

GOVT RAISES STATES' BORROWING LIMITS FOR FY21 TO 5% OF GSDP FROM 3% NOW

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NEW DELHI: The Centre on Sunday raised borrowing limits for states for the current fiscal to 5% of gross state domestic product (GSDP) from 3% at present, allowing them fiscal headroom of 4.28 trillion, subject to their carrying out specific reforms.

While both the Union and state governments have been struggling due to dwindling revenues following the near halt in economic activities because of the lockdown, the condition has been more precarious for states. They have been asking the Centre to allow them to borrow more from the market to finance coronavirus-related expenses.

Allowing extra borrowing limits for states, as part of the reform package, finance minister Nirmala Sitharaman said part of the borrowing will be linked to specified reforms, including recommendations by the 15th Finance Commission such as ensuring sustainability of additional debt through higher future GSDP growth and lower deficits, promoting welfare of migrants and reducing leakage in food distribution, increasing job creation through investment, safeguarding interests of farmers while making the power sector sustainable and promoting urban development, health and sanitation.

Of the 200 basis points raise, the first 50 basis points will be unconditional while the next 100 basis points will be divided into four tranches of 25 basis points each, with each tranche linked to clearly specified, measurable and feasible reform actions. These include reforms in four areas such as universalization of "one nation one ration card", ease of doing business, power distribution and urban local body revenues.

The last 50 basis points of the extra borrowing will be allowed if milestones are achieved in at least three out of four reform areas.

Sitharaman said the Centre has been assisting the states to mitigate the revenue shortfall and the Reserve Bank of India had in March allowed them to frontload 75% of their borrowing in the June quarter. "States have so far borrowed only 14% of the limit authorised. 86% of the authorised borrowing remains unutilized," she added.

D.K. Srivastava, chief policy advisor at EY India said many state governments may not avail the entire incremental amount due to the likelihood of a tangible increase in the borrowing cost because of the large gap that appears to be emerging between the total public sector borrowing requirement (PSBR) and the available resources.

"With the enhanced borrowing program of the centre and states and the borrowing requirement of the public sector enterprises, we consider the total PSBR to be about 14% of GDP in FY21 as against available resources of about 9.5% of GDP. States have already experienced a sharp increase in their cost of borrowing as the yield of 10-year state government bonds auctioned on 7 April 2020 rose by nearly 100 basis points as compared to that which prevailed a month before," he added.

India Ratings and Research has estimated total revenue loss of around 97,100 crore for 21 major states for April due to the lockdown. Things are likely to improve in May following the

easing of restrictions such as allowing liquor sales by many states and associated increase in excise duty. Also, some states have raised local taxes on petrol and diesel.

"Although the lockdown is going to adversely impact the revenue performance of all the states, those with a high share of own revenue in the total revenue would be the worst impacted. In this regard, the states that stand out are Goa, Gujarat, Haryana, Tamil Nadu, Telangana, Karnataka, Maharashtra and Kerala as 65%-76% of their revenue comes from their own sources," the rating agency added.

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