



## STATE GOVERNMENT FINANCES – SEPTEMBER 2020

GST compensation  
requirement of states  
spiked to Rs. 1.5 trillion  
for April-July 2020, half  
of level estimated by  
GoI for FY2021



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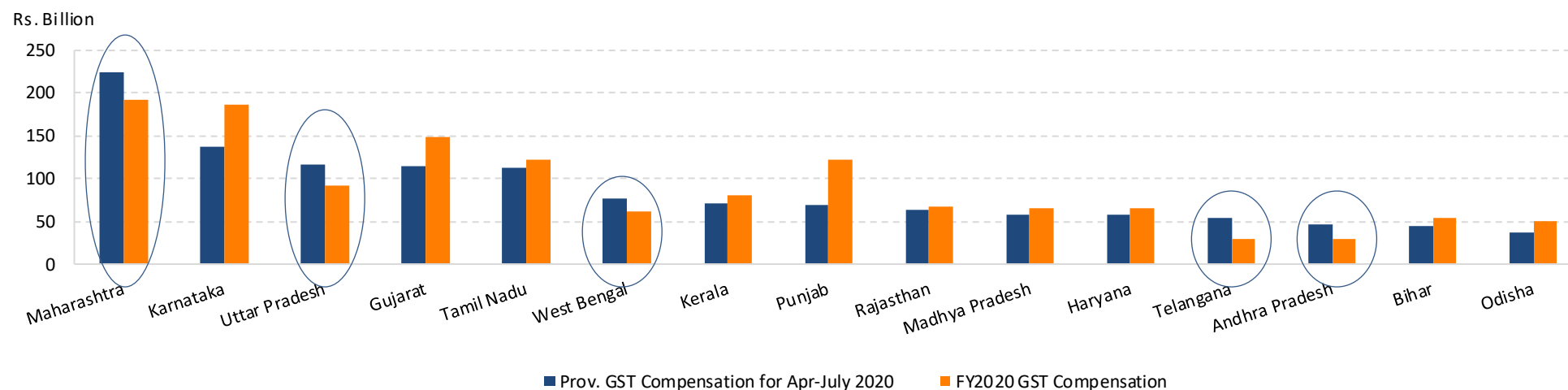
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*The Government of India (GoI) has pegged the provisional Goods and Services Tax (GST) compensation due to the 28 state governments and three Union Territories (UTs) for April-July 2020 at Rs. 1,514 billion, as per the data available on the Lok Sabha' website. The compensation requirement for just these four months is equivalent to nearly 92% of the compensation of Rs. 1,653 billion for the entire previous fiscal year, i.e. FY2020. Moreover, this is as much as half of the GoI's assessment of Rs. 3,000 billion GST compensation requirement of the states for FY2021, implying that the requirement for the balance eight months of FY2021 would be restricted to Rs. 1,486 billion.*

**Exhibit 1: GST compensation requirement for FY2020 and April-July 2020**



Source: Lok Sabha questions; Press Information Bureau (PIB) releases; ICRA research

In this note, we have analysed the trends for the 15 state governments<sup>1</sup> that have been the largest recipients of GST compensation in the recent quarters. In absolute terms, Maharashtra has recorded the highest provisional GST compensation requirement for April-July 2020 at Rs. 225 billion (refer Exhibit 1), followed by Karnataka (Rs. 138 billion), UP (Rs. 117 billion), Gujarat (Rs. 116 billion) and TN (Rs. 113 billion). The provisional GST compensation requirement of WB, Kerala, Punjab, Rajasthan, MP and Haryana is in the range of Rs. 55-80 billion for April-July 2020, while that of Telangana, AP, Bihar and Odisha is lower at Rs. 36-55 billion.

Worryingly, the GST compensation requirement for April-July 2020 for five out of these 15 states, namely, Telangana (177.6%), AP (152.8%), UP (128.7%), WB (125.0%) and Maharashtra (116.9%), exceeds their respective GST compensation for the entire previous fiscal year, i.e. FY2020. Moreover, the provisional GST compensation

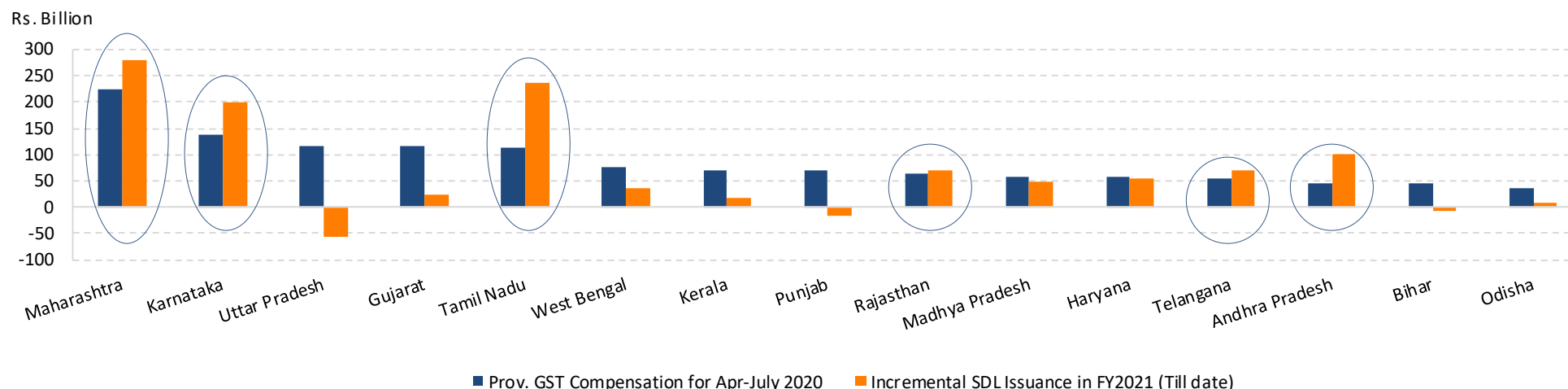
<sup>1</sup> Andhra Pradesh (AP), Bihar, Gujarat, Haryana, Karnataka, Kerala, Madhya Pradesh (MP), Maharashtra, Odisha, Punjab, Rajasthan, Tamil Nadu (TN), Telangana, Uttar Pradesh (UP) and West Bengal (WB).

requirement of Rajasthan (94.1%), TN (91.6%), MP (89.7%), Haryana (88.3%), Kerala (87.3%) and Bihar (82.2%) for April-July 2020, is equivalent to a sizable 85-95% of their respective GST compensation for FY2020.

The provisional GST compensation requirement of Gujarat (78.1%), Karnataka (73.9%) and Odisha (70.9%) for the first four months of FY2021 is between 70-80% of their GST compensation for FY2020. However, the same for Punjab, which was among the largest recipients of the GST compensation in FY2020, stands at a relatively low 57%, the reason for which is unclear at present.

*With the GST compensation for April-July 2020 yet to be released, some of the states with a high compensation requirement for these months have had to resort to a sharp increase in their state development loan (SDL) issuance. The gross SDL issuance of all states and two UTs stood at Rs. 3,124 billion during April-Sept 15, 2020, an increase of Rs. 1,073 billion, from the same period in 2019. This incremental SDL issuance of Rs. 1,073 billion by all states, is equivalent to a large chunk of the unreleased GST compensation requirement for the first four months of FY2021 of Rs. 1,514 billion.*

**Exhibit 2: Provisional GST compensation requirement for April-July 2020 and increase in SDL issuance during April-September 15, 2020 from year ago levels**



Source: Reserve Bank of India (RBI); ICRA research

For instance, the SDL issuance of Maharashtra, TN, Karnataka and AP during April-Sept 15, 2020 was Rs. 280 billion, Rs. 238 billion, Rs. 200 billion and Rs. 102 billion, respectively, higher than the level in April-Sept 15, 2019 (refer Exhibit 2); the incremental gross SDLs issued by these states appreciably exceeded their provisional GST compensation requirement for April-July 2020. Moreover, the increase in SDL issuance by Telangana (by Rs. 72 billion) and Rajasthan (by Rs. 71 billion) during April-

Sept 15, 2020 from the year ago levels, was modestly higher than their provisional GST compensation requirement for April-July 2020 (by Rs. 17 billion and Rs. 8 billion, respectively).

The incremental SDL issuance by the remaining nine states in our sub-set during April-Sept 15, 2020, trailed their provisional GST compensation requirement for April-July 2020. In particular, the SDLs issued by UP (Rs. 95 billion vs Rs. 150 billion), Punjab (Rs. 100 billion vs Rs. 116 billion) and Bihar (Rs. 100 billion vs Rs. 106 billion) during April-Sept 15, 2020 were lower than their SDL issuance in the same period of the last fiscal, even as their provisional GST compensation requirement is pegged at Rs. 117 billion, Rs. 70 billion and Rs. 45 billion, respectively, during April-July 2020. Notably, based on the recommendations of the Fifteenth Finance Commission (15th FC), the GoI has released Rs. 38 billion (out of the total of Rs. 77 billion) as revenue deficit grant<sup>2</sup> to Punjab till September 10, 2020 (source: various press releases of the Ministry of Finance), which could have helped to curtail its SDL issuance in FY2021 so far.

The incremental SDL issuance by WB (by Rs. 35 billion) and Kerala (by Rs. 16 billion) during April-Sept 15, 2020 was modest compared to their provisional GST compensation requirement for April-July 2020. Similar to Punjab, Kerala and WB have received Rs. 77 billion and Rs. 25 billion, respectively, as revenue deficit grants from the GoI (till September 10, 2020) out of the total Rs. 153 billion and Rs. 50 billion, respectively, recommended by the 15<sup>th</sup> FC for these two states for FY2021.

The incremental SDL issuance of Haryana, MP, Gujarat and Odisha during April-Sept 15, 2020 over the year-ago levels, stood at Rs. 10-55 billion, which is lower than their provisional GST compensation requirement for April-July 2020.

*After all the state governments communicate which of the two options for borrowing in FY2021 (put forth recently by the GoI) for bridging the gap between the GST compensation requirement and cess collections<sup>3</sup>, they would be choosing, the SDL supply could rise appreciably in the coming months. However, it is unclear if all state governments are likely to submit their final borrowing choice to the GoI before the indicative borrowing calendar of state governments for Q3 FY2021 is finalised and announced by the RBI, by end-September 2020.*

<sup>2</sup> The 15th FC recommended Rs. 743 billion as revenue deficit grants to be provided by the GoI to 14 states in FY2021. This sub-set includes five of the 15 states included in this note, namely, AP (Rs. 59 billion), Kerala (Rs. 153 billion), Punjab (Rs. 77 billion), TN (Rs. 40 billion) and WB (Rs. 50 billion).

<sup>3</sup> Refer to ICRA's publication, [Additional borrowings for states proposed by GoI for FY2021 inadequate to cover expected shortfalls in GST compensation and Central tax devolution](#), published in September 2020





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