CAPEX SHRINKS

States’ tax revenue slipped even before Covid

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Even before Covid-19 hit their finances hard, state governments had faced severe revenue constraints through the second half of the last fiscal. Tax revenues of 14 states — whose budgets were reviewed by FE — grew a meagre 1.9% in the first eleven months of FY20, against 13% a year ago.

To soften the blow to their balance sheets, these states applied the brakes on their capital expenditure (flat growth against 20% growth a year ago), but might still have to report fiscal slippages for FY20.

The combined fiscal deficit of all states was budgeted at 2.6% of GDP in FY20.

Lowering of capex by states has been a drag on the country’s GDP growth in the second half of FY20.

Public capex has been supporting the economy in a major way over the past few years in the absence of strong private support. In recent years, the ratio of public capex has been roughly in the 5.5:5:3.5 ratio among the states (budget), central PSUs and the Centre (budget).

As for the states’ mentioned move, only 58% of the FY20 capex target of ₹3.6 lakh crore was achieved in the first eleven months.

Worse, there was a decline in the Centre’s tax transfers in the final month of FY20, partly due to a huge shortfall in the Centre’s tax receipts but also due to the unpaid GST compensation due to the inadequacy of the relevant cess proceeds.

In April-February of the last fiscal, these 14 states (Tamil Nadu and Maharashtra are the notable exclusions due to unavailability of data) have borrowed ₹2.5 lakh crore or 64% of their annual target, compared with 50% of the relevant target a year ago.

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IN MARCH 2020, all states among themselves borrowed a total of ₹1,16,272 crore through the state development loan auctions, compared with just ₹62,297 crore in March 2019.

Combined tax revenues (own receipts and transfers from the Centre) of the 14 states reviewed were ₹9,69 lakh crore in April-February of FY20, against ₹9,5 lakh crore in the same period of the previous fiscal. These states’ combined budgeted tax revenue target for the last fiscal was ₹13,3 lakh crore (which means only 73% of the annual target was achieved in April-February of 2019-20 compared with 79% of the relevant target a year ago). Though the tax receipts conventionally get a push in March, the April-February gap was too big to bridge. On the contrary, the adverse impact of Covid-19 on revenues in March could have further worsened the finances of the states.

The states’ revenues could suffer massively in FY21 due to lockdown and social distancing to check the spread of coronavirus. At the same time, their expenditure obligations have risen.

Officials from over half a dozen states told FE that their states’ own tax revenues (OTRs) in April were less than a fourth of the usual (estimated) level, with some putting the figure at even 10%. Several state chief ministers have demanded that the FRBM-mandated fiscal deficit ceiling be raised from 3% of GSDP to 5% for FY21 to enable them to borrow more funds. While petitioning the Centre for additional funds to combat the pandemic, many states have front-loaded their borrowings. Some even used more than 90% of the Q1 borrowing window, even disregarding high interest costs.

Even though data for February is not yet available, in the first 10 months of FY20, Maharashtra reported just 3.8% growth in tax revenues while Tamil Nadu’s tax receipts in the period grew by an even lower 1.5%.

The fourteen states whose finances have been reviewed by FE are Uttar Pradesh, West Bengal, Gujarat, Karnataka, Madhya Pradesh, Rajasthan, Kerala, Odisha, Punjab, Chattisgarh, Haryana, Jharkhand, Himachal Pradesh and Nagaland.