Farm loan waivers and State Government's Capex

Why in news?

Farm loan waivers announced by a number of states recently will adversely impact the combined state government capex — capital expenditure — spending on projects.

What is the share of state capital expenditure in the country's growth?

- State government capex is a major driver of investment growth in the Indian economy.
- Historically, it has been higher than capex undertaken by the central government.
- It is budgeted to be higher by 37.5 %for FY19 and was 36. % higher as per FY18 RE (revised estimate).

What is the trend of combined state capex compared to the centre's capex?

- The report states that a significant part of the additional revenue awarded to the states by the 14th Finance Commission was spent on capex.
- As a result, the combined capex of state governments increased to 3.1 % of GDP in FY16 from 2.4 %in FY15.
- During the same period, the central government's capex increased to 1.8 % of GDP from 1.6 % of GDP.
- In the subsequent years, the combined state government capex has remained at 3.0 % of GDP or higher.
- Further, it grew at 17.8 % CAGR during FY01-FY17BE, while the central government's capex rose by 14.6 % CAGR.

Why the state capex is affected if the farm loan is waived?

- However, during periods of fiscal adjustment, like the one that is bound to arise due to farm loan waivers, capex becomes a soft target for deficit control.
- This has already been witnessed in the case of Maharashtra, Rajasthan and Karnataka, which had announced farm debt waivers outside the budget in FY18.

THE DRAIN ON THE EXCHEQUER

	Loan waiver (Rs cr)	Budget size* (Rs cr)	Debt-GSDP ratio* (%)
Chhattisgarh	6,100	78,623	16.3
MP	35,000-38,000	1,64,295	25.2
Rajasthan	18,000	1,90,615	33.2
Karnataka	42,165**	1,81,503	17.9
Maharashtra	34,500	3,23,652	17.4
Uttar Pradesh	36,359	3,68,401	25.0
Punjab	9,500-10,000	1,12,797	42.1

**Revised estimates for 2017-18; **Includes Rs 8,165 crore waiver of the previous Siddaramaiah-led Congress government.*

- Despite revenue receipt surpassing the budgeted amount, these states could not keep revenue deficit at the budgeted level, as the farm loan waivers led to a rise in revenue expenditure.
- Rajasthan and Karnataka reduced their capex by 12 % and 2.5 %, respectively, to offset the increased revenue expenditure.
- But these states still failed to keep fiscal deficit at the budgeted level.
- Meanwhile, in the case of Maharashtra, capex saw a contraction despite fiscal deficit/Gross State Domestic Product being lower than the budgeted figure.

Why the state's capital expenditure is crucial for the country's economic and social growth?

- From the perspective of both capex and endowment of human resources, which are crucial for achieving sustainable growth, the role played by state governments is more crucial than generally perceived.
- Therefore, the report stresses that the policy makers as well as companies should focus more on the state governments' budgets than the central government one.
- The capex spend in the budget is divided between developmental and non-developmental items.
- With the exception of FY08, the share of states' developmental capex during FY01-FY17BE in the total capex of the centre and states was in excess of 70%.
- It peaked at 81.6 % in FY09 and stood at an average of 75.7% during FY01-FY17BE.

Source: The Indian Express

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