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FARM LOAN WAIVERS TO HAVE MINIMAL IMPACT ON STATE DEFICITS: INDIA RATINGS

Relevant for: Indian Economy | Topic: Issues related to direct & indirect Farm Subsidies and MSP

MUMBAI: Even as farm loan waivers to come at the cost of capacity expansion in industry, such waivers have minimal impact on fiscal deficit according to ratings firm India Ratings. This has prompted the ratings firm to assign a stable outlook for states, many of whom have announces huge farm loan waivers in recent months.

The ratings firm expects the aggregate fiscal deficit of states to come in higher at 3.2% in FY'20 than the agency's forecast of 2.8% in its FY'19 Mid-Year Outlook. Although this is higher than the fiscally prudent level of 3% of the gross domestic product (GDP), the ratings firm expects that this will not pose a significant upside risk to states' aggregate debt burden in FY20.

States' revenue account on aggregate is expected to clock a deficit of 0.5% of GDP in FY'20 due to a higher growth in revenue expenditure than in revenue receipts. The competitive populism, in the nature of farm loan waivers and other financial support schemes, would take centre stage in the run-up to next general elections in May 2019, it said. A larger impact is expected on fiscal and revenue deficit to gross state domestic product ratios for Madhya Pradesh, Kerala and Rajasthan, in FY20.

On the expenditure side, states' aggregate revenue expenditure is expected to grow 18.9% y-o-y to Rs 33.3 lakh crore in FY'20 from 11.2% in FY'19. The announcement of farm loan waivers by Madhya Pradesh, Chhattisgarh, Assam and Rajasthan in December 2018 extends the list of states that have resorted to this mechanism to address farmers' distress. Additionally, Odisha and Jharkhand announced schemes to provide financial assistance to small and marginal farmers along the lines of the Rythu Bandhu Scheme implemented in Telangana.

During periods of fiscal adjustment, capex becomes a soft target for deficit control. Ind-Ra expects states' aggregate capex/GDP to come in marginally lower at 3.0% in FY20 from the budget estimate of 3.07% for FY19. The agency believes capex/GDP could come in below 3% for Tamil Nadu, Haryana, West Bengal and Kerala in FY20.

Ind-Ra expects the aggregate debt/GDP to rise to 25.1% in FY20 from the budgeted 24.3% for FY19. The agency does not view the increase to be detrimental to states' debt sustainability position, although states would channelise some part of borrowings towards meeting revenue expenditure. In Ind-Ra's opinion, Madhya Pradesh, Tamil Nadu and Kerala are most susceptible to clock an increase in the debt burden in FY20.

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