States stare at ₹3 L cr revenue shortfall in FY21

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THE Centre must provide urgent financial support to states which are likely to see a decline of ₹3 lakh crore in their tax revenue as only eight states fulfill criteria for availing extended market borrowing, according to SBI Ecowrap.

“The pandemic has created a massive disruption in state finances. The states are likely to witness a decline of ₹3 lakh crore in Own Tax Revenue. A very basic assumption of loss of an entire month’s revenue in components like State VAT, excise, stamps and registration will bring down the revenue for Q1 FY21 at around ₹33,000 crore,” the report said.

It added that besides a dip in revenue share, increased expenditure would further dent the collection taking it up to ₹6.2 lakh crore for major states. “Combining this estimate with the loss in SGST estimate in Q1 shows that major states are going to lose around ₹1.2 lakh crore in the first quarter itself, translating into an annual ₹3 lakh crore loss. We estimate an additional ₹1.5 lakh crore revenue loss from Centre,” it noted.

And even when the centre has increased the borrowing limit, with some riders, only few states will be able to avail this facility. “The centre has decided to accede to the request of the states and increase borrowing limits of states giving extra resources of ₹4,28 lakh crore. Our research suggests that only 8 states are in position to fulfill all the conditions of government and can avail two per cent of GDP as extra borrowing,” the report added.

Offering its solution, the SBI Research said that the Centre has the option to directly transfer the combined full amount of ₹7,800 crore from the State Disaster Response Fund (SDRDF) and National Disaster Response Fund (NDRF). Further, the government may transfer at least half of the remaining ₹2.5 lakh crores through a further hike in Ways and Means Advances limits, supporting additional borrowing of states through Open Market Operations by RBI, and relaxing some of the conditionalities associated with borrowing.