

## **COVID-19 shock persists on State's finances**

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COVID-19 pandemic lockdown had a catastrophic impact on the already slowing Kerala economy due to demonetisation and two successive floods with adverse impact on people's livelihoods. This in turn has severely affected the state finances of Kerala. There is a whopping increase of 112.9 per cent in the fiscal deficit of the state and the condition may worsen unless there is timely disbursement of central transfers and GST compensation.

### **State finance in Kerala from April to July 2020**

The position of the state's public finances during April-July 2020 period compared to the same period in 2019 is presented in Table 1. Revenue receipts registered a negative growth of 15.6 per cent during the period compared to the same period of 2019. In the case of own non tax revenue, there is a sharp fall in growth rate (79.3 per cent) in July 2020. It is imperative to note that the revenue from the state's own non tax sources was only Rs. 581.8 crore compared to 2808.3 crore in 2019 with a shortage of Rs 2226.5 crore. This could be mainly due to the fall in revenue from lottery. However, the total non tax revenue registered a positive growth of 72.5 per cent on account of the increase in grants in aid (mainly the Revenue deficit grants as per the 15th FC's interim award) from the Centre. Though, revenue receipts have shown a negative growth of 15.6 per cent up to July 2020, the revenue expenditure registered a positive growth of 7.6 per cent. It is important to note that the expenditure on subsidies increased 36.3 per cent during the pandemic period, all pointers to the State's efforts to ensure a social safety net for its citizens.

## Deficit position

The adverse fiscal status of a State is usually reflected on the deficit position. The recorded revenue deficit has been Rs. 17,615 crore for April-July 2020 with a hike of Rs 6383.4 crore compared to the same period in 2019. The recorded growth was as high as 57 per cent. The fiscal deficit, however, registered a lower growth of only 52.5 per cent. This clearly indicates the increase in the borrowing and other liabilities. On the liability side there has been a whopping increase of 52.5 per cent.

**Table 1.** State finance in Kerala: April-July 2020 over April-July 2019 (Rs. in Crore)

Sl. No.	Description	April- July 2020	April-July 2019	Revenue Difference	Growth rate (Percent)
1	Revenue receipts (a+b)	20091.1	23800.4	-3709.4	-15.6
a)	Tax revenue	12071.8	19240.4	7168.7	-37.3
b)	Non-tax revenue	8019.3	4650	3369.3	72.5
2	Capital receipts	21559.1	14509.4	7049.7	48.6
2a	Borrowings & other liabilities	21489	14088.9	7400.1	52.5
3	Total receipts (1+2)	41650.2	38309.8	3340.3	8.7
4	Revenue expenditure	37706.2	35032.2	2674	7.6
4(a)	Expenditure on interest payment	4924.5	4597.2	327.4	7.1
4(b)	Expenditure on salaries and wages	8910.9	11661.6	-2750.7	-23.6
4(c)	Expenditure on pension	5810.3	6916.7	-1106.4	-16
4(d)	Expenditure on Subsidy	803.8	589.5	214.3	36.3
5	Capital expenditure	3068.1	2788.6	279.5	10
5(a)	Expenditure on capital account	3040.9	2750	290.9	10.6
6	Sector wise expenditure*	38246.3	36306.1	1940.2	5.3
7	Total expenditure (4+5)	40774.3	37920.8	2853.5	7.5
8	Revenue surplus (+)/deficit(-)(1-4)	-17615	-11231.7	-6383.4	56.8
9	Fiscal surplus/deficit	-21489	-14088.9	-7400.1	52.5
10	Primary deficit (9-4a)	-16564	-9491.8	-7072.7	74.5

\*Sector wise expenditure include general, Social, Economic sectors and Grants-in-aid-contributions

Source: Computed from C&AG Data

## State's own tax revenue

The COVID-19 pandemic had its adverse impact on the tax revenue collection of the State. Tax revenue registered a southward growth of 37.3 per cent during April-July 2020 compared to the same months of 2019 (Table 2). All the components of tax revenue showed a declining

trend with GST collection contracting to Rs. 4779.3 crore from Rs. 7342.1 crore. A concomitant slump in revenue is also evident in the share of central taxes during the same period (Table 2).

**Table 2.** Tax revenue in Kerala April-July 2020 over April-July 2019 (Rs. in Crore)

Sl. No.	Description	April- July 2020	April-July 2019	Revenue Difference	Growth rate (Percent)
1	Goods and Service Tax(SGST)	4779.3	7342.1	-2562.9	-34.9
2	Taxes on sales, Trade etc	3084.6	5724.4	-2639.8	-46.1
3	Stamps and registration fees	633.5	1173.6	-540.2	-46
4	Land revenue	142.1	109.8	32.3	29.4
5	State excise duties	576.7	756.9	-180.2	-23.8
6	Other taxes and duties	581.7	1341.8	-760	-56.6
7	State's share of Union taxes	2273.9	2791.8	-517.9	-18.6
8	Total Tax revenue	12071.8	19240.4	-7168.7	-37.3

Source: Computed from C&AG Data

### Tamil Nadu compared

It is contextual to analyse the state of our state finance with the neighbouring state that accounts for about one third of the Rs 1.5 trillion worth of goods we import from other states (Sushil Khanna, 2020). The quarterly comparison of State finance of Kerala and Tami Nadu is presented in Table 3.

**Table 3.** State finance in Kerala and Tamil Nadu April-June, 2020 over 2019 (Rs. in Crore)

Sl. No.	Description	Recorded difference in Kerala	Growth rate in Kerala (Percent)	Recorded difference in TN	Growth rate in TN (Percent)
1	Revenue receipts (a+b)	-5715	-30	-8838.5	-23.2
a)	Tax revenue	-8008.6	-51.5	-14368.8	-46.3
b)	Non tax revenue	2293.6	65.5	5530.3	79.1
2	Capital receipts	10570.6	112.1	9013.1	87.1
2a	Borrowings & other liabilities	10578.6	112.9	9075.4	89.4
3	Total receipts (1+2)	4855.6	17.1	154.6	0.3
4	Revenue expenditure	4162.3	15.9	1095.6	2.4

Sl. No.	Description	Recorded difference in Kerala	Growth rate in Kerala (Percent)	Recorded difference in TN	Growth rate in TN (Percent)
4(a)	Expenditure on interest payment	173.6	4.9	1026.1	15.9
4(b)	Expenditure on salaries and wages	-1976.7	-22.3	NA	NA
4(c)	Expenditure on pension	-908.7	-17.8	-624.9	-7.2
4(d)	Expenditure on subsidy	321	66.7	NA	NA
5	Capital expenditure	429.5	21.8	-1089.9	-36.8
5(a)	Expenditure on capital account	439.2	22.7	-1089.9	-36.8
6	Sector wise expenditure*	3454.4	12.7	5.6	0.01
7	Total expenditure (4+5)	4591.8	16.3	5.6	0.01
8	Revenue surplus(+)/deficit(-)(1-4)	-9877.3	-138.9	-9934.1	-135.4
9	Fiscal surplus/deficit	-10578.6	-112.9	-9075.4	-89.4
10	Primary deficit (9-4a)	-10404.9	-177.7	-8049.4	-215.9

\*Sector wise expenditure include general, Social, Economic sectors and Grants-in-aid-contributions

Source: Computed from C&AG Data

It is evident from table 3 that the total revenue receipts recorded a negative growth of 30 per cent and 23.2 per cent in Kerala and Tamil Nadu respectively. For Tamil Nadu the revenue receipts dropped by Rs 8838 crore in absolute terms indicating a - 23.2 per cent growth during the first quarter. The drop in revenue was Rs.5715 crore in the case of Kerala indicating a higher decline (30%) than Tamil Nadu. As a result, a sharp increase in the borrowing was recorded in both states; the recorded growth however, being higher in Kerala (112%) as compared to Tamil Nadu (89%).

Tax revenue in Tamil Nadu declined by 46 per cent while the corresponding decline was 51.5 per cent in Kerala during the first quarter of 2020-21. Non tax revenue registered a positive growth of 65.5 per cent and 79.1 per cent in Kerala and Tamil Nadu respectively. This could be due to the increase in grants in aid and other contributions from Central government.

Revenue expenditure growth in Kerala was around 16 per cent wherein Tamil Nadu it registered a growth rate of only 2.4 per cent. This clearly indicates Kerala's proactive interventions to save the lives and livelihood of people. The former through increased expenditure on health and the latter getting manifested in expenditure for social protection though enhanced pension and other means. Expenditure on interest payment increased 16 per cent in the case of Tamil Nadu where as in Kerala this went up by 4.9 per cent. It is also

important to note that Kerala's capital expenditure increased to 21.8 per cent while in the case of Tamil Nadu this declined sharply by 36.8 per cent.

Growth in revenue deficit has been 135.4 per cent in Tamil Nadu, marginally lower when compared to Kerala (138.9 per cent). Similar pattern was observed in the case of fiscal deficit, which recorded a growth of 89.4 per cent in Tamil Nadu and 113 per cent for Kerala. The mobilisation of own revenue has become a burning issue for both the States during the pandemic period. The hike in revenue deficit, fiscal deficit and the corresponding increase in borrowing are the common characteristics of State finance of both the States during the COVID-19 pandemic period.

### State's own tax revenue: Kerala and Tamil Nadu

The State's own tax revenue showed a negative growth of 51.5 per cent and 46.3 per cent in Kerala and Tamil Nadu respectively (Table 4). The major component of state's own tax revenue, SGST revenue has fallen by 54.7 per cent in Kerala where as in Tamil Nadu the decline was 45.2 per cent. It is evident from table 4 that all the components of tax revenue showed a negative growth except for land revenue in both Kerala and Tamil Nadu.

Table 4. Tax revenue in Kerala and Tamil Nadu 2020 over 2019 [April to June] (Rs. in Crore)

Sl. No.	Description	Difference in Q1 in 2020 over 2019 in Kerala	Growth rate in 2020 over 2019 in Kerala (%)	Difference in Q1 in 2020 over 2019 in TN	Growth rate in 2020 over 2019 in TN (%)
1	Goods and Service Tax(SGST)	-3606.3	-54.7	-4091.5	-45.2
2	Taxes on Sales, Trade etc	-2531.1	-61.3	-4912.2	-50.9
3	Stamps and Registration Fees	-421.9	-50.2	-1609.9	-61.6
4	Land Revenue	22.5	28.3	3.6	22.9
5	State Excise Duties	-194.5	-34.2	-634.9	-38.03
6	Other Taxes and Duties	-628.7	-64.5	-1590.8	-76.4
7	State's share of Union Taxes	-648.6	-27.6	-1533	-25.6
8	Total Tax Revenue(Quarter 1)	-8008.6	-51.5	-14368.8	-46.3

Source: Computed from C&AG Data

### Reference:

Sushil Khanna (2020), Kerala Economy: Through the lens of GST data, Kerala Economy, September 2020, GIFT, Thiruvananthapuram.