

GST COLLECTION MIGHT HAVE CROSSED RS 1.20 LAKH CRORE MARK IN JAN'21: RECORD CASH BALANCES TO MITIGATE GOVERNMENT BORROWINGS THROUGH MARKET IN FY22 TOO

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The Government's ongoing efforts are bearing fruit in the form of GST collections. After clocking record collections in Dec'20 month (Rs 1.15 lakh crore), our internal simulation model indicates that **Jan'21 GST collections will be in the range of Rs 1.21-1.23 lakh crore and may still have an upside**. The positive trend which started from Sep'20 has sustained and gained momentum. Given that the Jan'21 numbers are expected to be the highest ever, if 50% of the IGST collected is disbursed to states by Mar'21, then state GST shortfall can narrow down to only a minimal Rs 11,000 crore after taking into account the full compensation cess.

Meanwhile, the Government has already borrowed Rs 11.46 lakh crore (as on 22 Jan'21) this fiscal and the remaining gross borrowing of Rs 1.6 lakh crore is expected as per the calendar, thereby taking the total gross borrowing to Rs 13.03 lakh crore, lower than Rs 13.10 lakh crore earlier. However, Government surplus cash balances have increased significantly recently. The number has increased to Rs 3.34 lakh crore as on 28 Jan'21 compared to Rs 1.08 lakh crore in Sep'20. Thus the market perception of upward pressure on bond yield due to increased borrowing next fiscal or even this fiscal is not correct. The surplus cash balances can well be used to finance a sizeable portion of fiscal deficit in FY22 and thus keep interest rate increase in check and thereby fasten the pace of recovery further. The other option is to also use a portion of cash balances to spend and pay back all outstanding dues of FY21, like outstanding SME payments from Government departments, pending GST bills which in itself will usher in a big fiscal push in FY22. Clearly, we could be in for a goldilocks period. The question is can we go for the jugular?

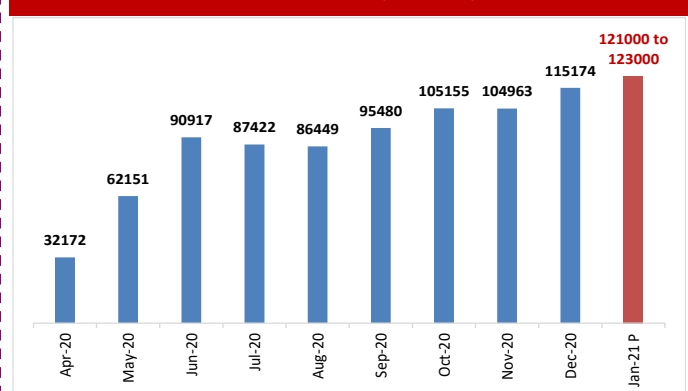
RECORD GST COLLECTION FOR JAN'21 IN OFFING

- Government's ongoing efforts are bearing fruit in the form of GST collections. After clocking record collections in Dec'20 month (Rs 1.15 lakh crore), our internal simulation model indicates that **Jan'21 GST collections will be in the range of Rs 1.21-1.23 lakh crore**. The increase in tax collections is mainly due to the 'combined effect of the rapid economic recovery post-pandemic and the nationwide drive against GST evaders and fake bills along with many systemic changes introduced recently, which have led to improved compliance. Further, the recent changes introduced and effectively implemented in GST technology platform like e-invoicing and of matching of supplier invoices along with strict enforcement by revenue authorities in checking fraudulent invoices, has induced an enhanced degree of reporting compliance.

STATE FINANCES IMPROVING

- Dec'20 GST revenue was 12% higher than the GST revenues in the same month last year. The positive trend which started from Sep'20 has sustained and has gained momentum.
- The SGST collection for states is 12% lower at Rs 1.87 lakh crore in Apr-Dec'20 vis-à-vis Apr-Dec'19 and the allocated IGST is 13% lower at Rs 1.26 lakh crore. Meanwhile the cess collection is Rs 60,312 crore which is again 17% lower than last year. The combined amount of SGST, Allocated IGST and Cess stands at Rs 3.73 lakh crore, which is 13% lower than last year's collection in the same period and it is equal to 58% of the states' budgeted SGST which is Rs 6.49 lakh crore.
- The gap between last year and this year's cumulative revenue is narrowing as GST collections have improved. Given that the Jan'21 numbers are expected to be the highest ever, as per our projections, if 50% of the IGST collected is disbursed to states by Mar'21, then state GST shortfall can narrow down to around Rs 11,000 crore after taking into account the full compensation cess. However, the Apr-Dec'20 average allocation shows that states have got only 31% of the allocated IGST. If the Centre keeps 60% of the IGST revenue, then the states could be staring at a shortfall of around Rs 67,000 crore.

GST Collections (Rs Crore)



Source: SBI Research; P: SBI Estimate

RECORD HIGH GOVERNMENT SURPLUS CASH BALANCES

- Government surplus cash balances have increased significantly recently. The number has increased to Rs 3.34 lakh crore as on 28 Jan'21 compared to Rs 2.26 lakh crore in Dec'20 and Rs 1.08 lakh crore in Sep'20. Past data indicates that the surplus cash balance rise in January is a trend that has hitherto not been observed.
- This indicates that the Government is collecting huge amount of tax revenues which it is not able to spend. This in turn means that the Government will have to borrow less next year than our earlier anticipated gross borrowing of Rs 11.5 lakh crore. Thus the market perception of upward pressure on bond yield due to increased borrowing next fiscal may not be correct. The current GST revenue trend if continues can be positive for the bond market by reducing the need for dated securities market borrowing.

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