Macro-Economic Impact of Covid-19 on the economy of Indian States: What the analysis of the Chhattisgarh economy tells us

SHORT REPORT[1]

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This short report is third of the five-webinar series conducted by Centre for Budget and Policy Studies on Impact of Covid 19 on children, livelihoods, economy and education including the response mechanisms adopted for the same.

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List of Abbreviations

BLP	Bank Linkage Programme
CAGR	Compounded Annual Growth Rate
C-D Ratio	Credit-Deposit Ratio
CDI	Child Development Index
CMIE	Centre for Monitoring of Indian Economy
CSO	Central Statistical Office
CSS	Centrally Sponsored Schemes
DAY	Deen Dayal Antyodaya
FC	Finance Commission
FRBM	Fiscal Responsibility and Budget Management
FY	Financial Year
GDP	Gross Domestic Product
GIA	Grants-in-Aid
GoC	Government of Chhattisgarh
GoI	Government of India
GSDP	Gross State Domestic Product
GST	Goods and Services Tax
GVA	Gross Value Added
ICU	Intensive Care Unit
IT	Information Technology
ITeS	Information Technology enabled Services
LMMH	List of Major and Minor Heads
MGNREGA	Mahatma Gandhi National Rural Employment Guarantee Act
MOSPI	Ministry of Statistics and Programme Implementation
MSME	Micro, Small and Medium Enterprises
NRLM	National Rural Livelihoods Mission
OBC	Other Backward Castes

PMMY	Pradhan Mantri Mudra Yojana
PPP	Public Private Partnership
RBI	Reserve Bank of India
RF	Revolving Funds
RGKNY	Rajiv Gandhi Kisan Nyay Yojana
RR	Revenue Receipts
SC/ST	Scheduled Castes/Scheduled Tribes
SGST	State Goods and Services Tax
SHG	Self Help Group
SME	Small and Medium Enterprises

Macro-Economic Impact of Covid-19 on the economy of Indian States: What the analysis of the Chhattisgarh economy tells us

1. Union Government Budget 2022-23 and its implications on revenues of states

The Covid-19 crisis has impacted the growth of world economy severely and India is no exception. India's Gross Domestic Product (GDP) for 2020-21, published by National Statistical Office (NSO), registered a contraction of 7.3% from the corresponding figure for the previous year, 2019-20. While the overall impact on the economy is negative, the Covid-19 pandemic and induced lockdown also exhibited a differential impact on different sectors, with the more severe impact being seen in the services and manufacturing sectors, at 16% and 7.2% respectively. The agriculture sector was the only exception recording a 3.4% positive growth. Thus, the structure (relative presence of agriculture, manufacturing, and service sectors) of the economy of a state can be one of the determining factors in the extent of economic losses suffered by the state and, this needs to be considered while assessing the economic impact of Covid-19. These contractions in the economic activities are sure to have additional burden on fiscal health of the union government as well as that of the state governments.

The union budget at 39.4 lakh crore has been very conservative in terms of its revenue projections thereby the scope of expanding the expenditure has reduced significantly. Despite the revised estimations for tax collections for the current year 2021-22 is 3 lakh crore (25.16 lakh crore) more than the budget estimates (22.17 lakh crore), the tax collections for 2022-23 is pegged only at 27.58 lakh crore. The likely increase in tax collections for 2021-22 would be about 24.12 % over the previous year 2020-21. Compared to this growth, the projected growth rate for tax collections for the year 2022-23 is about 9.6 percent which seems to be very low.

1. The cesses and surcharges which do not form part of the divisible pool amounted to about 22.6% of the tax collections for the year 2021-22 and is projected to be at 19.4% for the year 2022-23 which is a big amount that will not get shared with the states.
2. The total expenditure as a proportion of GDP has reduced from 16.2 % in 2021-22 to 15.3% in 2022-23. Expenditure reduction of about 1 percent of GDP can have significant impact on the expenditure of schemes, capex and others.

3. The expenditure on important centrally sponsored schemes such as Samagra Shiksha, Mid-day meals, National Health Mission, MGNREGS have seen a very mild increase compared to 2019-20 which would become no increase in effect due to inflation. Even the low increase in the allocation of these schemes will largely be of the personnel expenditure component rather than the program expenditure. States which have plans to expand the reach or coverage will be forced to spend on their own which is very difficult during these times of high fiscal stress.
4. Dr P T R Thiagarajan reflecting on the union budget 2022-23[2] referred to the interest free loan proposed at 1 lakh crore for states as the amount made available by squeezing the revenue expenditure on several important CSS. He also indicated that the capex increase would mean very little unless it is accompanied by capital infrastructure projects.

The Government of India could have done the heavy lifting of the fiscal stress by borrowing for itself (and not for the states) and provided the much-needed impetus to enhance the demand through increased expenditure on PDS, direct cash transfer to affected population, increase capex and build physical and social infrastructure. GOI could also have ignored FRBM and monetised debt as per requirement. Instead, states were left to address multiple challenges of increased debt repayment, maintaining fiscal deficit, increasing the capex along with the increasing revenue expenditure through development schemes to mitigate the pandemic. All of these collectively have rendered the states' economic recovery a very uphill task.

In this short report we present an abridged version of our study on the macro economic impact of Covid 19 on Chhattisgarh's economy and then try to extend that understanding to arrive at a few implications for other states as well. While the analysis was undertaken for the state of Chhattisgarh, the insights found and lessons emerged are relevant for other states as well. During the pandemic, all the states faced the dual burden of the decreased revenues due to poor tax and non-tax collections owing to reduced economic activity on one side and the increased health related expenditure to fight the Covid-19 on the other. There was a need for efforts to restore the economic activity by enhanced capital expenditure without ensure the safety of the citizens. The increased limits of the fiscal deficit to 5% of the GSDP for the year 2020-21 from the earlier 3% which facilitated increased borrowing by the states also led to increased cost of borrowing apart from creating crowding out effect for the private investments. The tax share to states from GOI got reduced and while

[2] https://www.ndtv.com/video/business/news/budget-2022-tamil-nadu-finance-minister-on-positive-and-unrealistic-aspects-of-budget-618793

the GST compensation to be given to states increased to Rs. 3 lakh crore[3]. All most all states faced the similar fiscal stress while battling the pandemic but their scale differed owing to nature of economic activity and dependency on GOI transfers. In this context it becomes very important to understand the implications for other states through the analysis of Chhattisgarh economy.

[3] https://prsindia.org/policy/analytical-reports/state-state-finances-2020-21

2. The Chhattisgarh Study: An Introduction

The study focused on estimating the reduction in Gross State Domestic Product (GSDP), the revenue loss to the state exchequer for the year 2020-21 and to suggest the coping measures. The study also focused on identifying the areas where the expenditure needs to be maintained or increased, especially from the perspective of welfare of children, social protection and enabling economic recovery. As a part of the exercise, the revenues and GSDP for the state were also projected for the financial years, i.e., FY 2021-22 and FY 2022-23 to provide a better perspective.

2.1. Methodology of the study

The study was conducted during the period September 2020 to July 2021. The methodology adopted for the study which had multiple components are mentioned below:

Literature review: This was focused on recent writings on the impact of Covid-19 on economy on different sectors, in different geographical contexts. This helped us understand which sectors are likely to be the most impacted by the pandemic and the lockdown and to what extent.

Secondary data analysis: Analysis of time series data on sectoral growth and revenues have been undertaken to explore the patterns/trends. While this helped in identifying the priority sectors/subsectors for the state economy for our projections for FY 2020-21, it also helped us forecast the impact for the next two years 2021-22 and 2022-23.

Stakeholder Consultations: We carried out consultations with stakeholders from various departments of the state government as well as economists and members of the State Planning Commission to identify the underpinnings and their possible impact on economic growth and revenue receipts of the state

Scenario Projections: This includes a scenario analysis that includes projected revenues of the state government and expenditures based on various scenarios and an assessment of the fiscal gap along with possible ways of filling the same. Similarly, this approach was extended for sectoral analysis for GSDP estimations and identifying the avenues for revival of the economy.

For the purpose of projections, we undertook revenue analysis first and based our sectoral GSDP estimates on the revenue growth projected. There are certain reasons why we decided to undertake the revenue analysis first, followed by the GSDP analysis. Sector-wise GSDP estimates were not available for the year 2020-21 and later years. Consultations with the departments also indicated that many policy changes in the interim are likely to influence the pattern of performance of different sectors and the sectoral GSDP cannot be solely based on past performance trends. Some evidence exists to establish that there is a need to understand the GST pattern in greater detail to connect it with the economic activities and consumption pattern. Moreover, the policy tweaks relating to land revenue administration, stamps and registration fees, and also electricity and excise had implications for the revenues and GSDP. The revenue dent at the Government of India (GOI) level was about 20% and similar impact was estimated for the state with respect to tax share, while the revised debt limit was available and it was used to estimate the total receipts, which was later mapped to sectors to estimate the GSDP. The revenue analysis and forecasts for the next two years are presented below.

3. Analysis of Growth of revenue components and forecasting of Revenues

3.1. Analysis of revenue components and their trends

The total revenue of the state in nominal terms has grown from Rs.25577 crore in 2011-12 to Rs.83718 crore during 2019-20 at an annual average growth rate of 15%. The average share of the tax revenue, non-tax and debt was 32%, 11% and 13% respectively. The share of Grant in Aid and tax share stood at 26% and 17% respectively (Table 1).

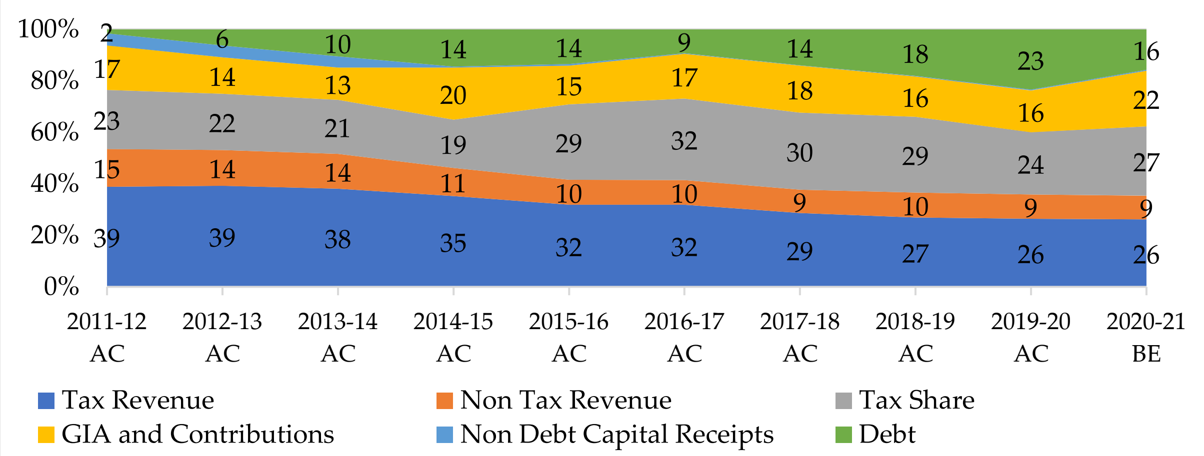
The share of own tax and non-tax revenues has declined over years from 54% to 35% (Figure 1) and the share of GIA and tax share from Government of India together has almost remained same at 40% while the share of debt has increased significantly from 2% to 23% in 2019-20.

Table 1: Components of Revenue over years (Rs. in Crore)

Sources of Revenue	2011-12 AC	2012-13 AC	2013-14 AC	2014-15 AC	2015-16 AC	2016-17 AC	2017-18 AC	2018-19 AC	2019-20 AC	2020-21 BE
Tax Revenue	10712	13034	14343	15707	17075	18945	19895	21427	22118	26155
Non-Tax Revenue	4058	4616	5101	4930	5215	5669	6340	7703	7934	9215
Tax Share	6320	7218	7880	8363	15716	18809	20755	23459	20206	26803
GIA and Contributions	4776	4710	4726	8988	8062	10262	12657	12506	13611	21658
Non-Debt Capital Receipts	1289	1546	1650	199	300	175	142	168	262	300
Debt	421	2058	3932	6440	7251	5480	9652	14370	19588	15701
Total	**27577**	**33182**	**37632**	**44627**	**53619**	**59340**	**69442**	**79633**	**83718**	**99832**

Source: Authors calculations using Finance Department, GoC

Figure 1: Share of revenue components over years



Source: Authors calculations using Finance Department, GoC

3.2. Analysis of trends Tax revenue and its growth

The components of tax revenues were analysed in detail. As discussed earlier, the tax revenues have grown modestly at 3 percent in the year 2019-20 while the average growth rate for the period 2011-12 to 2019-20 stood at 10% and average growth rate for the period 2017-18 to 2019-20 stood at 5 percent. Of the own tax revenue, the important are state GST (SGST-35%), sales tax (21%), excise (21%), duties on electricity (8%), vehicle tax (6) and stamps and registration (6%).

Though the revenues through the tax share from GOI has increased over years, their growth has reduced over years since 2015-16. The growth of tax share was 20%, 10% and 13% for the years 2016-17, 2017-18 and 2018-19 while it recorded a 14% reduction in the year 2019-20 at about Rs. 3500 crores.

3.3. Analysis of trends of non-Tax revenue and its growth

The non-tax revenue forms an important source of revenue to the state. The revenue from mining accounts for about 71% of the revenues under this category followed by irrigation accounting for 12%. The forestry sector and receipts from interests, dividend and profits account for about 4 percent. The non- tax revenues have recorded good growth during the years 2016-17, 2017-18 and 2018-19 at 9%, 12% and 21% over the previous year respectively largely driven by mining sector performance. However, the growth for the period 2019-20 was lower at 3 percent. The mining has recorded a growth of one percent in 2019-20 while the revenues from irrigation and forestry recorded 5 percent growth.

3.4. Analysis of revenue components for latest years and its growth

The revenues for the years 2018-19, 2019-20 and 2020-21 were analysed to understand the receipts pattern considering the fact that 2018-19 was the first full year post implementation of GST and hence likely to have marked difference from the earlier years. The tax has grown only by 3 percent year on year basis at nominal rates while the non- tax revenue has shrunk by 10% during 2020-21. This is largely due to the lockdowns imposed which restricted the working of mining and other economic sectors. Considering the fact that Covid-19 has impacted the tax revenues across the country in a significant manner, the 3 percent growth seems to be good. The Tax share recorded a 14% dip during 2019-20 and increased only by one percent in 2020-21 which is not significant. Similarly, the Grant in Aid from GOI which grew by 9 percent in 2019-20 again decreased by 6 percent in 2020-21. The debt component has grown significantly at 36% and 10% during 2019-20 and 2020-21 respectively to make up for the shortfall in total revenues (Table 2).

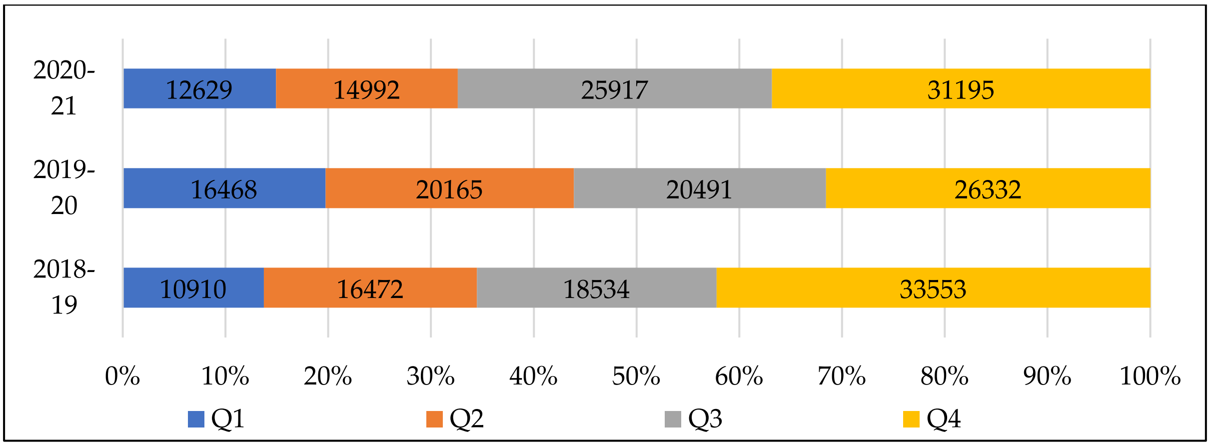
Table 2: Receipts in the past 3 years (Rs. in crore)

Sources of Revenue	2018-19 AC	2019-20 AC	2020-21 AC	2019-20 AC	2020-21 AC
Tax Revenue	21427	22118	22889	3%	3%
Non-Tax Revenue	7703	7934	7122	3%	-10%
Tax Share	23459	20206	20338	-14%	1%
GIA and Contributions	12506	13611	12807	9%	-6%
Non-Debt Capital Receipts	167	261	105	56%	-60%
Debt	14370	19588	21579	36%	10%
Total	**79632**	**83718**	**84839**	**5%**	**1%**

3.5. Flow of Total Revenues, own revenue (tax and non-tax), GOI funds (tax share and GIA) and Debt

While the quantum of funds available for incurring expenditures are important, the flow of funds become very critical especially for the development expenditure. A quick look into the quarter-wise flow of funds to the state exchequer during the years 2018-19, 2019-20 and 2020-21 indicated that the flow of funds was fairly well-distributed across the quarters in the year 2019-20 at 20%, 24%, 25% and 32% respectively (Figure 3). However, during the year 2018-19 the last quarter receipts were 42%. During the year 2020-21, the receipts during the last two quarters accounted for 31% and 37% of the revenues respectively.

Figure 2: Flow of funds across quarters for the years 2018-19 to 2020-21[4] (Rs. in crore)



Based on the trend of revenues of the actual revenue receipts for the latest years, projections were made for the revenues of the year 2021-22 and 2022-23. The recommendations of 15th Finance Commission, the modest growth in the tax and non-tax revenues, likely decrease in tax share and GIA receivables from GOI along with the likely debt increase were projected to arrive at possible scenarios. These scenarios were based on the detailed assumptions that have been framed using the analysis of revenue, insights gained through consultations and the review of relevant literature (Table 3).

Table 3: Assumptions for Estimation of Revenue scenarios of the state

Sl. No.	Components of Revenue: assumptions	Rationale
1.	State GST	Given the growth in last 5 months (July to November,) the trend is likely to continue and GST tax collections would improve though not enough to offset the complete loss in first quarter.
2.	Tax revenues from Excise will increase	Special corona tax @ 10% for foreign liquor and Rs 10/bottle for country made liquor
3.	Tax revenues from electricity will increase	Duties have increased especially for non-domestic
4.	Taxes on vehicles and sales will increase	Rates have been increased (on petroleum products and others)
5.	Minor irrigation- revenues will increase	ground water extraction for commercial purposes is hiked by 50%

[4] This is excluding the non-debt capital receipts which was Rs. 167 crore, Rs 261 crore and Rs 105 crore for 2018-19, 2019-20 and 2020-21 respectively.

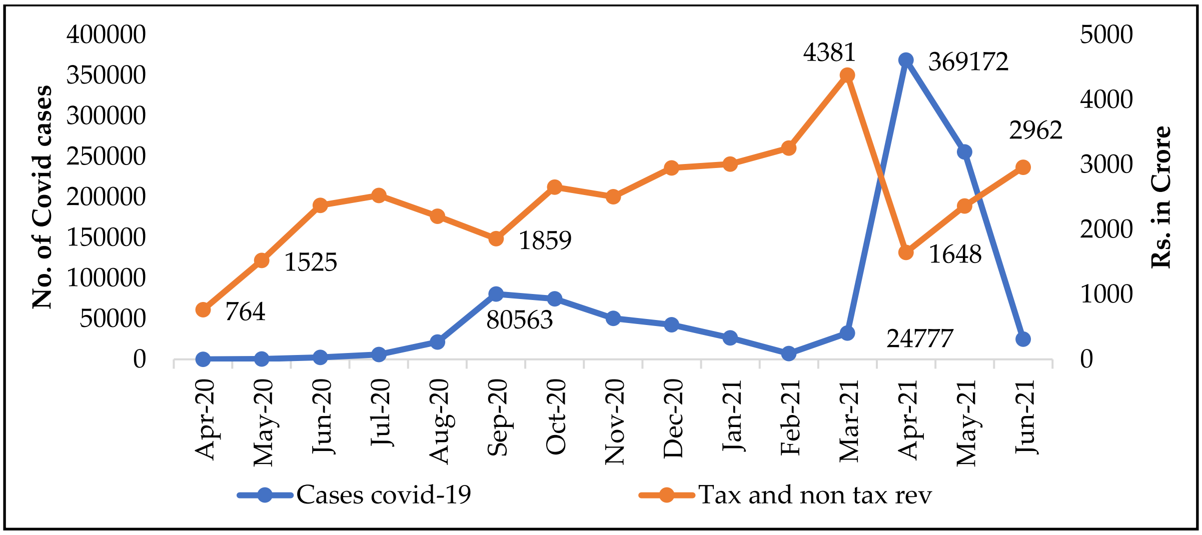
Sl. No.	Components of Revenue: assumptions	Rationale
6	Mining revenues will increase	Sand mines are auctioned – policy decision Infrastructure and environment cess increased
7.	Stamps and Registration revenues will increase	30% reduction in guidance value along with increase in registration charges and allowing registration of small plots.
8.	Tax share from GOI will reduce	20.7% reduction in assignment to states - http://www.cga.nic.in/MonthlyReport/Published/11/2020-2021.aspx
9.	Grant in Aid will also reduce	Owing to the reduced tax collection, post November schemes would get reduced funding except for the health sector.
10	Debt (borrowings)	The credit limit has been increased from 3% of GSDP to 5% of GSDP under FRBM. By opting option 1 – of GOI to receive loan to be paid from the compensation cess, the state has got an additional funding of Rs 3852 crore for the current fiscal. The borrowing limit for the current year has been increased to Rs. 17,918 crore **Source:** Unstarred Question No. 206, September 14, 2020, Lok Sabha; Ministry of Finance https://www.prsindia.org/sites/default/files/parliament_or_policy_pdfs/State%20Finances_2020-21.pdf page 23

Source: Author's calculations from Finance Department, GoC

3.6. Covid cases and Revenue receipts (own tax and non-tax revenues)

The relationship between the incidence of Covid-19 and change in revenue receipts for the period between April,2020 to June, 2021 was analysed (figure 4). The lockdowns imposed during the first wave (March – April) had serious impact on the tax and non-tax revenues of the state. The cases for the month peaked during September 2020 registering 80563 cases coinciding with the revenue reduction to Rs. 1859 crore. The second peak was during the month of April 2021 registering 369172 cases for the month and the revenues reduced to Rs. 1648 crore which was about Rs. 200 crores less than revenues of September 2020. What came out clear is that despite number of cases being quadrupled (Sept 2020-to April 2021) the process of recovery slowed down only when the numbers shot up and there was a complete lockdown. This clearly indicates a learning from the past experience in handling the Covid situation.

Figure 3: Covid-19 cases and Tax and Non-Tax revenues of Chhattisgarh



Source: prsindia.org

3.7. Estimation of Revenues for the years 2021-22 and 2022-23

Analysis of revenues for the last three years and the key takeaways from the revenue analysis helped us to forecast the revenue receipts for the next two financial years 2021-22 and 2022-23. However, because of the shock to normal economic activities in the form of the pandemic and lockdown, it was also important to factor in the effect of the pandemic. The first quarter revenues of 2021-22 (April to June 2021) is used for this. The ratio of first quarter receipts to the total receipts for the year for each of the revenue components for the years 2018-19, 2019-20 and 2020-21 were averaged to arrive at factor. This factor is used to estimate the receipts of the components of the revenue for the year 2021-22 (Table 4). For the year 2022-23, the average of year-on-year growth rate of the revenue components for the years 2017-18, 2018-19 and 2019-20 is considered. For Scenario 1 the average revenues for the year 2017-18, 2018-19 and 2019-20 was considered while for scenario 2 the average revenues for the years 2018-19, 2019-20 and 2020-21 was considered.

Table 4: Estimates of Revenue for the years 2021-22 and 2022-23 (Rs. in crores)

Sources of Revenue	2019-20 AC	2020-21 BE	2020-21 AC	2021-22 BE	Scenario 1		Scenario 2	
					2021-22 Est	2022-23 Est	2021-22 Est	2022-23 Est
Tax Revenue	22118	26155	22889	25750	24572	25877	23989	25263
Non-Tax Revenue	7934	9215	7122	9250	11744	13167	7460	8364
Tax Share	20206	26803	20338	22675	19152	19759	21729	22418
GIA and Contributions	13611	21658	12807	21650	19255	21243	14867	16402

Sources of Revenue	2019-20 AC	2020-21 BE	2020-21 AC	2021-22 BE	Scenario 1		Scenario 2	
					2021-22 Est	2022-23 Est	2021-22 Est	2022-23 Est
Non-Debt Capital Receipts	261	300	105	320	321	380	110	131
Debt	19588	15701	21579	18776	18776	16337	18776	16337
Total	**83718**	**99832**	**84839**	**98421**	**93820**	**96764**	**86931**	**88915**

4. Analysis of sectoral GSDP and forecasting for GSDP

4.1. Overall impact of the Covid-19 pandemic on the health of the economy

The second wave of the Covid-19 pandemic has been more disastrous compared to the first wave in terms of losses experienced to life and livelihoods. This led to lockdowns across the state in a phased manner, which happened in various time periods across various districts and with different restrictions from partial closures to full lockdowns making it a very challenging task to assess the impacts on the growth prospects of the state. Although the second wave was predicted, the severity of this kind was unexpected and the healthcare systems did suffer a breakdown[5]. With the opening of the economy again sometime in June 2021, and also the lack of Covid-19 inappropriate behaviour that we continue to witness, more waves have been predicted and anticipated by experts. Hence, going further, many factors will influence the economic output and growth trajectory of the state, especially in the coming few months and years. These include pace of vaccinations, preparedness of health infrastructure for more waves and new variants of the virus, global demand, production and supply chains, state production capacities, indigenous demand for commodities, and recoveries at not only the local and national level, but also at the global level.

In India and in the state of Chhattisgarh, various sectors have been affected variably, largely influenced by apart from reasons discussed above, the resilience of that sector in the state, the infrastructural capabilities to continue economic activities in spite of shortages of labour and inputs and other challenges posed by changing dynamics of the situation across the world.

4.2. Estimation of GSDP for 2021-22 and 2022-23

To estimate the GSDP growth for 2021-22 and 2022-23 respectively, we are using the information of the 2020-21 full year performance and also the emerging trends from early this year (April and May 2021 revenue performances) along with the multiple policy initiatives of the state government to stimulate on-going economic activity and initiate new activities for the sector. This exercise was carried out for each sector separately so as to capture the nuances, including the resilience shown by the sector during the year 2020-21, stability of the sector to the shocks caused by the pandemic, and other expected outcomes for the sector based on available information. Some of

[5] https://science.thewire.in/the-sciences/after-centre-ignored-insacog-warning-surge-undoes-supermodel-predictions/

the other broad considerations used in the estimation of GSDP included the following.

Revenue performance and its linkages with GSDP: In this method, we looked at the relationship between different types of revenue that we have discussed above coming from each of the subsectors and its linkages with the GSDP for that particular sector. Based on the sector and type of revenue wise computation, we looked at the major trends in the following: total revenue to GSDP collection, non-tax revenue collection to GSDP, tax revenue (including tax share and GST) to GSDP from 2011-12 to 2020-21, and thus understood the linkages.

Sectoral performance in the state: For some of the subsectors, we used the information we had based on consultations in the state to arrive at the possible scenario for those subsectors.

Average growth rates: For some of the scenarios, we have looked the sub-sector wise growth trends in the previous years across different time periods to give us an indication of the extent of growth that can be expected given assumptions about recovery rate in the economy.

4.2.1. Sector wise distribution of revenues

The four major sources of revenues were further analysed by breaking up each of the components and assigned to the economic sector that the activity is related to. There are about 16 economic sectors as per the state GSDP report. The objective behind this is to be able to understand the linkages between the revenue and the GSDP and see how the growth performance in specific sectors translates to revenues for the state. The table below (Table 5) shows the main source of revenue and the economic sectors which have the highest share in the state economy.

Table 5: Sector wise allocation and analysis of revenue

Main Source of Revenue	Major Sectors	Reasons
Tax Revenue including Tax Share	Manufacturing Sector - 49%, Trade, hotels and restaurants - 12%, Electricity, gas, Water supply and others - 8%	This includes components of excise duty, and revenue from the industries, especially village and small-scale industries, taxes on duties in electricity, and taxes from activities of trade.
Non-Tax Revenue	Mining - 73%, Electricity, Gas and Water Supply - 13%, Forestry - 7% in 2020-21 RE	This is largely because of the royalties paid on the extraction of minerals, and Chhattisgarh being a mineral rich state, this forms a major source of revenue. Similarly, Chhattisgarh is an electricity

Main Source of Revenue	Major Sectors	Reasons
		surplus state and generates a large amount of revenue from this sector. The revenues in the forestry sector are mainly due to activities relating to the sale of timber, bamboo and other forest products.
Grants-in-Aid and Contributions	Social Services - 42%, Public Administration - 15%, Construction - 23% in 2020-21 RE	This is largely due to the social welfare schemes of the union government and the grants for the Central Sector Schemes and CSS.

4.2.2. Factors which will influence the economic recovery:

Before we discuss the two scenarios for which we have undertaken estimations, we outline below some of the factors which are likely to influence the recovery of the economy.

Pace of vaccinations: It will take some more time for complete vaccine coverage of the entire population[6] not only in India, but globally too for full opening up of the global economy, which is currently estimated to take up to 2023 based on currently available stocks and production capacities[7]. This will also likely influence the rate at which the world economy will be fully functional especially for sectors like tourism.

Recovery of trade: The global trade will influence the pace of economic growth and it still needs to resume with full capacity as it is still predicted to be below the pre-pandemic trend in 2022[8]

Consumer behaviour: Higher time for consumer demand recovery as the country had already faced a decline in demand even before the pandemic due to low levels of employment in 2017-18[9] and more time expected for demand recovery due to decline after the second wave[10].

Global crude oil prices: The global crude oil prices has been impacted due to the pandemic led lockdowns globally and this is likely to influence the demand for fuel in many sectors which can cause demand fluctuations across different sectors[11].

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[6] https://newsonair.com/2021/06/27/chhattisgarh-vaccinated-25-percent-population-of-the-state/
[7] https://www.nature.com/articles/d41586-021-01762-w
[8] https://www.wto.org/english/news_e/pres21_e/pr876_e.htm
[9] https://economictimes.indiatimes.com/news/economy/indicators/consumer-spending-declines-for-first-time-in-four-decades/articleshow/72069291.cms?from=mdr
[10] https://www.indiatoday.in/business/story/explained-how-lower-demand-impacts-india-s-covid-hit-economy-1804054-2021-05-18
[11] https://www.newindianexpress.com/business/2021/mar/29/domestic-fuel-prices-expected-to-fall-as-covid-surge-dampens-crude-cost-2283100.html

Industry confidence: Although many of the industrial units are open and functioning after the initial Covid-19 period, they have been affected by a lot of disruptions in shortages of raw materials, labour, capital and other factors affecting their production. They have not been able to resume activity to full capacity as yet.

These, and many other factors, as much as are likely to influence the growth path in the economy, the exact estimations of how each factor will play out is difficult to estimate. Hence, we will assume average growth rates of previous years in most scenarios which we expect will likely reflect, if not the exact magnitude, the direction of recovery. We have estimated the GSDP for two scenarios, the assumptions behind the scenarios are briefly discussed below:

Scenario 1: As followed in the revenue estimations, in this scenario too, we have mainly looked at the early trends in revenues for April 2021 and May 2021 and based on that information, we have gone for assumptions regarding growth based on those trends for some sectors – where the different types of revenue, tax, non-tax revenue form a sizeable component for that sector and assume that the revenue trends reflect the possible growth trends that the economy may take. For other sectors – we have taken the pandemic year growth rates (2020-21 growth over 2019-20) as we assume continued effects of Covid-19 even for 2021-22 and the same resilience of the state economy to the pandemic. For estimates of 2022-23, we have assumed an average growth rate of period between 2017-18 to 2019-20 as these three years registered higher growth rates on an average as compared to the period between 2018-19 to 2020-21, barring for three sectors -– Crops, Forestry and Communication and services related to broadcasting.

Scenario 2: In this scenario, we have considered the average growth rates of last three years, i.e. between 2018-19 to 2020-21 as the expected growth rate for 2021-22 and the average growth rates between 2017-18 to 2019-20 as the growth rates for 2022-23 based on the assumptions that in the first year, the economy will still be reeling under the effects of the pandemic and hence register, lower growth rates and in the second year, the economy will recover at a faster rate than in 2021-22 due to improvements in all the factors as discussed above and overall global recovery.

4.3. Sectoral trends for GSDP during the Covid-19 pandemic and assumptions for estimations:

Crops sector: In the backdrop of the initiatives taken in the Crop sector and the performance of the state in terms of growth in the year 2020-21 during the pandemic, we make the following assumptions about the sectoral performance for crops and livestock for the years 2021-22 and 2022-23: For scenario 1 first year estimations - we assume that the same trends for growth will continue for 2021-22 as that of the pandemic year and hence, we took the growth rate of the pandemic year, i.e. 2020-21 over 2019-20. For the year 2022-23 in scenario 1 and both years of scenario 2, we assume average growth rates as discussed in the previous sections.

Forestry Sector: Based on the performance of the Forestry sector in the state in terms of growth in the year 2020-21 during the pandemic and various policy initiatives, we make the following assumptions about the sectoral performance for crops and livestock for the years 2021-22 and 2022-23: For scenario 1 first year estimations - we took ratios of the non-tax revenue to GSDP as that poses a high revenue estimation for 2021-22 and estimated the GSDP based on that information. For the year 2022-23 in scenario 1 and both years of scenario 2, we assume average growth rates as discussed in the previous sections.

Fishing Sector: For scenario 1 first year estimations - we assume that the same trends for growth will continue for 2021-22 as that of the pandemic year and hence, we took the growth rate of the pandemic year, i.e. 2020-21 over 2019-20. For the year 2022-23 in scenario 1 and both years of scenario 2, we assume average growth rates as discussed in the previous sections.

Industrial Sector: For the mining sector, for scenario 1 first year estimations - we took ratios of the non-tax revenue to GSDP and that shows moderate recovery for the sector for 2021-22 and estimated the GSDP based on that information as non-tax revenue is a large component in this sector. For the year 2022-23 in scenario 1 and both years of scenario 2, we assume average growth rates as discussed in the previous sections.

Electricity Sector: The State Government has projected a moderate growth of tax revenue for this sector. Although the revenues of the state are growing Y-o-Y, the growth still needs to pick up. Hence, we took the tax to GSDP ratio for 2021-22 GSDP estimates for scenario 1. For the year 2022-23 in scenario 1 and both years of scenario 2, we assume average growth rates as discussed in the previous sections.

Manufacturing Sector: We are going by the early tax trends in the manufacturing sector and we see that the tax to GSDP ratio for manufacturing has been volatile post GST. Hence, we took the average of the last two years of the tax to GSDP ratio for the GSDP estimates in 2021-22 for scenario 1. For the year 2022-23 in scenario 1 and both years of scenario 2, we assume average growth rates as discussed in the previous sections.

Construction Sector: It will take some time for full recovery of this sector although it may grow at a positive rate. Hence, we took the growth rate of the pandemic year, i.e. 2021 over 2020 for 2021-22 for scenario 1 and believe that the same trend will continue until the next year before construction activity resumes in full flow. For the year 2022-23 in scenario 1 and both years of scenario 2, we assume average growth rates as discussed in the previous sections.

Services Sector: Based on various policy decisions and early revenue trends, we make the following assumptions for the growth estimations of the various sub sectors in the services sector as given in table below (Table 6).

Table 6: Assumptions for sector wise growth estimations in the Services sub-sectors

Trade, Hotels & restaurants	There was a huge decline of about 17 percentage points for this sector in terms of GSDP growth in 2020-21 although it grew by 10% in 2019-20	Tax to GSDP Ratio and Y-o-Y Growth Rate	The pre GST and post GST trends have shown a large variation, hence, we took the ratios of tax collections to GSDP post GST. This sector was highly impacted due to the lockdowns and fear. It is expected to pick up pace, but slowly. The 2021-22 BE revenue estimates show an expectation of 17% growth over the previous year, but this may not be completely achievable with new waves and infections. Hence, we have taken moderate growth estimations for this sector as the recovery may not be as fast paced other sectors. For scenario 1 first year estimations - we assume that the same trends for growth will continue for 2021-22 as that of the pandemic year and hence, we took the growth rate of the pandemic year, i.e. 2020-21 over 2019-20. For the year 2022-23 in scenario 1 and both years of scenario 2, we assume average growth rates as discussed in the previous sections.
Transportation	There was a negative growth in this sector which declined to 2.2% from year 2019-20. In 2019-20 it had grown by 9.6%	Tax to GSDP Ratio and Y-o-Y Growth Rate	Here, we took the average of the ratios in 2019-20 and 2020-21 as there is a continuous declining trend in the tax to GSDP ratio since 2016-17 for the 2021-22 GSDP estimates for scenario 1. For the year 2022-23 in scenario 1 and both years of scenario 2, we assume average growth rates as discussed in the previous sections.
Storage	This sector grew by 5% in 2020-21 which is about 6 percentage points lower than in 2019-20	Tax to GSDP Ratio and Y-o-Y Growth Rate	Due to lack of any information about this sector, For scenario 1 first year estimations - we assume that the same trends for growth will continue for 2021-22 as that of the pandemic year and hence, we took the growth rate of the pandemic year, i.e. 2020-21 over 2019-20. For the year 2022-23 in scenario 1 and both years of scenario 2, we assume average growth rates as discussed in the previous sections.
Communication	This was one of the better performing sectors when compared to its performance in 2019-20 and it grew by 2.5% in 2020-21.	Y-o-Y Growth Rate	The state anticipates moderate revenues from this sector. For scenario 1 first year estimations - we assume that the same trends for growth will continue for 2021-22 as that of the pandemic year and hence, we took the growth rate of the pandemic year, i.e. 2020-21 over 2019-20. For the year 2022-23 in scenario 1 and both years of scenario 2, we assume average growth rates as discussed in the previous sections.
Financial services	This sector grew by 9.6% in 2020-21 over 2019-20, which was	Non-Tax to GSDP Ratio	Stable trends in the past 5 years in the non-tax revenue collections, hence we looked at the average ratio in the last 5 years of non-tax revenue collections

	just 1 percentage point lower than its growth in 2019-20.	and Y-o-Y growth rate	to GSDP for estimates of 2021-22 in scenario 1. For the year 2022-23 in scenario 1 and both years of scenario 2, we assume average growth rates as discussed in the previous sections.
Real estate, ownership of dwellings and professional services	This sector grew by 4.8% in 2020-21 which was around 2% points lower than in 2019-20	Tax to GSDP Ratio and Y-o-Y Growth Rate	Land tax forms one of the biggest sources of revenue for this sector. We took the tax-GSDP ratios for the last 3 years 2021-22 GSDP estimates for scenario 1. For the year 2022-23 in scenario 1 and both years of scenario 2, we assume average growth rates as discussed in the previous sections.
Public Administration	This sector grew by about 11% compared to the previous year, this was a bit lower than in 2019-20 where it grew by 18.3%. The ratio of the wages to the GSDP was also lower at 121% when compared to 2019-20 where it was 133%.	Y-o-Y Growth Rate	This sector comprises activities of the public sector. The gross value added is mainly the wages and salaries paid to the Government officials. The state has projected a 21% increase in the salaries before the second wave of the Covid-19 pandemic affected the badly. This is quite high compared to 2019-20 when the salaries grew by just 1.1%. Hence, we have assumed growth rate in the pandemic year for 2021-22 GSDP estimates for Scenario 1. For the year 2022-23 in scenario 1 and both years of scenario 2, we assume average growth rates as discussed in the previous sections.
Other Services	This sector performed better than in 2019-20 and it grew by 15% in 2020-21 as compared to 12% in 2019-20.	Total revenue to GSDP and Y-o-Y Growth	This sector encompasses a whole array of services including medical and health, education, social welfare etc. Due to the huge gamut of activities, they have revenue collections from all sectors including from Gants-in-Aid from Centrally Sponsored Schemes for various welfare programmes. Hence, we looked at the last 5 year averages of the total revenue to GSDP for these sectors for 2021-22 GSDP estimation in scenario 1. For the year 2022-23 in scenario 1 and both years of scenario 2, we assume average growth rates as discussed in the previous sections.

4.4. Estimates of GSDP for 2021-22 and 2022-23:

Based on the methods and assumptions discussed in the previous section, we have the projected sector wise GSDP for both the scenarios and presented them in tables 7 and 8. Table 7 and 8 also show the estimated growth rates for various sectors in the two scenarios. The table clearly shows that in Scenario 1, we expect the state to grow by about 9.2% in 2021-22 and 11% in 2022-23 respectively. This is largely driven by sectors like Crops, Manufacturing, Public Administration, Other Services. The higher growth projections in scenario 1 indicate that the state government's expectations of recovery in the economy indicated by its revenue estimates for 2021-22. The growth projections in Scenario 2 are lower than in Scenario 1 for 2021-22 as this is largely based on the average of the previous year growth rates with the assumption of a slower paced recovery of the economy due to an uncertain future. For the year 2022-23, the growth rates for both scenarios have been assumed the same in the anticipation of good recovery post the pandemic.

Table 7: Projections of GSDP and growth rates for various sectors (Rs. In Crore) – Scenario 1

Sector	2019-20 PE	2020-21 RE	2021-22 Estimates	2022-23 Estimates	% growth from 2020-21	% growth from 2021-22
Crops	38,20,057	42,05,427	46,29,673	48,62,320	10.1	5.0
Livestock	8,17,135	9,57,484	11,21,939	13,86,754	17.2	23.6
Forestry & Logging	12,48,116	13,44,410	17,99,042	18,56,686	33.8	3.2
Fishing	8,17,241	8,92,030	9,73,663	11,62,876	9.2	19.4
Mining & Quarrying	23,34,904	17,38,885	18,56,628	19,54,150	6.8	5.3
Sub - Total (Primary Sector)	**90,37,453**	**91,38,236**	**1,03,80,946**	**1,12,22,785**	**13.6**	**8.1**
Manufacturing	42,43,327	43,29,771	47,20,832	52,50,604	9.0	11.2
Electricity, gas, Water supply and others	23,52,641	23,41,020	25,32,957	27,55,892	8.2	8.8
Construction	44,37,155	45,11,431	45,86,950	52,04,190	1.7	13.5
Sub - Total (Secondary Sector)	**1,10,33,123**	**1,11,82,222**	**1,18,40,739**	**1,32,10,685**	**5.9**	**11.6**
Trade, Hotels & restaurants	23,01,323	19,09,178	20,04,556	22,43,588	5.0	11.9
Transportation	9,14,054	8,94,170	9,31,213	10,29,331	4.1	10.5
Storage	24,747	25,990	27,295	30,281	5.0	10.9
Communication & services related to broadcasting	3,71,129	3,80,277	4,98,673	5,17,870	31.1	3.8
Financial services	10,50,910	11,52,188	12,04,340	13,36,696	4.5	11.0
Real estate, ownership of dwellings and professional services	32,45,167	33,96,728	36,32,489	38,77,904	6.9	6.8
Public Administration	16,33,083	18,17,081	20,21,810	23,66,595	11.3	17.1
Other services	23,51,247	27,13,682	30,72,387	37,12,097	13.2	20.8
Sub - Total (Services Sector / Tertiary Sector)	**1,18,91,660**	**1,22,89,294**	**1,33,92,763**	**1,51,14,363**	**9.0**	**12.9**
GSDP at Basic Prices	**3,19,62,236**	**3,26,09,752**	**3,56,14,448**	**3,95,47,833**	**9.2**	**11.0**

Table 8: Projections of GSDP and growth rates for various sectors (Rs. In Crore) – Scenario 2

Sector	2019-20 PE	2020-21 RE	2021-22 Estimates	2022-23 Estimates	% growth from 2020-21	% growth from 2021-22
Crops	38,20,057	42,05,427	47,34,283	49,72,186	12.6	5.0
Livestock	8,17,135	9,57,484	11,37,727	14,06,269	18.8	23.6
Forestry & Logging	12,48,116	13,44,410	14,06,957	14,52,037	4.7	3.2
Fishing	8,17,241	8,92,030	10,07,062	12,02,765	12.9	19.4
Mining & Quarrying	23,34,904	17,38,885	16,22,949	17,08,196	-6.7	5.3
Sub - Total (Primary Sector)	**90,37,453**	**91,38,236**	**99,08,977**	**1,07,41,453**	**8.4**	**8.4**
Manufacturing	42,43,327	43,29,771	46,78,604	52,03,637	8.1	11.2
Electricity, gas, Water supply and others	23,52,641	23,41,020	24,46,948	26,62,312	4.5	8.8
Construction	44,37,155	45,11,431	49,24,317	55,86,954	9.2	13.5
Sub - Total (Secondary Sector)	**1,10,33,123**	**1,11,82,222**	**1,20,49,869**	**1,34,52,903**	**7.8**	**11.6**
Trade, Hotels & restaurants	23,01,323	19,09,178	19,45,163	21,77,113	1.9	11.9
Transportation	9,14,054	8,94,170	9,56,252	10,57,009	6.9	10.5
Storage	24,747	25,990	28,029	31,094	7.8	10.9
Communication & services related to broadcasting	3,71,129	3,80,277	4,00,796	4,16,226	5.4	3.8
Financial services	10,50,910	11,52,188	12,44,234	13,80,975	8.0	11.0
Real estate, ownership of dwellings and professional services	32,45,167	33,96,728	36,12,507	38,56,572	6.4	6.8
Public Administration	16,33,083	18,17,081	20,89,844	24,46,231	15.0	17.1
Other services	23,51,247	27,13,682	32,25,620	38,97,235	18.9	20.8
Sub - Total (Services Sector / Tertiary Sector)	**1,18,91,660**	**1,22,89,294**	**1,35,02,445**	**1,52,62,455**	**9.9**	**13.0**

Sector	2019-20 PE	2020-21 RE	2021-22 Estimates	2022-23 Estimates	% growth from 2020-21	% growth from 2021-22
GSDP at Basic Prices	**3,19,62,236**	**3,26,09,752**	**3,54,61,291**	**3,94,56,811**	**8.7**	**11.3**

The growth rates also show an important picture, that while states like Karnataka are heavily dependent on services for its growth, in the case of Chhattisgarh, due to the balance between the primary and secondary sectors, the effect of the pandemic is lower as the crops sector continues its good growth in spite of lockdown challenges. Some sectors are also showing higher growth rates due to base effect, like Forestry & Logging, Communication & services related to broadcasting, Trade, Hotels & restaurants, Electricity, gas, Water supply and others.

5. Increasing Revenue Receipts and enabling Economic Revival: Possible Actions and Implications for Revenue and Growth

Learning from the analysis of data collected, consultations and to some extent broader national and global trends, we suggested a mix of fiscal, monetary and governance measures for revenue generation so as the state is able to expand / maintain public expenditure. We maintain that expansion of public expenditure is critical in the times of economic downturn to maintain aggregate demand and to ensure equitable welfare outcomes. We provide a brief summary of our recommendations here.

5.1. Electricity (Tariffs and grants)

Chhattisgarh, being a power surplus state, earns a substantial part of revenue through sale of electricity. The rates, however, are fixed by the Central Electricity Regulatory Commission (CERC) and the state does not have autonomy to decide the price at which it sells. The state can increase revenue in this sector only by advocating for better tariffs from CERC and achieve savings by incentivising operational efficiency of DISCOMS and reducing the amount of grants as Operational Funding Support to these entities.

5.2. Royalties from Mining

Mining is a very important source of revenue for the state as it accounts for 71% of non-tax revenues on an average. Major minerals contributing to the revenue in the state are coal, iron ore, moulding sand, limestone, bauxite, dolomite and tin concentrate. The royalty rates for various minerals in the country are decided centrally under the MMDR act and thus the state does not have control over fixing the same. Royalty rates for various minerals were last updated in 2015. While the rates are supposed to be updated every three years and a commission was established in 2018 for this purpose, the revised rates are under discussion and not implemented yet. Royalty rates for many minerals were shifted to ad valorem basis (based on certain percentage of sale price of minerals) from a price per unit tonne basis fairly recently. Coal and Iron ore are among these. While ad valorem method is more widely followed internationally, many developed countries are now moving to royalty based on profits and India should look at updating the system accordingly. While proposing a revision in royalty rates, however, a note has to be taken of the fact that many minerals in India have higher royalty rates as compared to other mineral producing countries. Royalty for limestone is still based on a specific amount per tonne basis. Adoption of ad valorem rates are useful in increasing the royalty for producer states as there is potential of reaping benefits from upward movement in the price of the commodity. The state should advocate for a policy change as this is the standard practice internationally.

5.3. Reforms in GST governance

Reforms in GST governance system including enabling of better scrutiny, change of tax base to include production of goods transacted through e-commerce and prompt payment by the central government could lead to more transparent collections and increase in revenue earnings for the state.

5.4. Partial Credit Guarantee scheme

On analysis of the credit disbursement data for the state of Chhattisgarh, we found that there are indications of lower utilization of deposits available with the banks with a consistently low C-D ratio of around 60% for the period 2017-18 to 2020-21. We also found that credit disbursement is lower for certain sectors (e.g., agriculture), communities (weaker sections), and districts (Bijapur, Narayanpur, Sukma and Balrampur) compared to the national averages. It indicates either a lower demand for credit or a risk aversion in the banks to fund these areas. The state can propose a partial credit guarantee scheme that can be made available to industrial sectors, such as value addition in minor forest produce and ecotourism. Such an intervention, however, is likely to be long-term in its impact to take effect as the pathway is through development of small and medium enterprises.

5.5. Infrastructure and Employment

Capital expenditure on infrastructure such as roads and transport have the potential for furthering income, employment, and demand. Rural infrastructure is also needed to promote tourism, especially eco-tourism, diversification, and marketing of forest and agriculture products. Investment in infrastructure could also be linked to creation of employment in urban areas (similar to MNREGA in rural areas) to augment consumption power and generate aggregate demand.

5.6. Additional debt

The state has contained the fiscal deficit since 2015-16 below the prescribed limit of 3% of GSDP, except for the year 2019-20 (14th FC prescribed Fiscal Responsibility and Budget Management [FRBM] Act limit) apart from keeping its total liabilities under 25% of GSDP and interest payments below 10% of revenue receipts. This indicates that the state is in a position to incur additional debt to fund necessary public expenditure. This is especially to be considered in case of an economic downturn when public expenditure is required to generate aggregate demand. However, incurring of additional debt, if required, has to be done with a proper debt management plan in place.

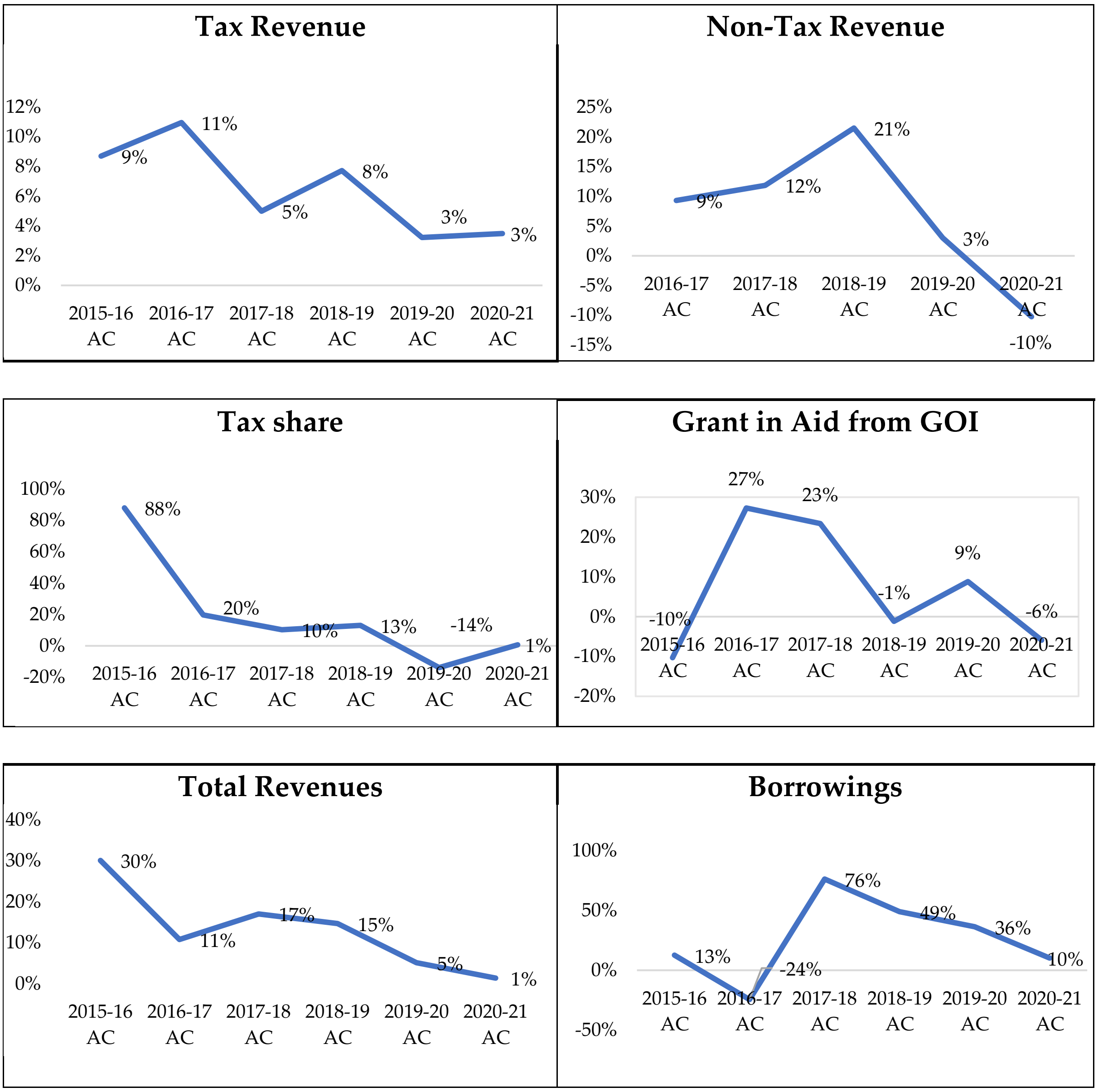
5.7. Balance across sectors

The state needs to have a balance in terms of its policies towards different sectors as their employment, revenue, income generation and shock resilience potentials are very different. For better shock resilience, market linked, pandemic induced or due to natural disaster, balance between all sectors in terms of policy crucial for continued resilience and recovery.

6. Key takeaways from the analysis of Chhattisgarh macro economy

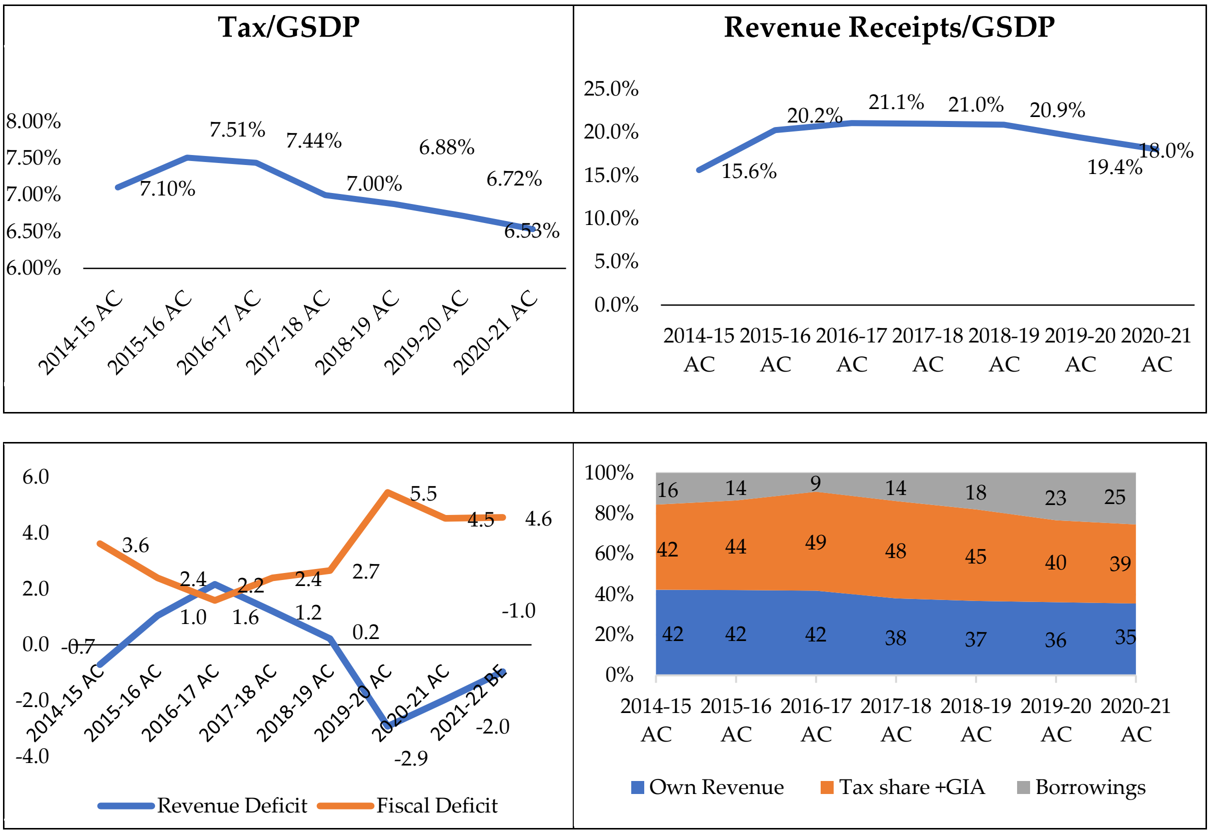
The growth of tax and non-tax revenues reduced consistently since 2017-18. The growth of Tax-share as well as Grant in Aid from GoI also reduced since 2016-17 (Figure 4). The tax revenue growth decreased from 11% in 2016-17 to 3% in 2020-21 while the non-tax revenues growth reduced from 21% in 2018-19 to 3% in 2019-20 and negative growth in 2020-21(-10%).

Figure 4: Growth trends of Revenue components of Chhattisgarh



Tax to GSDP ratio and revenue receipts to GSDP ratio has been on a decline adding to the fiscal space squeeze (Figure 5). The share of revenue receipts as a percent of GSDP has reduced since 2017-18. The revenue surplus decreased from 2016-17 and moved into revenue deficit from 2019-20 while the fiscal deficit increased to 5.5% during 2019-20. The share of own revenues in total revenues decreased from 42% in 2016-17 to 35% 2020-21. The share of transfers from GOI (GIA + tax share) reduced from 49% in 2016-17 to 39% in 2020-21 while the share of borrowings increased from 9% to 25% during the same period.

Figure 5: Trends in fiscal ratios, deficits and share of borrowings



7. Implications for other states

7.1. Impact of pre-pandemic slow down and pandemic period (including fiscal stimulus)

- The economy was subjected to twin shocks of demonetization and implementation of GST which impacted the economic activity, its growth and thereby revenues of the state.
- The scale of impact varied across the states depending upon the share of manufacturing and services sector, load of pandemic, dependency on GOI transfers and the fiscal stress existed prior to the pandemic.
- The fiscal stimulus of over 25 lakh crore was largely on supply side (enhancing goods and services supply) and very little on demand side (boosting consumption) did not help states to increase revenue. In reality direct fiscal cost amounted to only about 2 lakh crore or 1% of GDP[12].
- States which already had higher fiscal stress had very little scope to increase the borrowings because of the increased limit of fiscal deficit. The increased borrowing limit was also tied with reforms which became difficult to implement during the pandemic period.
- The states did not get the entire amount of revenue shortfall because of GST implementation but was made to borrow 1.1 lakh crore to be paid through compensation cess fund.
- A comparison of growth of components of revenue receipts pandemic year[13] (2019-20 to 2020-21) indicated that the tax and non-tax revenues declined in 19 out of 26 states while the aggregate decline for 26 states was found to be 8.9%. Though aggregate grant in aid increased by 19.1%, the growth of total receipts declined by 4.6%. The aggregate fiscal deficit of the states increased by 1.3% over the year 2019-20 while it ranged from one to five percent of GSDP across the states. The aggregate receipts (including borrowings) showed a 5 percent decline during 2020-21 compared to previous year while the aggregate expenditure recorded 5 percent increase during the same period. The states of Karnataka, Gujarat, Uttar Pradesh and Rajasthan recorded a decline of aggregate receipts by over 10% while the increase in aggregate expenditure was over 10% in states of Punjab, Bihar, Kerala, TamilNadu, Andhra Pradesh, Manipur and Meghalaya. The expenditure on health and family welfare increased by 16% while the increase was nine percent or water supply and sanitation. Education

[12] https://www.orfonline.org/research/post-pandemic-economic-recovery-seven-priorities-india/#_edn46

[13] https://www.nipfp.org.in/media/medialibrary/2022/01/WP_369_2022.pdf

recorded a miniscule 0.3 percent increase while nutrition expenditure did not change.

7.2. What states need to focus on

The economic slowdown during pre-pandemic period followed by pandemic period affected the economic activity very much. The states which incur most of the development expenditure (revenue expenditure) had to expand to mitigate the effect of pandemic on the vulnerable sections of the population. Instead of the much-needed fiscal support in the form of grants, the states got only tied loans and lesser expansion in fiscal space through increased deficit limits forcing them to do the heavy lifting in terms of steering economy towards recovery (without ignoring the efforts to mitigate the pandemic) while the GOI expanded the fiscal deficit limit without any hitch.

Rathin Roy, Fiscal policy expert, emphasized the need for a one-time windfall tax[14] on the corporate sector which enhanced their profits with the contraction of economic activity. This would have given the room for much needed capex in urban infrastructure.

States will have to strategise and expand the expenditure with a comprehensive debt management plan. States also have to prioritize schemes for efficient delivery and reach instead of spreading resources thinly. An exercise undertaken by TamilNadu – to come out with a white paper on state finances, to consolidate and remit the funds in various unused head of accounts to state treasury[15] followed by a strategic plan to mitigate the pandemic effect on various sections of population and enhancing the economic recovery is worth emulating.

The Indian states are required to address the challenges of ensuring economic recovery, mitigating the effects of pandemic on vulnerable population and promoting the social welfare in their coming budgets and other fiscal policy measures. Expansionary fiscal policy to focus on the critical areas with significant investments which include urban infrastructure and connectivity, urban housing, healthcare and education infrastructure is the need of the hour. The High-Powered Expert Committee on Urban Infrastructure in 2011[16] estimated a requirement of Rs. 39.2 lakh crore (at 2009-10 prices) to facilitate urban spaces to become engines of growth. This sector needs immediate attention and a bigger investment which has a

[14] https://www.youtube.com/watch?v=v9oNzRc0Vjs

[15] https://www.thenewsminute.com/article/nearly-rs-2000-cr-outside-treasury-can-be-remitted-back-tn-govt-account-min-ptr-157159

[16] https://icrier.org/pdf/FinalReport-hpec.pdf

higher multiplier effect can aid significantly to the economic recovery. This can create private investment, employment, boost the demand and improve the standard of living in urban areas.

Urban housing is another important area that needs critical reforms and investment. About 65% of 8000 urban settlements in India do not have any master plan[17]. Urban services are par below the world standards (Table 9) and have a long way to go in terms of provisioning of services, its inclusivity and cost recovery. This is an area which needs reforms, investment and welfare approach through cross subsidy.

Table 9: Ranking of India and other countries on parameters of service delivery (2018)[18]

Services	India	Brazil	Russia	China	USA
Quality of roads	51	112	104	42	11
Electrification rate	105	73	1	1	1
Exposure to unsafe drinking water	106	57	54	75	1
Reliability of water supply	74	78	53	68	27
Infrastructure	63	81	51	29	9

Source: Global Competitiveness Report (2018), World Economic Forum; PRS.

As pointed out by Nobel Laurate Abhijeet Banerjee[19], there is a need for demand bounce after the massive demand shock. The investment in healthcare and education infrastructure including the skilling and recruitment is an important area that supports the growth and productivity apart from boosting the demand. Increased allocations in the employment generation programs such as MGNREGA, Gram sadak Yojna, urban employment program can ameliorate the living of the needy population. Increase in the allocations for food and nutrition security as well as the

[17] https://www.niti.gov.in/sites/default/files/2021-09/UrbanPlanningCapacity-in-India-16092021.pdf
[18] https://prsindia.org/budgets/parliament/demand-for-grants-2023-23-analysis-housing-and-urban-affairs
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social security pensions can assist the poor sections of the population in a very significant manner.

Improving the efficiency of the reach of welfare schemes is another area that needs focus. Bundling of schemes to reach the vulnerable population receiving benefits from multiple schemes needs to be looked into in a serious manner to reduce the transaction costs and delays apart from trimming schemes of very low budget and importance. Expansion of the borrowings to fiscal limit can significantly help the fiscally prudent states like Maharashtra, Karnataka, Tamil Nadu, Telangana and Odisha to expand the welfare expenditure along with increasing the capex. Given that tax rates are not in the hands of states, states need to focus on efforts to expand the tax base and improving the collections.

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