

Government investments fall by one-third in 2QFY21

Aggregate fiscal deficit at ~15% of GDP in 1HFY21

- Based on the monthly accounts available for 15 states (together accounting for ~68% of all states), total receipts of states declined 17.9% YoY in 2QFY21, while total spending contracted 12.1% YoY during the quarter. Accordingly, states' fiscal deficit increased to INR1.5t in 2QFY21 and INR3.6t (or ~4.2% of GDP¹) in 1HFY21.
- Details suggest the states' total tax receipts (including the center's devolution) fell 12.1% YoY, non-tax revenue receipts shrank 21.2% YoY, and grants from the center declined 31.3% YoY in the second quarter of FY21. Within states' own taxes, collections of stamp duties and registration charges declined only marginally at ~1% YoY in 2QFY21.
- States' revenue expenditure declined 9.3% YoY in 2QFY21, following growth of 10.6% YoY in 1QFY21. States' capital spending (including loans and advances) contracted 30% YoY last quarter, following decline of 49% YoY in the previous quarter, marking the fifth contraction in the past six quarters. Further details suggest that while interest payments grew 2.3% YoY, salaries and wages (based on 13 states) fell 1.1% and pensions shrank 16.6% YoY in 2QFY21.
- A state-wise analysis suggests that of 15 states, only Haryana (HR) posted fiscal surplus in 2QFY21, while it was almost balanced for Odisha (OD). However, OD was the only state to post fiscal surplus in 1HFY21. On the other hand, fiscal deficit was the highest for Andhra Pradesh (AP) at ~92% of actual receipts, followed by Rajasthan (RJ) at 44% of receipts in 2QFY21. AP's fiscal deficit was 123% of receipts in 1HFY21, followed by Kerala (KL) at 85% and Telangana (TS) at 68%.
- Finally, when we combine the finances of the central government and states (adjusting for grants from center to states), we find that total receipts declined 19.3% YoY, while total spending by the general government contracted 10.5% YoY in 2QFY21. Within spending, while capital spending fell 34.1% YoY last quarter, the general government's revenue spending also fell 5.9% YoY in 2QFY21, marking the first contraction in a decade (for which quarterly data is available).
- All in all, with government capex declining sharply, corporate capex likely to have remained weak and household investments improving in 2QFY21, India's total investments may have declined by 15–20% YoY in the quarter, following a 47% YoY drop in 1QFY21. Also, although combined spending by the governments contracted by a record 10.5% YoY in 2QFY21 and 2.9% YoY in 1HFY21, widening of the fiscal deficit to ~15% of GDP¹ in 1HFY21 from 8.6% of GDP in 1HFY20 is almost entirely on account of a collapse in receipts (down 28% YoY in 1HFY21) and weak GDP.

In this note, we analyze the finances of 15 states up to Sep'20, which together account for ~68% of all states. These include: Andhra Pradesh (AP), Chhattisgarh (CT), Gujarat (GJ), Haryana (HR), Himachal Pradesh (HP), Jharkhand (JH), Karnataka (KA), Kerala (KL), Madhya Pradesh (MP), Odisha (OD), Rajasthan (RJ), Tamil Nadu (TN), Telangana (TS), Uttar Pradesh (UP), and Uttarakhand (UK).

States' fiscal deficit was 4.2% of GDP¹ in 1HFY21, while the combined fiscal deficit of the general government was ~15% of GDP¹

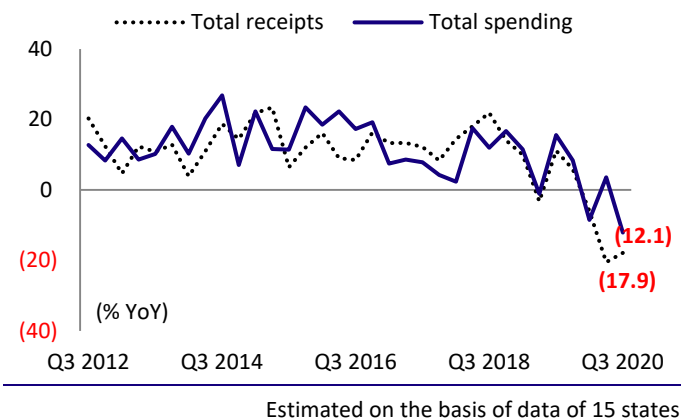
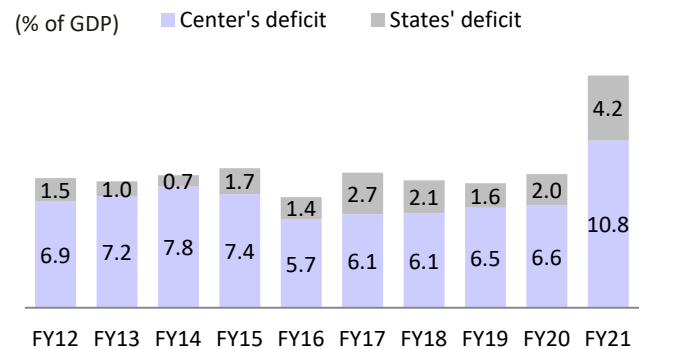
States' receipts fell 18% YoY and spending declined at a record 12% YoY in 2QFY21:

Based on the data of 15 states, the total receipts of all states² declined 17.9% YoY in 2QFY21, marking the third consecutive fall. On the other hand, total spending contracted 12.1% YoY last quarter, following growth of 3.6% in 1QFY21 (*Exhibit 1*).

Aggregate fiscal deficit was at 15% of GDP in 1HFY21: Accordingly, states' fiscal deficit was INR1.5t in 2QFY21 and INR3.6t (or ~4.2% of GDP¹) in 1HFY21. Combining it with the center's fiscal deficit, this suggests the aggregate fiscal deficit widened to ~15% of GDP in 1HFY21 from 8.6% in 1HFY20 (*Exhibit 2*).

¹ Assuming a decline of 5.6% YoY in nominal GDP in 2QFY21

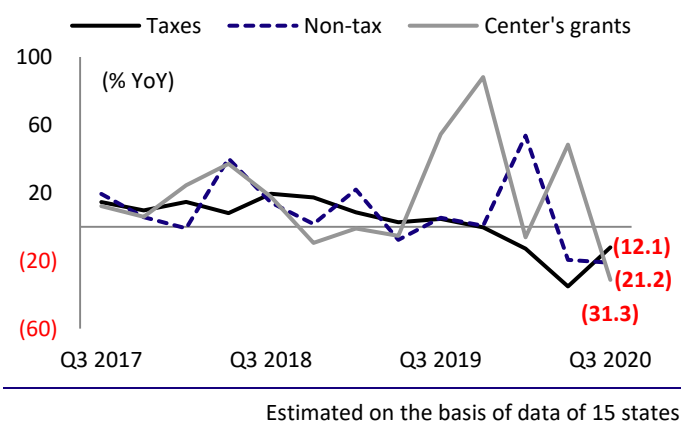
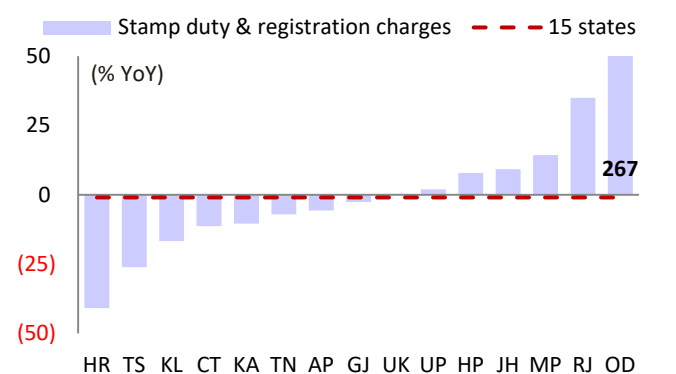
² Estimated using the share of 15 states in all states in the past two years. Please see *Exhibit 10-12* in [Appendix 1](#) at the end of the report for state-wise details on the total receipts and spending

Exhibit 1: States' receipts declined for 3rd straight quarter, while spending posted its worst fall in a decade in 2QFY21**Exhibit 2: Aggregate fiscal deficit jumped from 8.6% to ~15% of GDP in 1HFY21**

Data for first half (1H) for all financial years
Assuming a decline of 5.6% YoY in nominal GDP in 2QFY21
Source: Comptroller and Auditor General (CAG), RBI, CEIC, MOFSL

While states' receipts declined for the third consecutive quarter in 2QFY21, this was the first quarter when all three major components

Total receipts saw a broad-based fall in 2QFY21....: While states' receipts declined for the third consecutive quarter in 2QFY21, this was the first quarter when all three major components³ – taxes (including devolution receipts), states' own non-tax revenue receipts, and Grants from the Centre – declined (*Exhibit 3*). In fact, while the share of taxes has fallen to ~70% of all receipts, 'Grants from the Centre'⁴ increased to 25% of all receipts in 1HFY21. Within the states' own taxes, collections of 'stamp duties and registration charges' declined just 1% YoY in 2QFY21, following decline of 61% in 1QFY21. However, this ranges from growth of 267% YoY in OD to decline of 41% in HR last quarter (*Exhibit 4*).

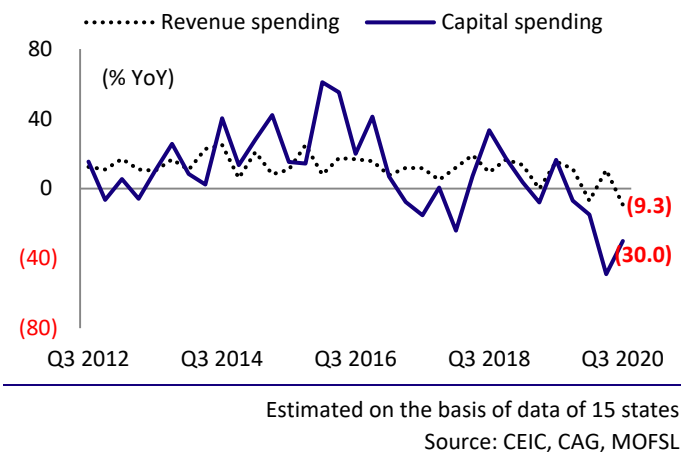
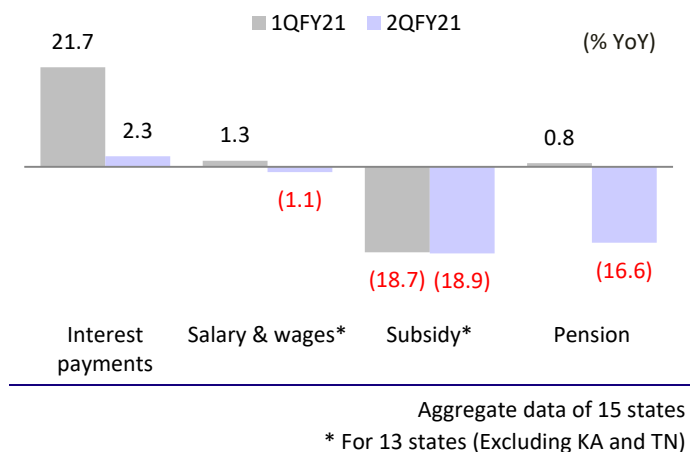
Exhibit 3: Broad-based fall was seen in states' receipts...**Exhibit 4: ...but property taxes fell only marginally in 2QFY21**

...and states' revenue spending declined at a record pace in 2QFY21: States' total spending declined at a record pace in 2QFY21, which was almost entirely due to the worst fall in revenue spending as decline in capital spending was slower than in the previous quarter. Aggregate revenue spending⁵ fell 9.3% YoY in 2QFY21, following growth of 10.6% YoY growth in 1QFY20. On the other hand, aggregate capital spending (including loans and advances) contracted 30% YoY last quarter, following decline of 49% in the previous quarter (*Exhibit 5*).

³ Please see *Exhibit 13-14* in *Appendix 1* at end of the report for state-wise details on receipts' components

⁴ GST compensation cess has seen different reporting and accounting practices – under states' own tax revenue in 2018-19; under grants from centre in 2019-20; and partly grants and party loans from centre in 2020-21

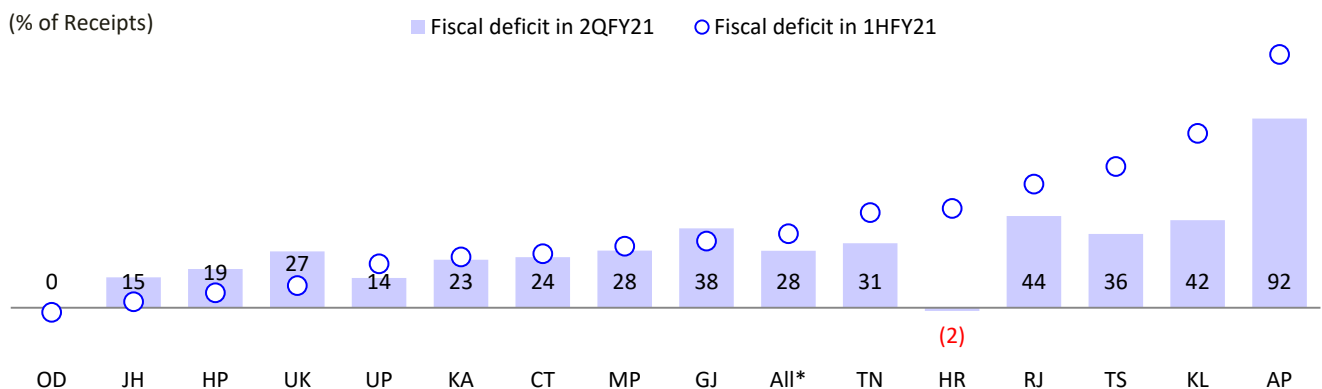
⁵ Please see *Exhibit 15-16* in *Appendix 1* at the end of the report for state-wise details on revenue and capital spending.

Exhibit 5: Revenue spending saw the worst decline in a decade and capex continued to fall in 2QFY21**Exhibit 6: Further details on revenue spending suggest broad-based decline last quarter**

Further details of revenue spending suggest interest payments, accounting for ~12% of revenue spending, grew only 2.3% YoY; salaries and wages (~18% of revenue spending) declined 1.1%; pension spending (~12% of revenue spending) fell 16.6%; and subsidy payments (~6% of revenue spending) declined 18.9% in 2QFY21 (*Exhibit 6*). Together, these four components account for almost 50% of the total revenue spending. (To understand the massive difference among the states, we encourage you to see *Exhibit 17–19* in [Appendix 1](#) at the end of the report for state-wise details on these components of revenue spending.)

HR was the only state to run a fiscal surplus in 2QFY21; however, OD was the only state with fiscal surplus in 1HFY21

OD was the only state with fiscal surplus in 1HFY21; HR was the only state with fiscal surplus in 2QFY21: A closer look at individual states reveals HR was the only state to run a fiscal surplus in 2QFY21, while it was almost balanced in OD. However, OD was the only state with fiscal surplus in 1HFY21. On the other hand, fiscal deficit was the highest for AP at ~92% of actual receipts, followed by RJ at 44% of receipts in 2QFY21. AP's fiscal deficit was 123% of receipts in 1HFY21, followed by KL at 85% and TS at 68% (*Exhibit 7*). For all states, the fiscal deficit was 28% in 2QFY21 and 36% of receipts (and 4.2% of GDP) in 1HFY21.

Exhibit 7: Fiscal deficit by state in 2QFY21 and 1HFY21 (% of total/actual receipts)

* Estimated on the basis of data of 15 states

Arranged in ascending order based on 1HFY21 data
Source: CEIC, CAG, CEIC, MOFSL

Total spending by the general government declined 10.5% YoY in 2QFY21, marking the worst contraction in a decade and only the second fall since 2011

Finally, when we combine the finances of the central government with that of the states for 2QFY21, there are five key highlights:

- 1) The total receipts of the general government (after adjusting for 'Grants from the Center' to states) declined 19.3% YoY in 2QFY21, following decline of ~40% YoY in 1QFY21. This implies a contraction of 27.6% YoY in 1H FY21 (*Exhibit 8*).
- 2) Within receipts, taxes declined 10.8% YoY in 2QFY21 (23.6% YoY in 1H FY21), while non-tax revenue receipts fell by almost half (46% YoY in 1H FY21).
- 3) Total spending by the general government (after adjusting for 'Grants from the Center' to states) declined 10.5% YoY in 2QFY21, marking the worst contraction in a decade and only the second fall since 2011. Also, total spending fell 3% YoY in 1H FY21, marking the first decline in the first half (*Exhibit 8*).
- 4) Interestingly, revenue spending by the general government posted its first decline in a decade of 6% YoY in 2QFY21, and marginal growth of 0.5% YoY in 1H FY21 (*Exhibit 9*).
- 5) Lastly, capital spending (including loans & advances) by the general government posted its third straight decline by one-third in 2QFY21, while decline by almost a quarter was posted in 1H FY21 (*Exhibit 9*). Notably, while this is the first time that capital spending by the central government declined in the past decade (in 1H), states' capex fell 38% YoY in 1H FY21, marking the second decline in the past decade (in 1H).

Exhibit 8: Total spending by the government posted its worst fall in 2QFY21...

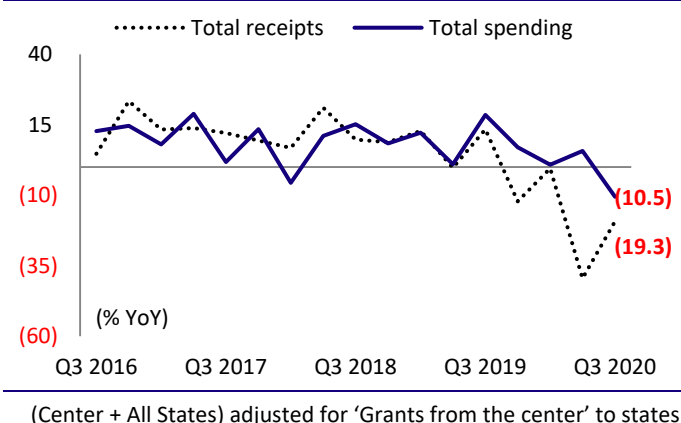
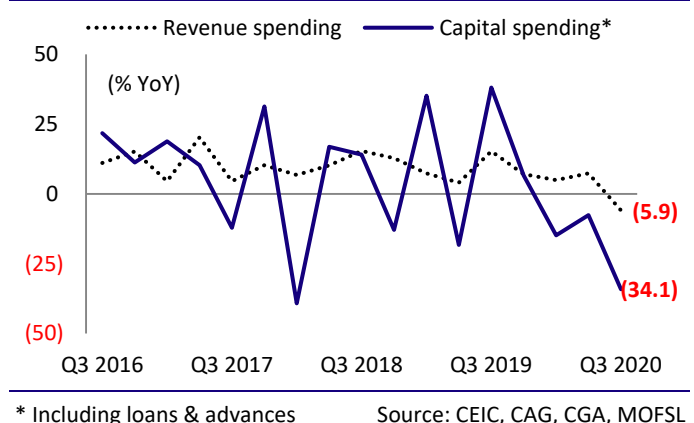


Exhibit 9: ...as revenue spending declined for the first time in a decade



Source: CEIC, CAG, CGA, MOFSL

All in all, with government capex declining sharply, corporate capex likely to have remained weak, and household investments improving in 2QFY21, India's total investments may have declined 15–20% YoY in the quarter, following 47% YoY decline in 1QFY21.

Widening of the fiscal deficit to ~15% of GDP in 1H FY21 is almost entirely on account of a collapse in receipts and a weak GDP

Also, although combined spending by the government contracted by a record 10.5% YoY in 2QFY21 and 2.9% YoY in 1H FY21, widening of the fiscal deficit to ~15% of GDP in 1H FY21 from 8.6% of GDP in 1H FY20 is almost entirely on account of a collapse in receipts (down 28% YoY in 1H FY21) and a weak GDP.

Appendix I

Exhibit 10: Details of fiscal accounts of 15 states and the central government in 2QFY21 v/s 2QFY20

% YoY, unless specified	Total receipts		Total spending		Capital spending		Fiscal deficit (% of receipts)	
	2QFY20	2QFY21	2QFY20	2QFY21	2QFY20	2QFY21	2QFY21	1HFY21
Andhra Pradesh (AP)	33.2	(35.4)	1.4	3.2	(18.4)	(41.9)	91.7	122.8
Chhattisgarh (CT)	(3.0)	(13.5)	5.1	(10.7)	(47.8)	48.4	24.5	26.1
Gujarat (GJ)	9.1	(26.9)	7.2	(0.4)	(25.7)	33.8	38.5	32.3
Haryana (HR)	36.5	(26.5)	49.1	(41.0)	462.3	(129.6)	(1.6)	48.1
Himachal Pradesh (HP)	3.9	(9.4)	14.0	(0.8)	73.2	(47.9)	18.7	7.3
Jharkhand (JH)	5.9	(15.9)	22.1	(15.7)	13.7	(66.5)	14.7	2.9
Karnataka (KA)	18.8	(28.5)	(2.6)	(14.5)	7.9	17.6	23.3	24.6
Kerala (KL)	2.4	(8.8)	5.8	(6.4)	10.1	32.0	42.4	84.5
Madhya Pradesh (MP)	(9.9)	(3.1)	11.0	(13.2)	44.9	(29.0)	27.7	29.8
Odisha (OD)	7.0	(11.8)	19.8	(17.7)	(37.6)	(29.2)	0.2	(2.2)
Rajasthan (RJ)	14.6	(11.5)	5.8	0.5	(13.6)	(15.4)	44.4	59.9
Tamil Nadu (TN)	19.2	(23.0)	27.1	(15.7)	105.3	(35.7)	31.2	46.1
Telangana (TS)	(9.6)	(8.2)	9.9	(6.3)	(29.9)	11.3	35.8	68.4
Uttar Pradesh (UP)	(4.7)	(12.2)	15.2	(17.7)	21.9	(59.5)	14.4	21.3
Uttarakhand (UK)	11.1	(14.0)	18.5	(12.4)	20.3	(27.8)	27.3	10.7
15 states	7.7	(17.9)	11.9	(11.4)	10.2	(30.0)	29.4	39.9
Central government	27.0	(24.8)	28.6	(13.5)	64.6	(37.7)	61.1	161.6
All states*	11.1	(17.9)	15.6	(12.1)	16.4	(30.0)	27.6	35.9
General government#	13.4	(19.3)	18.5	(10.5)	38.1	(34.1)	47.5	97.5

* Based on the share of 15 states

Adjusted for 'Grants from the Center' to states

Exhibit 11: Total receipts by state in 2QFY21 (% YoY)

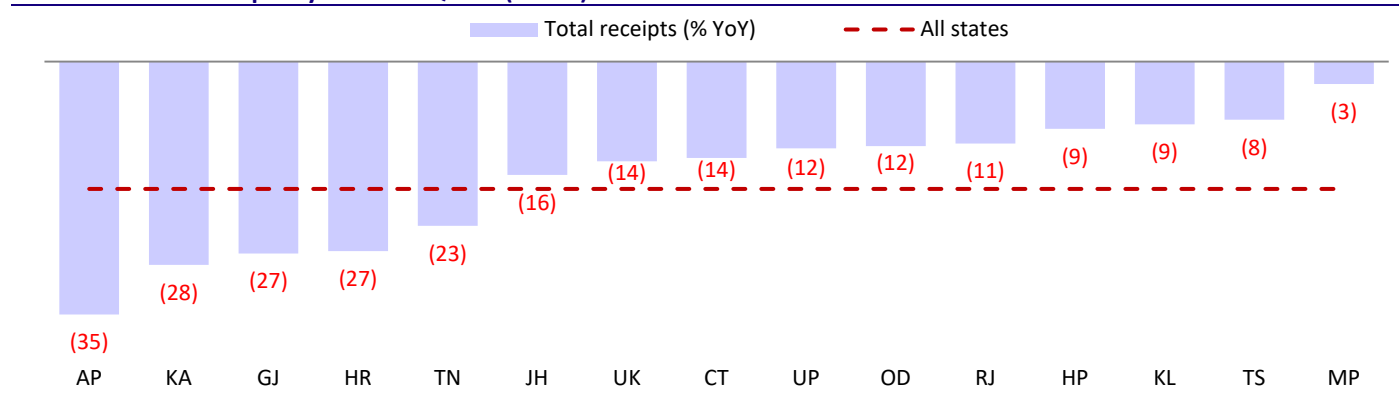


Exhibit 12: Total expenditure by state in 2QFY21 (% YoY)

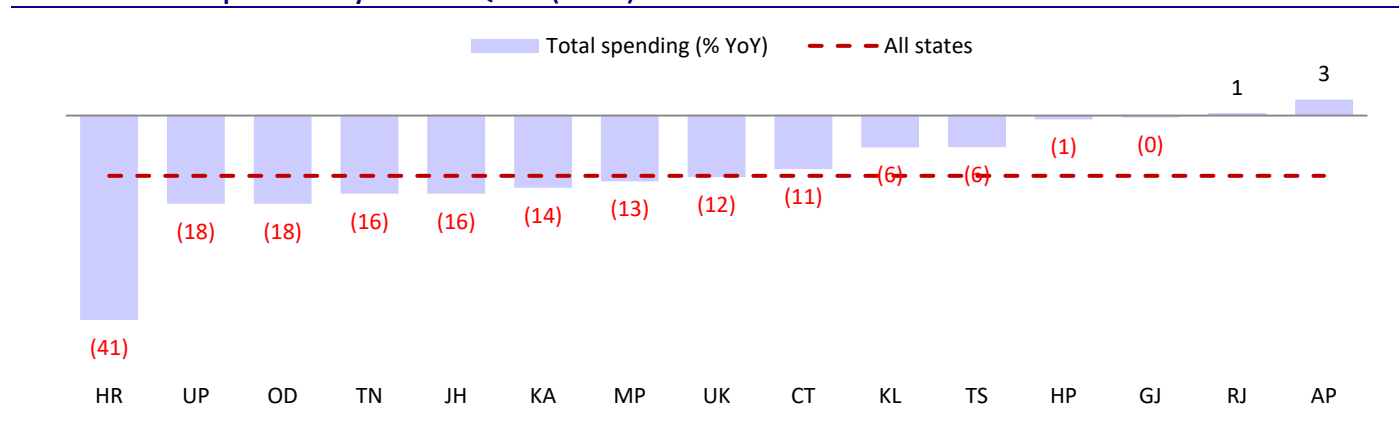


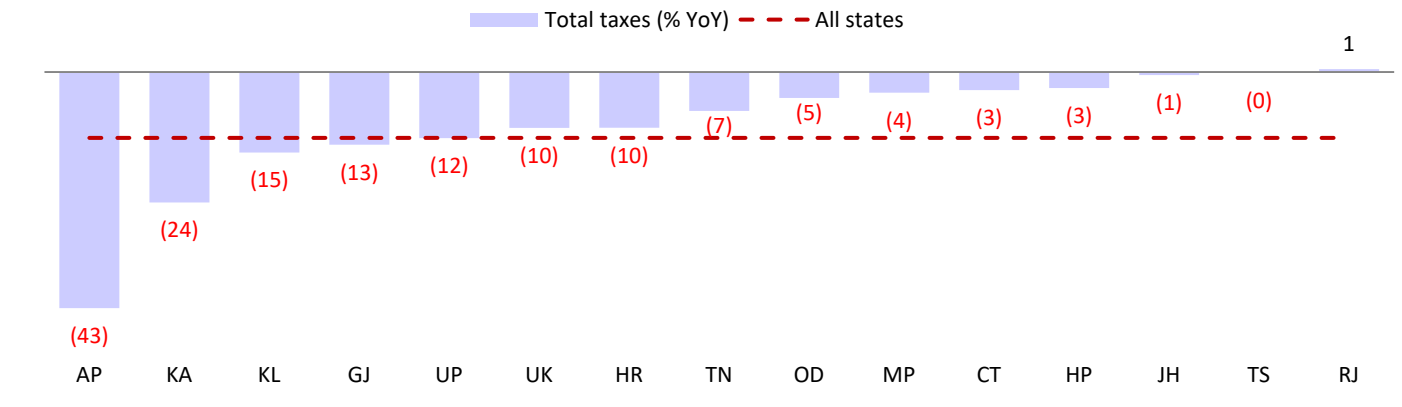
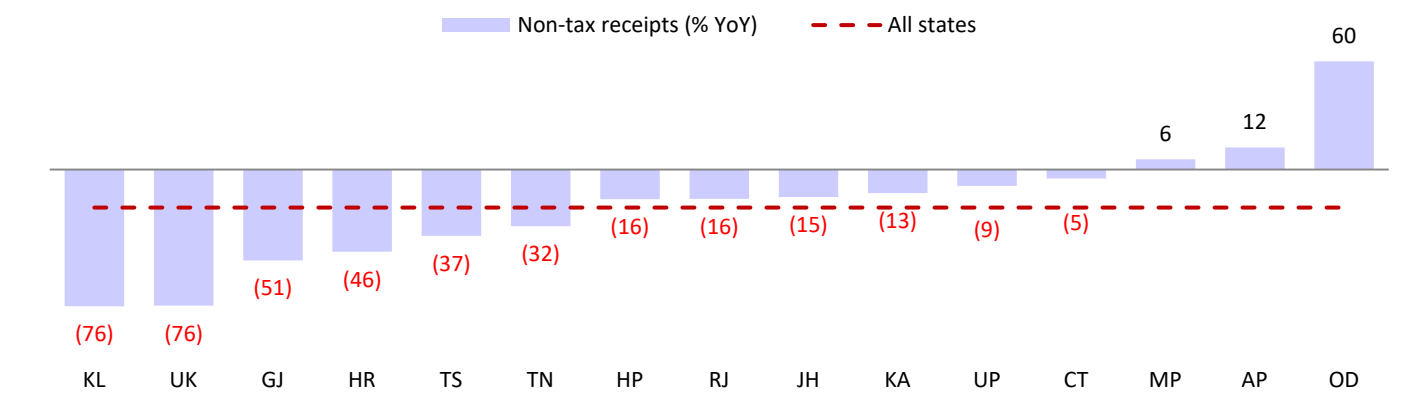
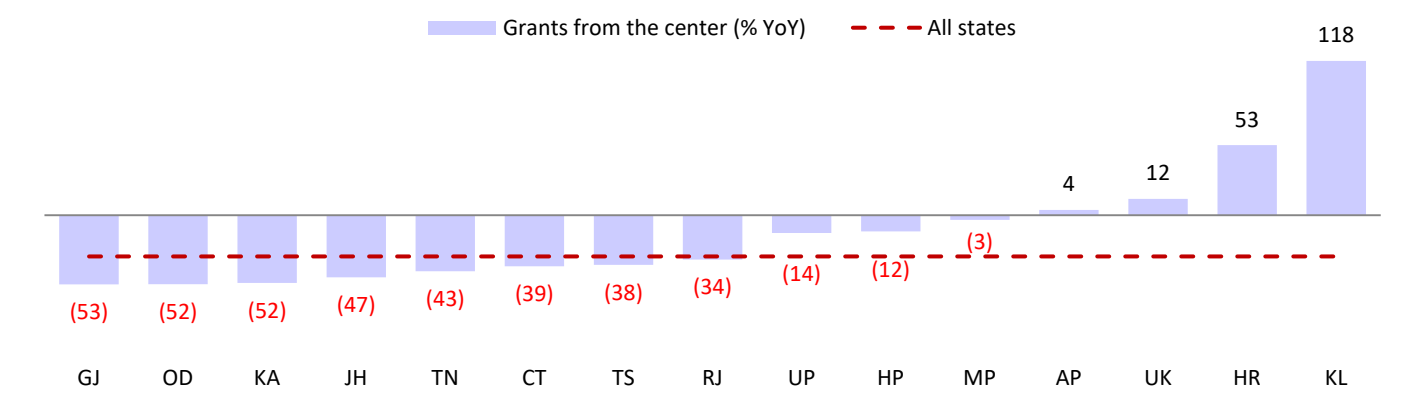
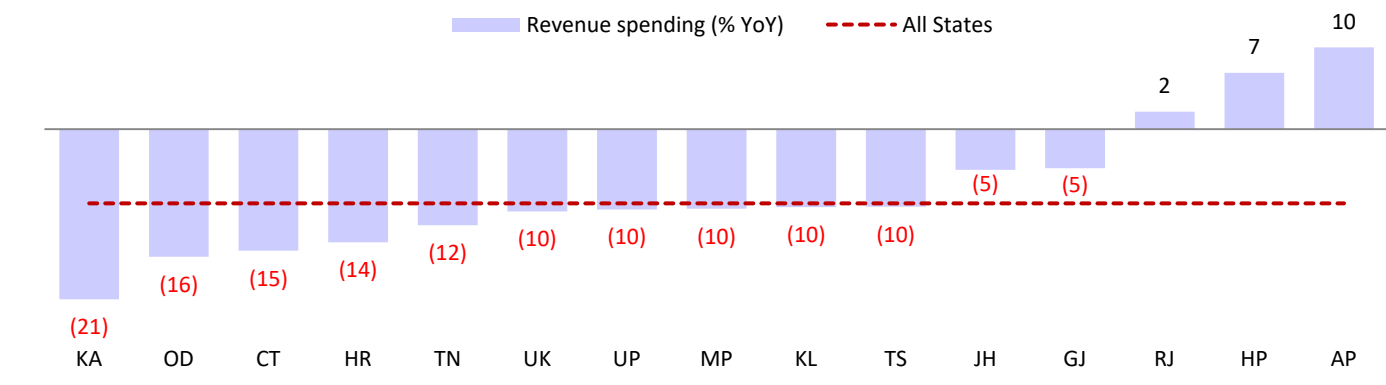
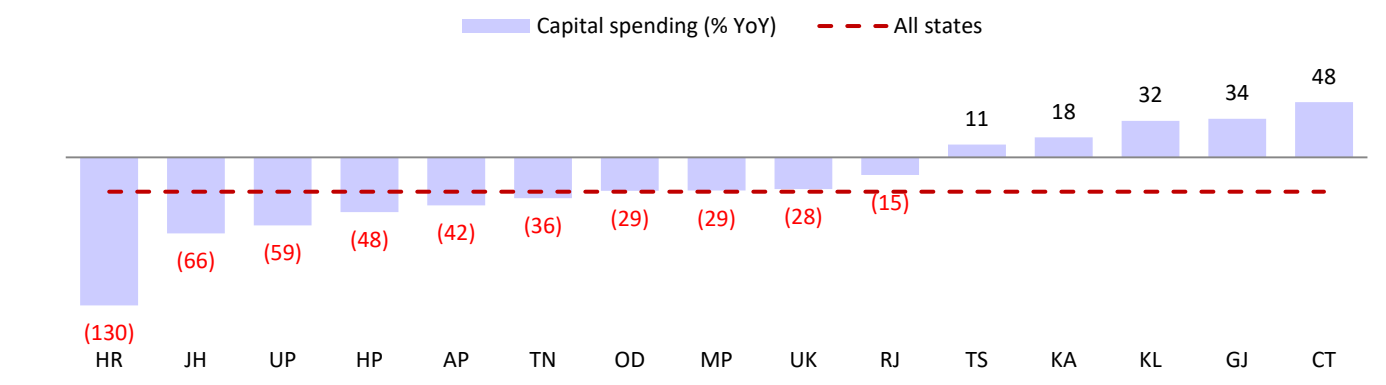
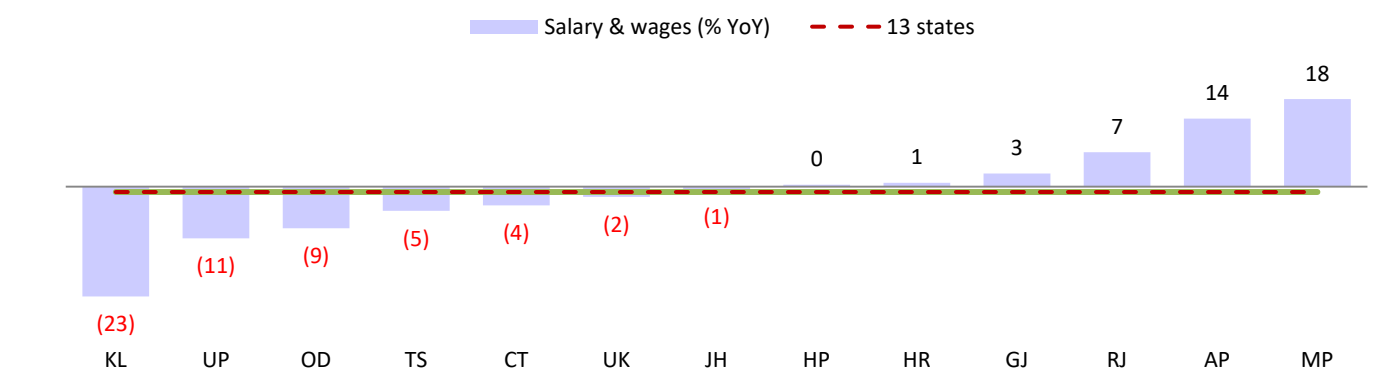
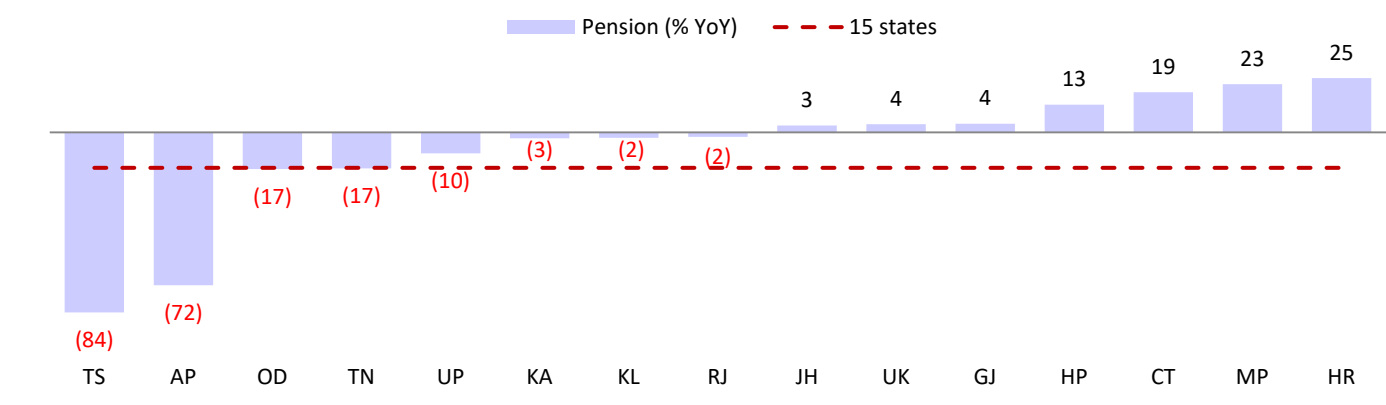
Exhibit 13: Total tax receipts (including devolution) by state in 2QFY21 (% YoY)**Exhibit 14: Non-tax revenue receipts by state in 2QFY21 (% YoY)****Exhibit 15: 'Grants from the Center' by state in 2QFY21 (% YoY)**

Exhibit 16: Revenue spending by state in 2QFY21 (% YoY)**Exhibit 17: Capital spending by state in 2QFY21 (% YoY)****Exhibit 18: Salaries and wages by state in 2QFY21 (% YoY)****Exhibit 19: Pension payments by state in 2QFY21 (% YoY)**

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SELL	< -10%
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