

States Monthly Monitor

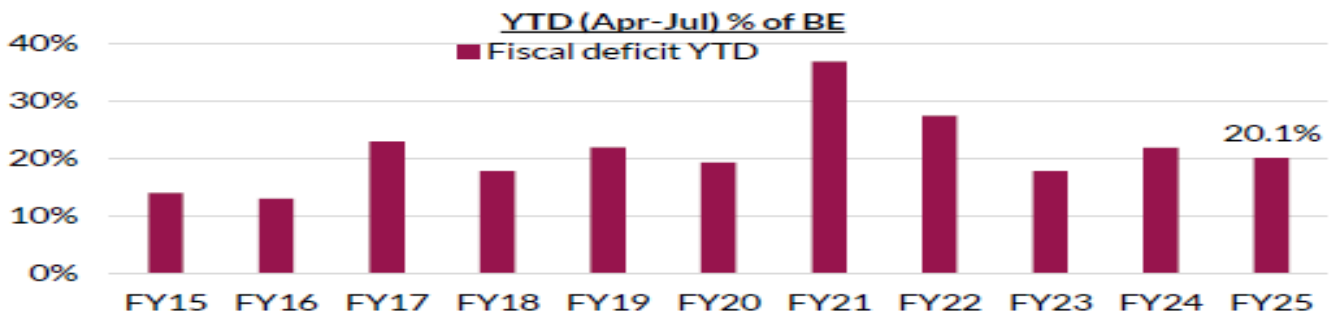
Is the drag on growth from states' slow spending ending?

States' Apr-Jul fiscal deficit stood at 20% of the FY25 budget. While this was in line with seasonality, the rolling 12M general government (Centre + state) deficit ratio as % of GDP is down 1.3pp YoY: a large drag on growth. States got better receipts due to central devolution, and while central grants are down sharply, spending has been weak (capex -13% YoY). With election-related uncertainty over, spending should rise going forward, helping economic momentum; state borrowings in Jul-Aug have shown an increase.

Exhibit: States' lower 4MFY25 FD ratio mainly due to higher devolution, lower capex

	% of GDP		% of full year		YoY %, YTD
	FY25BE	Trailing 12M	FY25	10Y median	
Revenue receipts	13.7%	12.2%	26%	25%	8.5%
Own taxes	7.1%	6.1%	29%	28%	10.4%
Central devolution	3.7%	3.2%	30%	17%	23.7%
Central grants	1.9%	1.0%	12%	20%	-39.6%
Expenditure	16.7%	14.9%	25.4%	25.3%	8.4%
Revenue	14.0%	12.6%	27.4%	26.3%	11.5%
Capital	2.7%	2.2%	15.6%	18.5%	-12.7%
Fiscal Deficit	3.2%	2.5%	20.1%	20.6%	
Centre + states deficit	8.1%	6.8%	17.2%	61.1%	

At 20% of BE, 4M fiscal deficit only slightly lower than last year, in line with 10Y median



Source: Axis Bank Business and Economic Research

Central devolution growth robust, lower central grant weighing on receipts.

Apr-Jul 2024 receipts for states as % of FY budget were the highest since FY15 at 26% (10Y median 25%), led by robust growth in direct taxes for the Centre, driving higher devolution to states (30% of BE, vs. 17% median). States own taxes revenues saw a pickup in Jul following a slow start in Q1 (stamp duty +15%; SGST +13%). Central grants fell -40% YoY. But rolling 12M receipts as % of GDP are 1.5pp lower than budgeted.

Revenue spending led by subsidies, 4M capex lags at state level as well

Rolling 12M expenditure, on the other hand, is 1.8pp below budget. 4M spending at 25% of FY budgets was slightly faster than last year led by growth in revenue expenditure (27.4% of BE vs 27.1% last year) but largely driven by higher state subsidies (+23% YoY). Capital expenditure (-13% YoY) lagged, compounding effects of slower central capex, with general government capex down 16% YoY in 4MFY25. Though, this should be temporary.

States' FD slightly lower YoY; market borrowing weak till Q1, picked up in July

The 4M fiscal deficit for states at 20.1% of BE is in line with seasonality, slightly lower YoY, but 70bps below budget (MH, OD ran a surplus). The rolling 12M general deficit (state + centre) is down 1.3pp, a significant negative fiscal impulse for growth. States borrowed only 57% of indicated in 1Q, but this has picked up in July and Aug.

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