Revised Borrowing Plan

Why in news?

The Union government revised the borrowing plan for the current fiscal year.

What is the concern?

- India has stuck to the budgeted borrowing target at the beginning of this fiscal year.
- As per the Purchasing Managers' Index, the spread of Covid-19 and the ongoing lockdown have severely affected the economic activity.
- Contraction in economic activity will directly affect government finances.

Why the borrowing target was reached so soon?

- Government needs to spend on containing the spread of the pandemic and support the economy with significantly reduced revenue.
- Thus, it has increased the borrowing target by over 50% to Rs 12 trillion in the current year.
- But this may not be for a fiscal stimulus that many have been waiting for.
- Additional borrowing might be used to cover the shortfall in receipts.
- Government will witness shortfalls on account of tax collection, lower dividend from public sector undertakings and disinvestment receipts.
- They are estimated at Rs 2.1 trillion in the current year.

What would create confusion?

- The expansion in government borrowing was inevitable.
- But the manner in which the government borrowing was announced might create confusion in financial markets.
- The government finances were under pressure even before the pandemic forced a virtual economic shutdown is making things more difficult.
- Revenue projections for the year were fairly optimistic and would now leave a bigger hole to be filled by borrowing.
- It is important for the markets to know if extra borrowing would cover the shortfall in receipts.
- Also, it is important to know if the extra borrowing how the government intends to support the economy at this critical stage.
- Further, the increase in government borrowing will **affect bond yields**.

How could the RBI help?

- It is likely that the Reserve Bank of India (RBI) will try to manage the yield curve through open market operations.
- But it remains to be seen as to what extent it succeeds with the existing excess liquidity in the system.
- If inflation is under control and there is no risk to financial stability, the monetary policy committee of the RBI could **cut policy rates** sharply.
- This rate cut would have helped the government borrow at lower rates.
- While the Central government has expanded its own borrowing programme, it is not clear how state governments are expected to manage their finances.

What could be done?

- It is important for policymakers to effectively communicate their stance in order to avoid uncertainty in financial markets.
- The government should present a **credible macroeconomic picture** with a plan to return to normalcy.
- **Transparency** and **effective communication** at this stage can contain considerable damage.

Source: Business Standard

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