Biz in Slow Lane in Key States, Show July Eco Indicators

Guj, Maha, K’taka and TN lag; Rajasthan, MP, UP & U’khand see steady recovery

New Delhi: State-level economic indicators such as goods and service tax (GST) collections and electricity demand show key industrial states such as Gujarat, Maharashtra, Karnataka and Tamil Nadu have seen a slow down of business activity in July from the month before. Only a few states — Rajasthan, Madhya Pradesh, Uttar Pradesh and Uttarakhand — have shown steady recovery from April, when the nationwide lockdown had the biggest economic impact.

Google mobility indicators are, however, up for most of these states in July over June. India imposed a lockdown across the country from March 25. This was eased in stages in May but July saw localised shutdowns due to Covid-19 outbreaks.

Increasing levels of Covid-19 cases across states that have triggered local lockdowns seem to have stymied recovery, stretching their finances as well.

Sharper Decline ▶️ 6
Sharper Decline

July power demand is usually lower than June due to the monsoon advancing across the mainland, but the decline seems to be sharper for many states this year. Combined GST collections of states in the April-July period are 35.5% lower than for the same period last year. Between April and July 2019, states garnered Rs 3.18 lakh crore from GST, which fell to Rs 2.05 lakh crore in the four months ended July 2020. Overall, July revenues are down 14% from a year ago, a slip from a 3% drop in June.

States such as Maharashtra and Tamil Nadu, among the worst affected by the pandemic, are still under more restrictions than other states. They have seen a sharp decline in GST revenues in July over June. Their lower power consumption in July also points to the tempering of economic activity.

Karnataka, which has seen a spike in Covid-19 cases, and Gujarat have also reported lower power consumption and GST collections.

Madhya Pradesh reported a rise in power demand in July and its GST collections in the month were on par with June. High procurement of wheat in the state has transferred income to farmers and seems to have supported consumption. However, other high procurement states such as Punjab and Haryana have reported 10% and 6% lower GST in July compared to June, respectively. In July last year, nationally, power demand was down 4% compared with June. The fall is sharper this year for states such as Maharashtra (9.2%), Karnataka (13.5%) and Tamil Nadu (7.4%), according to data from SBI Research. However, NR Bhanumurthy, vice chancellor of Dr BR Ambedkar School of Economics, Bengaluru, is optimistic. “By August, the economic activities should be at least at par with 2019-20,” he said. “Collections should be positive in some states.” Most of the states that have seen a decline in GST collections have been forced to borrow more to meet spending needs. Karnataka’s market borrowing shot up 500% from the year earlier to Rs 12,000 crore for the current fiscal year till July 28, while for Tamil Nadu, borrowing was up 127% to Rs 35,500 crore in the same period. Haryana’s borrowings doubled to Rs 11,000 crore, while Andhra Pradesh had borrowed about Rs 19,000 crore till July 28 in the current financial year, up 45.3% from the year ago. “The cash flow problem of states is evident from rising borrowings,” said DK Srivastava, chief policy advisor at EY, pointing to the shortfall in GST collections leading to a cash crunch. States have collectively borrowed over Rs 2.14 lakh crore from markets as of July 28, up nearly 65% from the year earlier.

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