



Economic Research

Maharashtra State Finances





Maharashtra State Budget 2021-22: Focus on Health Infrastructure in Fight Against the Pandemic

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Fiscal Situation of the State: Impact of the Pandemic

The Finance Minister of Maharashtra presented the 2021-22 budget in March, against the backdrop of an ailing economy struck by Covid-19. The economy was slowly getting back to normalcy from the grim of the pandemic, but the second wave of Covid infections, with the emergence of variants and fresh lockdowns again posed risks to a sustained recovery. The sharp surge in the cases causing the need for more spending on health infrastructure and vaccination, additional restrictions on economic activities and constraints on manufacturing activities due to problems in both supply (diversion of inputs such as liquid oxygen from manufacturing) and demand sides are likely to substantially change the fiscal estimates of the state for 2021-22 from those budgeted.

Being the financial hub and the most industrialised state in the country, Maharashtra enjoys a richer financial position than most other states. The average comparable per capita GSDP compiled by the Central Statistical Organisation (CSO) for the Fifteenth Finance Commission (FFC) for the period 2018-19 was Rs 1,94,997, which is higher than the all-state average for non-special category states by 55%. The state's GST revenue collections constitute nearly one fifth of the total GST collections, and as shown in the Report of the FFC, at around 7% the tax-GSDP ratio (the average of 2016-19) is higher than that of non-special category states (6.5%). Its own tax revenue (OTR) buoyancy was leading at 0.99 during 2011-12 to 2018-19 (FFC Report). This indicates the state's potential to generate taxes from its own economic activity.

Covid-19 devastated the economy in 2020-21, and while it was hoped that the recovery will be "V" shaped after the number of cases came down, the sudden surge in the cases threatens to delay the recovery process further. Like in other states, the pandemic had a disastrous effect on Maharashtra's fiscal health. Most importantly, Maharashtra witnessed the maximum number of Covid infections in the first wave, followed by one of the strictest and most prolonged lockdowns. The pandemic situation has disrupted economic activities at large for the most part of the year, particularly in Mumbai, the commercial hub. The new wave has brought in severe uncertainties in the recovery process.

| Fiscal Position of Maharashtra | | | | |
|---|----------------|-------------------------|-------------------------|-------------------------|
| | 2019-20 | 2020-21 (BE) | 2020-21 (RE) | 2021-22 (BE) |
| State's Own Tax Revenue (% of GSDP) | 6.70 | 6.98 | 6.93 | 8.17 |
| State's Own revenue (% of GSDP) | 7.21 | 7.62 | 7.50 | 9.06 |
| State's Revenue Expenditure (% of GSDP) | 10.65 | 11.07 | 12.61 | 12.72 |
| State's Capital Expenditure (% of GSDP) | 2.24 | 2.39 | 3.82 | 3.52 |
| Development Exp as % of GSDP | 7.60 | 8.17 | 9.22 | 9.26 |
| Social Sector Exp as % of Total Exp | 0.35 | 0.36 | 0.34 | 0.34 |
| Interest Payment to total revenue (own Tax+non-Tax) | 0.18 | 0.16 | 0.20 | 0.18 |
| Revenue Deficit (% of GSDP) | -0.61 | -0.29 | -1.73 | -0.34 |
| Fiscal Deficit (% of GSDP) | -1.91 | -1.69 | -3.29 | -2.24 |
| Outstanding liabilities (% of GSDP) | 16.01 | 16.15 | 20.22 | 20.64 |
| RE: Revised Estimates, BE: Budget Estimates | | | | |
| Source: Maharashtra Budget Documents, BWR Research | | | | |

Due to the lockdown and closure of economic activities, the revised estimate of the state's OTR in 2020-21 was lower than the budget estimate by 18% or Rs 40,551 crore, and the tax devolution was lower by Rs 14,366 crore due to lower central tax collections. In fiscal 2020-21, the state government was expected to receive Rs 33,743.27 crore as the net proceeds of union taxes and duties as against the budget estimate of Rs 48,409 crore. The share was reduced by Rs 14,665.7 crore due to lower tax revenue collections of the union government during the pandemic, and the same has been adjusted in 2021-22. In fiscal 2021-22, the state is expected to receive Rs 42,043.60 crore. However, the state has received 22% higher grants in aid from the central government in 2020-21 compared to the previous year, primarily due to Rs 12,055 crore coming from the FFC grants.

The shortfall in the total revenue receipts in the revised estimate from the budgeted estimate was Rs 57,957 crore. As a ratio of the GSDP, the revised estimate of revenue receipts at 10.9% was similar to the budgeted at 10.8%, but higher than the previous year's actual collection by 0.9 percentage point. For 2021-22, the state has estimated the ratio to reach 12.4%, expecting a 27.5% increase in revenue receipts. However, going by the increasing restrictions being imposed due to the surge in Coronavirus cases, the estimate looks optimistic. The contribution of OTR also remained higher at 6.9% in FY21 as per RE, compared to 6.7% in FY20, and is estimated to be 8.2% in FY22.

Despite the highest OTR buoyancy, Maharashtra has witnessed a revenue deficit since 2019-20, and as per the revised estimates, it stands at -1.7% of the GSDP for 2020-21. The state had managed to maintain the fiscal deficit at less than 2% of the GSDP until 2019-20, but in 2020-21, it increased to 3.3%, exceeding the limit set by the FRBM Act, but below the additional borrowing space permitted by the Government of India. Maharashtra availed an additional borrowing facility extended by the Government of India to meet the revenue shortfall and additional expenditure liability due to the pandemic. Yet, the government has tried to contain the fiscal deficit and did not avail of the entire additional borrowing space. Although the debt to GSDP ratio increased to 20.2% in 2020-21 after remaining consistently below 20% for the last few years, this is still well below the prescribed limit of 25%. The state has pegged a higher borrowing in 2021-22 to tide over the economic crisis, and the debt stock is expected to increase to 20.64%.

Despite additional demands for spending to save lives and livelihoods, the state has curtailed its revenue expenditure by Rs 21,292 crore from the budgeted, but estimated to spend Rs 43,537 crore more in 2021-22 than in the previous year. The committed expenditure (salaries, interest payments, and pensions) as a percentage of revenue expenditure is steadily declining. Interestingly, capital expenditure was increased by Rs 24,598 crore in the revised estimate over the budgeted, showing a 31.9% increase.



Enhancing Health Infrastructure is the Top Priority

The state's total expenditure is estimated to grow by 16.2% over 2020-21 (RE). The increase in revenue expenditure is estimated at 12.7%, and capital expenditure is estimated to increase only by 3.5%. The state is dealing with the lack of proper health infrastructure even as the Covid-19 infections are yet to reach the peak, going by the current trend. Health expenditure as a percentage of the Total Revenue Expenditure (TRE) has remained low at 4.5%, much below the national average of 5.3% for 2019-20. This has risen during 2020-21 to 5.4%, as the revised budget for health has risen by 14.5% from the previous year's budget estimates. Despite the acute need for health emergencies, in 2021-22, the state has pegged its spending at 3% less than the previous year, which is 4.4% of the TRE. With the surge in cases, to ramp up the health infrastructure and vaccinate people, considerable additional spending on health will become imperative. Additional spending may also be needed to ensure livelihoods and social security.

How Sustainable are Budget Estimates for 2021-22?

In 2021-22, the tax revenue (own) is estimated to be higher than the 2020-21(RE) by Rs 58,971 crore, which will require 32% growth over the previous year. The estimated tax to GSDP ratio at 8.17% is likely to be the highest in recent years, which is 1.24 percentage points more than the previous fiscal. In the current situation, wherein the state is under the grip of the second wave of the pandemic, these estimates look ambitious. The state is witnessing one of the worst daily increases in the new cases with a very high mortality rate. Many sectors, including hotels, trade, travel and tourism, will take longer to recover, and the adverse impact of the pandemic on economic activity is likely to be worse than expected when the budget was presented.

The fiscal numbers still look to be in a reasonably good position as the state has curtailed its revenue expenditure and has managed with an additional borrowing facility extended by the Government of India. However, the loss of economic activities on the states' GDP is huge. As a consequence of the pandemic, the GSDP in current prices for 2020-21 contracted by 5.6% over the previous year, while as against the BE of 2020-21, the contraction is much severe at 17.4%.

The budget estimates will undergo significant changes due to the surge in coronavirus cases, and the impact on the structure of revenues and expenditures will need to be watched. Overall, the state has managed the fiscal situation reasonably well despite being badly affected by the pandemic and has been able to contain deficits and debt at sustainable levels. It is time to focus on spending more on health infrastructure as states' health expenditure remains much below the national average. According to the FFC report, Maharashtra spends less per capita on drinking water and health as compared to other states, which reflects in relatively poor health indicators of its population. On the other hand, Maharashtra has a significant cash balance and the rich legacy of the highest tax revenue collections. A recent CAG report indicates budget savings of 12% to 14% at the end of each financial year. The state can therefore, clearly invest these resources in initiatives to reduce inter-regional disparities and improve social indicators.



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