

HOW STATE BUDGETS ARE BECOMING THE PRECURSOR OF A BETTER GDP GROWTH IN FY21 AND EVEN FY22

Issue No. 80, FY21

Date: 10 March 2021

Almost all major states have announced their state budgets for FY22. Indian states have been at the forefront in the fight against COVID-19, but the impact of a collapse in tax receipts and significant increase in expenditures have made the fiscal position of the states tenuous. Against this backdrop, our comprehensive analysis of finances of 13 states shows that the average fiscal deficit is 4.5% for FY21. For FY22, states have budgeted average fiscal deficit of 3.3%. The consolidated fiscal deficit of the Centre & States is thus likely to be around 12.7% of GDP, assuming that the Centre's fiscal deficit is likely to be undershot from 9.5% to 8.7% of GDP in current fiscal.

Interestingly, state wise GSDP projections are quite revealing and even portend important implications of GDP outlook for the Centre. For example, if we extrapolate the State wise GSDP numbers based on their historical share for a reasonable period in India's nominal GDP we arrive at share wise GSDP numbers for each state that are then used to predict state GSDP in FY21 and juxtaposed against budgeted GSDP projections. These numbers are divergent across different states. First, for some states we find difference between the GSDP estimates derived from state share and revised GSDP budget estimates provided by these states for FY21, in their recently released budgets. The prominent states where there is a large difference between share estimates and budgeted GSDP: West Bengal, Uttar Pradesh, Madhya Pradesh and Karnataka. On the other hand for states like Rajasthan, Jharkhand, Odisha and Kerala the difference between the budgeted GSDP and share GSDP are on the lower side. However, this can be also interpreted differently. Thus if we purely look at the budgeted GSDP estimates of states like UP, WB, MP, Rajasthan and even Gujarat that shows an expansion in FY21, then the all-India GDP contraction that CSO projects at 8% in FY21 would be perhaps much lesser. Thus, it clearly reignites the debate of whether having a bottom up approach to GDP estimation could be a better tool in these uncertain times.

There could be also another aspect to the budgeted GSDP projections of the states that could have implications for per capita GSDP numbers. While on all-India level the per capita GDP is expected to decline by almost Rs 7200 in FY21 as compared to FY20, some of the states (like Karnataka, UP, WB) indicate that their per capita GSDP will increase by more than Rs 10,000 during the same period.

The outstanding debt, however, has witnessed an increase which is understandable, as states had to borrow more given the lack of resources available to them. This has pushed up per capita state government debt for all the states in our sample. It may be noted that the average per capita income of 13 major states for the 3 year period ended (FY22 budget estimates) grew by 7.1%, whereas per capita debt of all these states expanded by 16.4%. The notable increase in per capita debt in excess of 20% is for states like Karnataka, Jharkhand (although on a low base) and Madhya Pradesh. The per capita projected debt in FY22 is more than Rs 60,000 in states like Karnataka, Kerala and Uttarakhand.

As far as revenue mobilisation is concerned, the CGST and SGST revenue estimates show that state revenues have fallen drastically from what they had anticipated in their FY21 budgets. The CGST+SGST RE figures are 21.2% lower than the budgeted figures. Additionally, state VAT and sales tax, states are seeing a decline of 14.7% from the budgeted figures, due to lower crude prices and reduced consumption in the initial months of FY21. To compensate for this loss of revenue, states have curtailed capital expenditure by a sharp 11.3 % from that proposed initially in FY21 budget, but proposed to recover by 37% in FY22. The decline in capital expenditure is large and even close to 30% for some states in FY21.

Covid-19 has set off considerable debate on the importance of healthcare infrastructure. As RBI has indicated, state governments will have to take on the mantle of leadership in healthcare delivery. This pandemic presents an opportunity for states to bring about structural changes to improve the quality, accessibility, and affordability of healthcare. However, we believe that some of the states have missed that opportunity. Of the 13 states that we have analysed only 5 states have budgeted more than 20% growth in expenditure on health & family welfare for FY22. This indicates that states are more reliant on Central funds for healthcare facilities, in the face of revenue decline.

STATES' FISCAL DEFICIT

- ◆ Almost all major states have announced their 'State Budget 2021-22'. States have been at the forefront in the fight against Covid-19 and the public health crisis it has laid, besides the biggest migration in the world. The debilitating combination of huge reduction in tax receipts and significant increase in expenditures ("*scissor effect*"-RBI) has generated unprecedented pressures on fiscal positions for states. Though, the fiscal situation of each state is unique as some states have been impacted quicker and harder than others, depending upon indigenous demographics and epidemiological features as well as availability and accessibility of health care resources. Supply chain disruptions have also been different depending on nature of businesses and other activities that various states specialise.
- ◆ Against this backdrop, our comprehensive analysis of finances of 13 states demonstrates that the average fiscal deficit has been revised upwards by almost 170 bps to 4.5% for FY21, which might be low given the above scissor effect. For FY22, states have budgeted average fiscal deficit of 3.3%. In actual terms, fiscal deficit for FY21 is revised upwards by Rs 1.85 lakh crore to Rs 5.8 lakh crore. For FY22, the combined fiscal deficit for 13 states is projected at Rs 5.0 lakh crore.

States' Fiscal Deficit (% of GSDP)				
States	2019-20	2020-21 (BE)	2020-21 (RE)	2021-22 (BE)
Bihar	2.0	3.0	6.8	3.0
Chhattisgarh	5.2	3.2	6.5	4.6
Gujarat	1.5	1.8	3.1	1.6
Jharkhand	2.4	2.2	3.2	2.8
Karnataka	2.3	2.6	3.2	3.5
Kerala	2.8	3.0	4.3	3.5
Madhya Pradesh	3.6	5.0	5.5	4.5
Maharashtra	1.9	1.7	3.3	2.2
Odisha	3.6	3.0	3.5	3.5
Rajasthan	3.8	3.0	6.1	4.0
Uttar Pradesh	-0.7	3.0	4.2	4.2
West Bengal	2.9	2.3	3.9	2.9
Uttarakhand	3.0	2.6	4.4	3.2
Average of 13 States	2.6	2.8	4.5	3.3
Total (Rs crore)	323729	397067	581808	500736
<i>Memo: Union Budget FY22 (% of GDP)</i>				
India	4.6	3.5	9.5	6.8

STATE-WISE GSDP GROWTH

- At all India level, NSO has estimated 8.0% contraction in real terms and 3.8% contraction in nominal terms for FY21. For FY22, Union Budget 2021-22 projected nominal growth of 14.4%. States have also put forward their estimates for FY21 & FY22. To understand better the states' nominal GSDP estimates for FY21, we estimated the state nominal GSDP based on the historical share of each states in India's GDP. We have two observations to ponder. *First*, for some states we find difference between the state estimates and revised estimates provided by these states for FY21, in their recently released budgets. The prominent states where there is difference between share estimates and budgeted GSDP: West Bengal, Uttar Pradesh, Madhya Pradesh and Karnataka. On the other hand states like Rajasthan, Jharkhand, Odisha and Kerala the difference between the budgeted GSDP and share GSDP are on the lower side.
- Second*, if we purely look at the budgeted GSDP estimates of states like UP, WB, MP, Rajasthan and even Gujarat that shows an expansion in FY21, then the all-India GDP contraction would be perhaps much lesser than what the NSO has projected.

PER CAPITA GSDP & DEBT

- Since some of the states have made generous assumptions regarding the nominal GSDP growth, the impact is seen in per capita GSDP also. While on all-India level the per capita GDP is expected to decline by almost Rs 7200 in FY21 as compared to FY20, some of the states (like Karnataka, UP, WB) indicate that their per capita GSDP will increase by more than Rs 10,000.
- The outstanding debt, however, has witnessed an increase which is understandable, as states had to borrow more given the lack of resources available to them. This has pushed up per capita state government debt for all the states in our sample.

EXPENDITURE & REVENUE

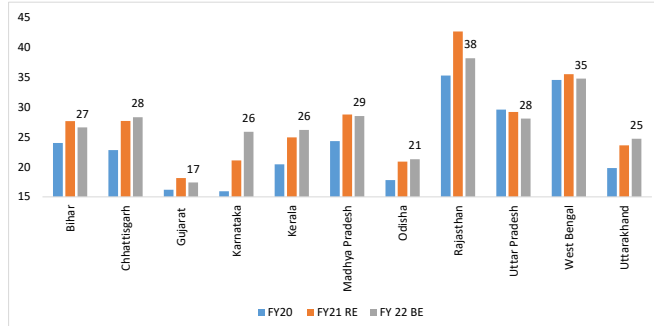
- The CGST and SGST revenue estimates show that state revenues have fallen drastically from what they had anticipated. The CGST+SGST RE figures are 21.2% lower than the budgeted figures.
- Meanwhile for state VAT and sales tax, which is majorly imposed on crude oil products, despite the increase in duties, states are seeing a decline of 14.7% from the budgeted figures, due to lower crude prices and reduced consumption in the initial months of FY21.

Goods and Services Tax (CGST+SGST) (Rs crore)						
State	2019-20	2020-21 (BE)	2020-21 (RE)	2021-22 (BE)	FY21 RE/ FY21 BE	FY22 BE/ FY21 RE
Bihar	33794	46080	44680	45901	-3.0	32.2
Chhattisgarh	13629	18814	13722	16664	-27.1	0.7
Gujarat	39848	63625	47760	69758	-24.9	19.9
Jharkhand	14261	14799	13822	14793	-6.6	-3.1
Karnataka	50921	55973	44200	53790	-21.0	-13.2
Kerala	25101	38547	22193	41682	-42.4	-11.6
Madhya Pradesh	34500	30042	31307	39881	4.2	-9.3
Maharashtra	92879	121708	98712	131392	-18.9	6.3
Odisha	21845	26456	21093	24737	-20.3	-3.4
Rajasthan	32184	42441	35594	50621	-16.1	10.6
Uttar Pradesh	80666	112765	75608	103052	-33.0	-6.3
West Bengal	7161	7538	8200	8600	8.8	14.5
Uttarakhand	6890	8006	5536	7076	-30.8	-19.6
Total of 13 States	453677	586794	462429	607948	-21.2	1.9
Memo: Central Government						
Union Budget FY22	598750	690500	515100	630000	-25.4	-14.0
Uttarakhand						22.3
Source: SBI Research						

Nominal GSDP Growth for FY21 (%)			
State	Average Share in national GDP (%)	Nominal GSDP Growth for FY21	
		Share Estimate (%)	State Estimate (%)
Bihar	2.8	-10.2	4.7
Chhattisgarh	1.7	-1.7	1.5
Gujarat	7.5	-10.5	0.6
Jharkhand	1.6	-2.5	-3.4
Karnataka	7.5	-13.3	6.2
Kerala	4.1	-5.1	-3.8
Madhya Pradesh	4.1	-15.2	4.7
Maharashtra	14.2	-1.1	-5.6
Odisha	2.6	-3.6	-2.2
Rajasthan	4.9	-3.5	-4.1
Uttar Pradesh	8.3	-3.8	14.8
Uttarakhand	1.3	-0.4	-4.2
West Bengal	5.9	-8.4	8.0
Average of 13 States	-	-6.1	1.3
Memo: NSO estimate for FY21			
India Nominal GDP	-		-3.8
Source: SBI Research			

State wise Per Capita Income and Debt (in Rs)							
State	Per Capita Income (Nominal)			Per Capita Government Debt			Population (in crore)
	FY20	FY21 RE	FY22 BE	FY20	FY21 RE	FY22 BE	
Bihar	49023	51775	60659	11873	14323	16143	12.5
Chhattisgarh	117187	118993	130142	26742	32973	36882	2.9
Gujarat	258250	259715	294310	41817	47119	51217	6.4
Jharkhand	85142	82424	93488	2486	3368	3757	3.9
Karnataka	251424	266953	251948	40019	56278	65248	6.8
Kerala	239412	230262	245461	48920	57463	64304	3.6
Madhya Pradesh	109819	111190	132630	25843	32000	37826	8.5
Maharashtra	202130	188784	242076	37681	42285	49555	12.3
Odisha	112449	109976	126412	20016	22985	26926	4.6
Rajasthan	123283	118213	147885	43510	50477	56492	8.1
Uttar Pradesh	70952	81575	91364	21017	23789	25692	23.8
Uttarakhand	225464	215994	247098	44663	51014	61110	1.1
West Bengal	125875	135983	151669	43518	48329	52793	10.0
Average of 13 States	151570	151680	170395	31393	37108	42180	-
Memo:							
India	151760	144503	163129 (estimated)				
Source: SBI Research							

Outstanding Debt as % of GSDP



Source: SBI Research

State VAT/Sales Tax (Rs crore)						
State	2019-20	2020-21 (BE)	2020-21 (RE)	2021-22 (BE)	FY21 RE/ FY21 BE	FY22 BE/ FY21 RE
Bihar	6121	5830	5830	6010	0.0	-4.8
Chhattisgarh	3931	4145	3741	4357	-9.7	-4.8
Gujarat	21072	23230	19972	23230	-14.0	-5.2
Jharkhand	2009	2301	2300	2460	0.0	14.5
Karnataka	16424	17783	15231	16791	-14.4	-7.3
Kerala	19650	23263	16998	24039	-26.9	-13.5
Madhya Pradesh	11258	11208	12750	14240	13.8	13.3
Maharashtra	82602	107146	88000	117807	-17.9	6.5
Odisha	7455	8750	7200	9000	-17.7	-3.4
Rajasthan	15843	21000	19100	22800	-9.0	20.6
Uttar Pradesh	20517	28287	22492	31100	-20.5	9.6
West Bengal	7161	7538	8200	8600	8.8	14.5
Uttarakhand	1811	1970	1970	2004	0.0	8.8
Total of 13 States	215854	262451	223784	282438	-14.7	3.7
Memo: Central Government Excise duty						
Union Budget FY22	240615	267000	361000	335000	35.2	50.0
Uttarakhand						-7.2
Source: SBI Research						

- To compensate for this loss of revenue, states have curtailed expenditure and borrowed. The serious issue is that capital expenditure cut of 11.3 % from that proposed initially. However, from FY20 there is a moderate increase of 6.6% which is good.
- Compared to capex, revenue expenditure RE FY21 has declined at a slower pace. However, there is a decline and due to the curtailment in revenue and capital expenditure coupled with better than anticipated GDP estimates, the fiscal deficit is not at an alarming level.

STATES' HEALTHCARE EXPENDITURE

- Covid-19 has set off considerable debate on the importance of healthcare infrastructure. As RBI has indicated, from the perspective of management of the Covid-19 health crisis, while significant aspects of healthcare, particularly in health research and international collaboration, are in the primary domain of the central government, state governments will have to take on the mantle of leadership in healthcare delivery. This pandemic presents an opportunity for states to bring about structural changes to improve the quality, accessibility, and affordability of healthcare.
- However, we believe that some of the states have missed that opportunity. Of the 13 states that we have analysed only 5 states budgeted more than 20% growth in expenditure on health & family welfare for FY22. The average increase is only 6.5% for FY22 as against Central Government's budgeted estimate of 117.6% growth. This indicate that states are more reliant on Central funds for healthcare facilities.
- A worrying fact that is originating from data is that some states (6 out of 13) have spent less for health & family welfare in FY21 as compared to their Budget Estimates despite history's most disastrous health crisis in the form of Covid-19 happening.

WAY FORWARD

- We do agree with the succinct assessment of RBI (State Finances : A Study of Budgets of 2020-21) on state finances, that "the next few years are going to be challenging for the Indian states. They need to remain empowered with effective strategies to drive through these difficult times. Sub-national fiscal policy has to be judicious and calibrated. Across states, maintaining overall stability, quality of spending and credibility of budgets may distinguish one state's resilience from another". We also feel that states need to do more clear and real assessment of their finances.

Capital Expenditure (Rs crore)							
State	2019-20	2020-21 (BE)	2020-21 (RE)	2021-22 (BE)	FY21 RE/ FY21 BE	FY21 RE/ FY20	FY22 BE/ FY21 RE
Bihar	7217	7211	7229	9299	0.3	0.2	28.6
Chhattisgarh	17318	19091	15676	19455	-17.9	-9.5	24.1
Gujarat	43664	52475	37651	56572	-28.3	-13.8	50.3
Jharkhand	14276	13054	12186	15522	-6.6	-14.6	27.4
Karnataka	35529	43059	37146	41358	-13.7	4.6	11.3
Kerala	9665	14428	11061	14141	-23.3	14.4	27.8
Madhya Pradesh	30228	29887	30961	44152	3.6	2.4	42.6
Maharashtra	38385	47417	43828	58748	-7.6	14.2	34.0
Odisha	26030	35209	30136	50433	-14.4	15.8	67.4
Rajasthan	37006	39981	58361	42667	46.0	57.7	-26.9
Uttar Pradesh	84519	117744	94788	155140	-19.5	12.1	63.7
West Bengal	41790	50279	36498	63679	-27.4	-12.7	74.5
Uttarakhand	14636	11137	11252	13364	1.0	-23.1	18.8
Total of 13 States	400264	480973	426774	584531	-11.3	6.6	37.0
Memo: Central Government							
Union Budget FY22	335726	412085	439163	554236	6.6	30.8	26.2
Source: SBI Research							

Revenue Expenditure (Rs crore)							
State	2019-20	2020-21 (BE)	2020-21 (RE)	2021-22 (BE)	FY21 RE/ FY21 BE	FY21 RE/ FY20	FY22 BE/ FY21 RE
Bihar	78958	98784	109945	108484	11.3	39.2	-1.3
Chhattisgarh	73477	81400	80647	83028	-0.9	9.8	3.0
Gujarat	140899	161658	154246	166761	-4.6	9.5	8.1
Jharkhand	56456	73316	67821	75755	-7.5	20.1	11.7
Karnataka	174257	179776	179195	187405	-0.3	2.8	4.6
Kerala	104720	129837	117322	145286	-9.6	12.0	23.8
Madhya Pradesh	150444	154110	158545	172971	2.9	5.4	9.1
Maharashtra	300305	356968	335675	379213	-6.0	11.8	13.0
Odisha	99137	114791	104864	119567	-8.6	5.8	14.0
Rajasthan	176485	185750	189702	208080	2.1	7.5	9.7
Uttar Pradesh	298833	395117	319962	395130	-19.0	7.1	23.5
West Bengal	162575	179398	179286	206008	-0.1	10.3	14.9
Uttarakhand	32859	42390	40091	44036	-5.4	22.0	9.8
Total of 13 States	1849407	2153295	2037301	2291724	-5.4	10.2	12.5
Memo: Central Government							
Union Budget FY22	2350604	2630145	3011142	2929000	14.5	28.1	-2.7
Source: SBI Research							

Expenditure on Health & Family Welfare (Rs crore)							
State	2019-20	2020-21 (BE)	2020-21 (RE)	2021-22 (BE)	FY21 RE/ FY21 BE	FY21 RE/ FY20	FY22 BE/ FY21 RE
Bihar	7674	10602	11171	13012	5.4	45.6	16.5
Chhattisgarh	4671	5712	6521	5902	14.2	39.6	-9.5
Gujarat	10283	11225	11232	11304	0.1	9.2	0.6
Jharkhand	313849	458671	433764	444541	-5.4	38.2	2.5
Karnataka	8339	9315	9844	11157	5.7	18.0	13.3
Kerala	7539	7856	7971	8782	1.5	5.7	10.2
Madhya Pradesh	9580	10164	9467	11619	-6.9	-1.2	22.7
Maharashtra	12205	28619	21654	26432	-24.3	77.4	22.1
Odisha	6185	7727	8776	9340	13.6	41.9	6.4
Rajasthan	12144	14700	13394	16269	-8.9	10.3	21.5
Uttar Pradesh	19957	26266	20582	32009	-21.6	3.1	55.5
West Bengal	10739	11280	12727	12756	12.8	18.5	0.2
Uttarakhand	1880	2166	2127	3189	-1.8	13.1	49.9
Total of 13 States	425045	604305	569230	606312	-5.8	33.9	6.5
Memo: Central Government							
Union Budget FY22	86260	94452	102874	223847	8.9	19.3	117.6
Source: SBI Research							

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