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.

- 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

SHANKAR IAS PARLIAMENT
Information is Empowering