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Catastrophic fall in India's GDP in Q1, 2020-21

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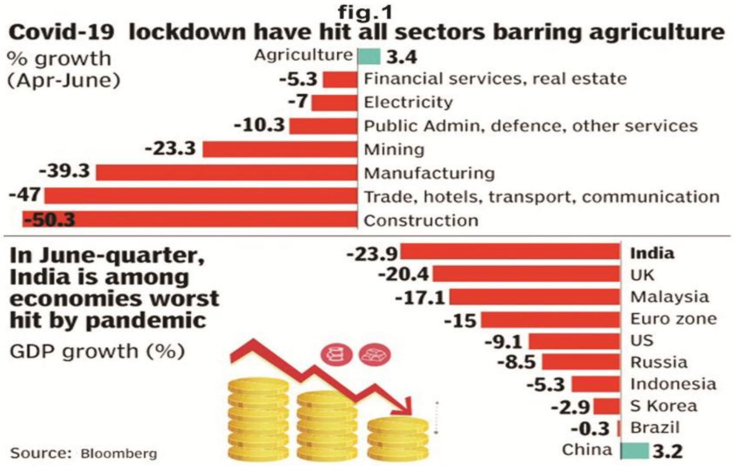
Gross Domestic Product [GDP] at constant (2011-12) prices reports a contraction of 23.9 percent during Q1 of the current financial year, compared to 5.2 percent growth recorded in the corresponding quarter of 2019-20. In April-June period, it suffered a contraction for the first time since India began maintaining quarterly records in 1996.This steep fall is also against a growth of 3.1 per cent in Q4 [January - March] of FY 2019-20.

With this record of GDP growth during Q1, 2020-21 India became the fastest shrinking economy among the G-20 countries (Fig.1).

fig.1



GDP in Q1 is estimated at Rs 26.9 lakh crore, as against Rs 35.4 lakh crore in Q1 of 2019-20. The largest dip has been observed in sectors like construction (50.3%) and trade, hotels, transport etc (47.0%) and manufacturing (39.3%). The impact on income has resulted in catastrophic fall in private final consumption expenditure (27%), gross fixed capital formation (47%) and imports (40%) which will have serious consequences on the central and state tax mobilisation. The only silver line is the moderate rise in government final consumption expenditure of 16 per cent.

According to a press release issued by the National Statistical Office (NSO), under the Ministry of Statistics and Programme Implementation (MOSPI), quarterly GVA at Basic Price at constant (2011-12) prices for Q1 of 2020-21 is estimated at Rs 25.5 lakh crore, as against Rs 33.1 lakh crore in Q1 of 2019-20, showing a contraction of 22.8 percent. GDP at current prices in Q1 is estimated at Rs 38.1 lakh crore, as against Rs 49.2 lakh crore in Q1 2019-20, showing a contraction of 22.6 percent as compared to 8.1 percent growth in Q1 2019-20. GVA at basic price at current prices in Q1 2020-21,is estimated at Rs. 35.7 lakh crore, as against Rs. 44.9 lakh crore in Q1 2019-20, showing a contraction of 20.6 percent.

With a view to contain spread of the COVID-19 pandemic, restrictions were imposed on the economic activities as also on the movement of people from 25th March, 2020. Though the restrictions have been gradually lifted, there has been an impact on the economic activities as well as on the data collection mechanisms. The timelines for filing statutory returns were also extended by most regulatory bodies. In these circumstances, the usual data sources were substituted by alternatives like GST, interactions with professional bodies etc. and which were clearly limited, the official press release added.

The data challenges in the case of other underlying macro-economic indicators like IIP and CPI, used in the estimation of national accounts aggregates, will also have implications on these estimates. Estimates are therefore likely to undergo revisions for the aforesaid causes in due course, as per the release calendar. NSO informed that the release of quarterly GDP estimates for the quarter July-September, 2020 (Q2 of 2020- 21) will be on 27th November, 2020.

Goods and Services Tax [GST] revenue slumped to a three-month low in August 2020 and came in 12 per cent lower year-on-year (YoY), indicating slower recovery in economic activity. However, compensation cess collections rose for the first time in five months, and 6 per cent YoY, amid the tussle between the Centre and States.

The overall GST mop-up remained well below the Rs 1 trillion mark for the sixth straight month owing to the pandemic. GST collection stood at Rs 86,449 crore in August, compared to Rs 87,422 crore in July, according to finance ministry data. A large portion of the fall could be attributed to imports, which were down 23 per cent YoY, while domestic transactions were down just 8 per cent YoY. During the month, revenues from imports were at 77 per cent and revenues from domestic transactions (including import of services) at 92 per cent of revenues from these sources during the same month last year, a ministry of finance press release said.

However, in July, revenue from domestic transactions had touched 96 per cent of last year's levels, with imports at 84 per cent of the same. Central GST collections fell to Rs 34,122 crore in August, against Rs 39,467 crore in July. State GST collections stood at Rs 35,714 crore, lower than Rs 40,256 crore during the previous month. Integrated GST mop-up was also lower at Rs 42,264 crore, compared to Rs 42,592 crore in the previous month. Compensation cess came in at Rs 7215 crore in August - 5.7 per cent higher than the Rs 6,822 crore in August 2019. In order to improve collections, the government is planning more anti-evasion measures, including e-invoicing for large firms with turnover of Rs 500 crore, from October 1.

States reject compromise formula on GST compensation, Dr Thomas Isaac demands the Centre to monetize from RBI

The ongoing tussle between the Centre and the state governments over GST compensation issue, is brewing further as a section of the State Ministers strongly opposing the package proposed by the Union Finance Ministry.

Last week, the Centre floated a compromise formula, asking states to either borrow Rs 97,000 crore, the shortfall estimated out of the loss of revenue due to the GST implementation from the Reserve Bank of India or to take Rs 2.35 trillion (the overall shortfall estimated due to the GST implementation and COVID-19 impact) from the market under different terms. But the central government is going back from this statutory obligation and asking the states to find the remedy themselves despite the worsening financial situation of the states due to the devastating effect of COVID-19. Most of the state governments including BJP lead have raised clear dissent on this. Five state finance ministers lead by Kerala minister Dr T M Thomas Isaac, who met virtually had posed pack of dissents and urged the Centre for the timely disbursement of GST compensation which is very crucial in running states' economy.

In an interview with a national medium, Dr Isaac said that all states that spoke at the GST Council, except Goa and Assam, expected full compensation, and that, too, borrowed and provided by the central government. The BJP-ruled states put it mildly, but the other states said the same sharply. "We are going to take a united stand that we reject both the options. We are writing to all chief ministers and the Prime Minister. All states prepared their budget factoring 14 per cent growth in GST. Now, the Central government is telling us, you cut your state budget by Rs 1 trillion".

He added that the Centre's formula is unacceptable. The reason being that the constitution does not distinguish between shortfall due to COVID- 19 or other factors. In fact, it is evident in Section 7 of GST Act (which defines how loss due to implementation of GST is calculated); it simply says projected income by 14 per cent growth minus actual collection. So the law is crystal clear. If states are to borrow, the FRBM Act has to be amended. The compensation each state requires is different from that of another. North-Eastern states are surplus states, while there are states that have seen about 40 per cent shortfall in revenue.

He also said that, whenever there is a surplus, as was the case in the first two years in the cess fund, it goes to the consolidated fund of India. Undistributed IGST goes to the same fund. So if there is a deficit, you should make use of the Consolidated Fund. If the state governments borrow, their fiscal deficit will go up. But the Centre can monetize it from the Reserve Bank. Every country in the world is monetizing it with their central banks, Issac added.

With GST compensation, emerging as a contentious issue, the discourse on centre - state relations are receiving yet another dimension, this may be the biggest threat to fiscal federalism. "We will fight to the end" Kerala FM said.