Balooning State Debt

Why in news?

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

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What is the major issue?

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- Uttar Pradesh was already deeply indebted, with a state debt to state GDP ratio of around 30%.
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- But, the BJP led government has **promised to waive off large amounts of agricultural debts** in its run up to election.
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- The loan waiver might cost as much as Rs 36,000 crore.
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- Further, the Union Finance Minister has specifically said that the central government would not pay for the loan waiver.
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How does the budget propose to manage this burden?

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- The budget says, the extra spending will be managed through two changes from the interim Budget presented earlier.
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- First, the government has **reduced its power allocation** by Rs 16,800 crore.
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- And second, total revenue is projected to increase by 18.6 per cent over the previous year.
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- It turns out that much of this increase will, in fact, be **through grants from the Centre,** regardless of Finance Minister's assurances.
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- According to the Uttar Pradesh Budget, grants from the Centre will grow by an unusually large 39 per cent to Rs 68,000 crore.
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- If for some reason that largesse from the central government does not materialise, **then the state's fiscal deficit will only rise.**
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Is the problem unique to U.P.?

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- Other states that have promised farm loan waivers will **have similar problems** in raising revenue while meeting their fiscal targets.
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- State-level finances were already showing signs of serious strain.
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- The pressure is growing on other states across the country to meet demands from farmers under stress after two consecutive droughts followed by demonetisation.
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- 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%.
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- The **RBI reporton state finances** also warned that, aside from loan waivers, state finances would suffer from the implementation of **7thPay Commission** recommendations.
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- States would also suffer from the revenue uncertainty associated with the implementation of the **goods and services tax**.
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- Because of this, the capital expenditure might suffer, particularly expenditure targeted towards the agricultural sector, which has faced underinvestment for years.
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Source: Business Standard

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