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OLD PENSION SCHEME TO RESTRICT STATES' CAPACITY TO UNDERTAKE DEVELOPMENT ACTIVITIES: RBI

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Public Finance, Taxation & Black Money incl. Government Budgeting

Mumbai: Sounding a note of caution, a Reserve Bank report has said that reverting to the DA-linked Old Pension Scheme (OPS) will exert huge pressure on state finances and restrict their capacity to undertake developmental expenditure. The Reserve Bank's report on 'State Finances: A Study of Budgets of 2023-24' also said the provision of non-merit goods and services, subsidies, transfers and guarantees will render their fiscal situation precarious.

The governments of Rajasthan, Chhattisgarh, Jharkhand, Punjab, and Himachal Pradesh have informed the central government and Pension Fund Regulatory and Development Authority (PFRDA) about their decision to revert to OPS for their state government employees.

These state governments have requested for withdrawal/ refund of contribution, along with return thereon, the finance ministry has recently informed Parliament.

The central bank's report said the return to the Old Pension Scheme by a few states, and reports of some other states moving in the same direction would exert a huge burden on state finances and restrict their capacity to undertake growth-enhancing capital expenditures.

"Internal estimates suggest that if all the state governments revert to OPS from the National Pension System (NPS), the cumulative fiscal burden could be as high as 4.5 times that of NPS, with the additional burden reaching 0.9 per cent of GDP annually by 2060," the report said.

This, the report said, will add to the pension burden of older OPS retirees whose last batch is expected to retire by early 2040s and, therefore, draw pension under the OPS till the 2060s.

"Thus, any reversion to OPS by the states will be a major step backwards, undermining the benefits of past reforms and compromising the interest of future generations," it said.

The report noted that some states have budgeted for fiscal deficits exceeding 4 per cent of GSDP in 2023-24 against the all-India average of 3.1 per cent.

They also have debt levels exceeding 35 per cent of GSDP against the all-India average of 27.6 per cent.

"Any further provision of non-merit goods and services, subsidies, transfers and guarantees will render their fiscal situation precarious and disrupt the overall fiscal consolidation achieved in the last two years," it said.

According to the report, the improvement achieved in state finances in 2021-22 was sustained in 2022-23, with the combined states' gross fiscal deficit (GFD) contained at 2.8 per cent of gross domestic product (GDP) - below the budget estimates for the second consecutive year - primarily through a reduction in the revenue deficit.

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