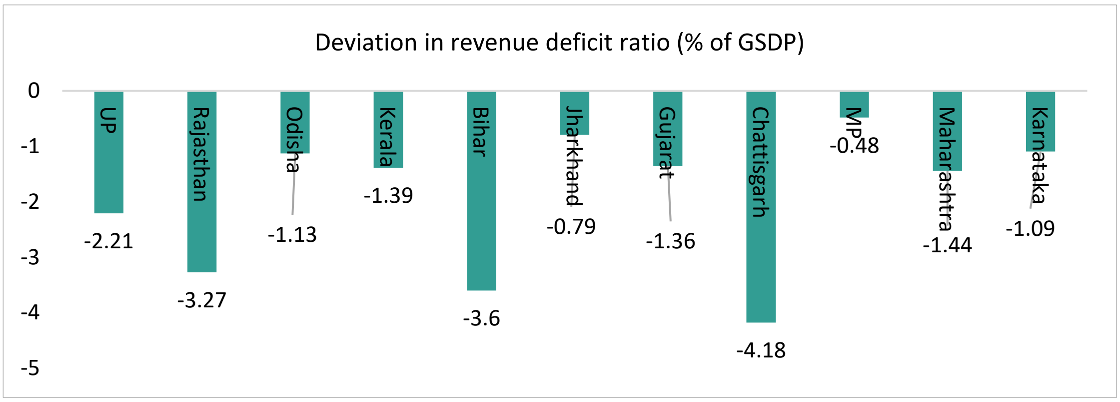
2020-21 has been a tough year for all states with revenues dipping thus putting pressures on the fiscal parameters. Expenditure cuts were a corollary even as the centre afforded more space to them in terms of running higher deficits and hence borrowings. Revenue shortfalls came about on almost all fronts as consumption was impacted thus affecting GST, excise, VAT etc. collections which also led to additional pressures on the centre to compensate states for GST shortfalls.

The analysis here looks at the Budgets of 11 states (UP, MP, Chhattisgarh, Rajasthan, Odisha, Bihar, Jharkhand, Kerala, Karnataka, Gujarat and Maharashtra) for 2021-22 and assesses how some of the fiscal parameters have been impacted during 2020-21. The revised numbers provided in the Budgets for FY22 provide a clue on the slippages witnessed for these states in FY21. Data has been sourced from state Budgets and PRS India.

Deficits

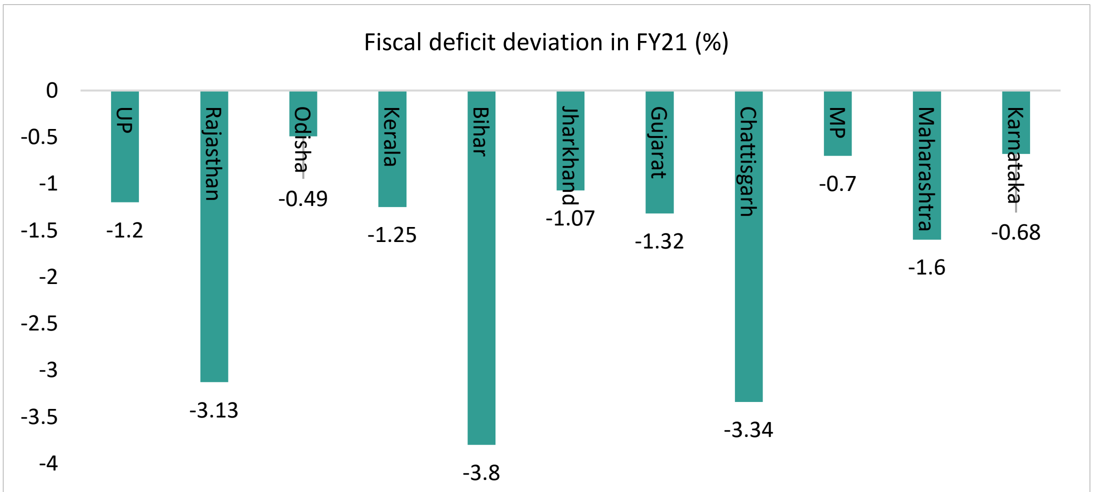
7 of the 11 states had projected a revenue surplus for FY21 last year and due to slippages in revenue had moved to a deficit. This was expected as most of the revenue expenditure of states is fixed and additional spending had to be incurred on health and education during the year. The slippage ratio defined as difference between the revised revenue deficit and budgeted number is presented in the chart below.



Sources: State Budgets and PRS India

The average deviation in revenue deficit projection has been 1.9% with the highest being registered in Chhattisgarh followed by Bihar and Rajasthan. MP had the lowest deviation as the Budget was presented during the pandemic and not before March 2020. Therefore, the budgeted numbers had buffered in the impact to a large extent.

The slippages in revenue deficit ratio were also reflected in the fiscal deficit ratio in the revised series of state budgets for FY21.

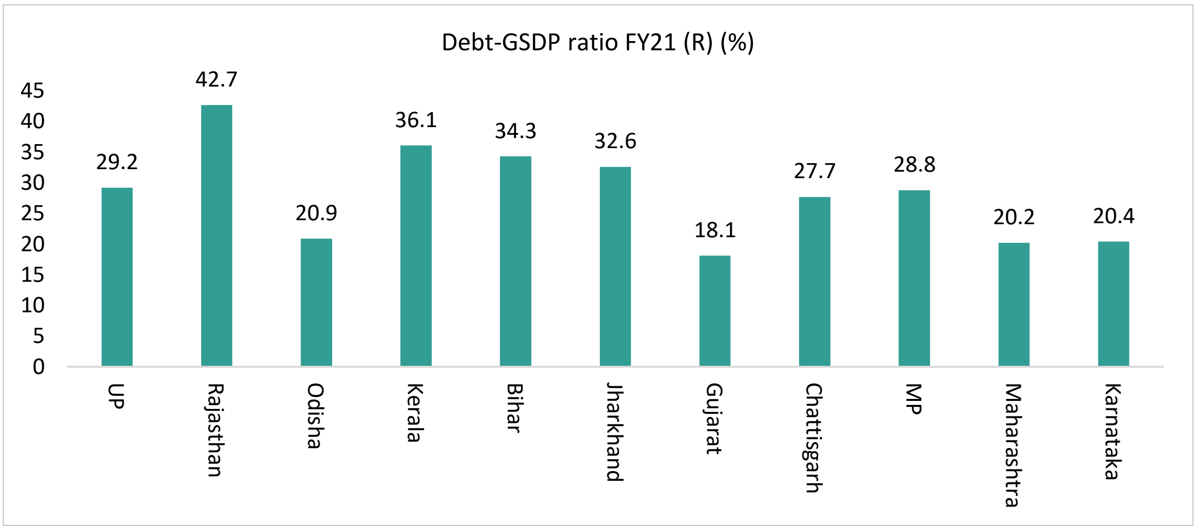


As can be seen in the graph above all the states had missed their targets and made use of the additional space that was offered by the centre during the course of the year. The average deviation was 1.7% for these 11 states from their budgeted fiscal deficit which was not always in consonance with the 3% ideal norm. MP again had a lower deviation due to the late announcement of the Budget but ended with a deficit of 5.7%. Gujarat had the lowest revised fiscal deficit of 3.1% followed by Jharkhand with 3.22% Karnataka with 3.23%, Maharashtra with 3.29%, and Odisha with 3.49%. The highest revised fiscal deficit numbers were recorded by Bihar 6.8%, Rajasthan 6.1%, and Chhattisgarh 6.5%. UP ended with 4.2% and Kerala 4.25%.

Gujarat, Maharashtra, Bihar and Jharkhand have projected fiscal deficit ratio to be less than 3% for FY22.

Debt levels

The debt to GSDP ratio of states got exacerbated due to the increase in debt and decline in GSDP, which was quite universal through the country. 4 of the 11 states have maintained their debt to GSDP ratio to less than 25% in FY21(R). Gujarat was the lowest at 18.1% and Rajasthan highest at 42.7%.



States that have projected a lower ratio for FY22 compared with FY21 are UP (28.1%), Rajasthan (38.2%), Bihar (32.3%), Jharkhand (27%), and Gujarat (17.4%). These reductions would be driven by a combination of both lower fiscal deficit and higher GDP numbers.

Cuts in capex

One of the major concerns of state governments being unable to raise revenue is that they tend to cut back on capex in an effort to meet the fiscal targets. This was further pressurized in FY21 as the lockdown had led to several projects being stalled. Migration of labour further delayed the restarting of several projects.

For these 11 states, the total projected capex was Rs 3.74 lkh crore which was revised downwards to Rs 3.19 lkh crore. The overall reduction was hence to the extent of 15% involving Rs 0.55 lkh crore. The table below provides information on the capex cuts invoked by various state governments as per the revised budget numbers presented for 2020-21.

Cuts in capex in 2020-21 (%)

State	% cut
UP	-16.0
Rajasthan	-22.3
Odisha	-27.3
Kerala	-27.3
Bihar	-2.6
Jharkhand	-6.7
Gujarat	-28.3
Chhattisgarh	-22.7
MP	4.7
Maharashtra	-7.6
Karnataka	-13.7
All	-15.0

Source: State Budgets, PRS India

States which had cut back their capex by more than the sample average were Gujarat, Odisha, Rajasthan, Chhattisgarh, and Kerala which was above 20%. Bihar, Jharkhand and Maharashtra had smaller cuts relative to the sample while MP by virtue of a late presentation of the budget was able to register growth in capex over the budgeted number.

While most states have targeted capex in FY22 at levels closer to the FY21 (B) numbers, aggressive increases have been projected by UP (Rs 32,559 cr over FY21 (B)), Maharashtra (Rs 11,332 cr), MP (Rs 12,317 cr) and Gujarat (Rs 4,096 crore). Some of these states would be working hard to make up for the lower expenditures undertaken in FY21 due to the resource issue. The increase in capex for all these states would be of the order of Rs 0.59 lkh crore in FY22 over FY21 (B) and Rs 1.15 lkh cr over FY21(R).

The main problem was on revenue side

The states' own tax revenue had slipped quite sharply from budgeted Rs 9.31 lkh crore to Rs 7.82 lkh crore in the revised estimate. The fall in own tax revenue by 15.9% amounted to Rs 1.49 lkh crore. Of the total of Rs 9.31 lkh crore, 42% was to come from GST, 19% from VAT, 13% from excise and 11% from stamps. There was a uniform fall in collections on all these fronts by 18%, 13.6%, 14.3% and 23.8% respectively.

The highest fall in own tax revenue was witnessed in Kerala by 32.9% followed by UP 25%, Gujarat 20.6% and Maharashtra 18%.

For FY21 the projected own tax revenue for these states is projected to be Rs 10.07 lkh crore which is an increase of 29% over FY21(R) and 8.2% over FY21 (B).

Concluding remarks

State budgets have been affected quite sharply by the lockdown. The additional fiscal space allowed by the centre has helped them to conduct their normal business, but capex has been adversely affected. 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. The higher fiscal space provided even in FY22 by the Finance Commission will help significantly for these states. This will also mean higher borrowings and hence larger quantum of SDL in the market. The market is aware of this inflow and hence has been pricing the paper accordingly which is evidenced by the increasing yields in the SDL auctions progressively. As the centre will also be borrowing a quantity equivalent to that of the states in FY22, there will be some affirmative action required from the RBI to balance liquidity and hence yields.

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