

Balooning State Debt

Why in news?

\n\n

The newly elected government of Uttar Pradesh presented its first Budget last week.

\n\n

What is the major issue?

\n\n

\n

- Uttar Pradesh was already deeply indebted, with a state debt to state GDP ratio of around 30%.

\n

- But, the BJP led government has **promised to waive off large amounts of agricultural debts** in its run up to election.

\n

- The loan waiver might cost as much as Rs 36,000 crore.

\n

- Further, the Union Finance Minister has specifically said that the central government would not pay for the loan waiver.

\n

\n\n

How does the budget propose to manage this burden?

\n\n

\n

- The budget says, the extra spending will be managed through two changes from the interim Budget presented earlier.

\n

- First, the government has **reduced its power allocation** by Rs 16,800 crore.

\n

- And second, total revenue is projected to increase by 18.6 per cent over the previous year.

\n

- It turns out that much of this increase will, in fact, be **through grants from the Centre**, regardless of Finance Minister's assurances.
 \n
- According to the Uttar Pradesh Budget, grants from the Centre will grow by an unusually large 39 per cent to Rs 68,000 crore.
 \n
- If for some reason that largesse from the central government does not materialise, **then the state's fiscal deficit will only rise.**
 \n

\n\n

Is the problem unique to U.P.?

\n\n

- Other states that have promised farm loan waivers will **have similar problems** in raising revenue while meeting their fiscal targets.
 \n
- State-level finances were already showing signs of serious strain.
 \n
- The pressure is growing on other states across the country to meet demands from farmers under stress after two consecutive droughts followed by demonetisation.
 \n
- For the first time in a decade, the ratio of gross state fiscal deficits to their GDP **crossed the 3% threshold** to hit 3.6%.
 \n
- The **RBI report on state finances** also warned that, aside from loan waivers, state finances would suffer from the implementation of **7th Pay Commission** recommendations.
 \n
- States would also suffer from the revenue uncertainty associated with the implementation of the **goods and services tax.**
 \n
- Because of this, the capital expenditure might suffer, particularly expenditure targeted towards the agricultural sector, which has faced underinvestment for years.
 \n

\n\n

\n\n

Source: Business Standard

\n

