States petition Centre for economic lifejacket

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Even as the Centre extended the national lockdown by two weeks from May 3, several Opposition-ruled States have intensified demands before the Centre for specific economic measures including immediate disbursement of GST arrears, easing FRBM norms besides relaxing central guidelines on sale of liquor.

States are busy designating Covid-19 affected areas as red, orange and green zones, depending on intensity of infection, to frame an exit strategy from the lockdown. But their first priority for the moment is to push the Centre to ease fiscal constraints.

Chhattisgarh CM to Modi
Chhattisgarh Chief Minister and Congress leader Bhupesh Baghel wrote to Prime Minister Narendra Modi on Friday demanding relaxation in the State's borrowing limit to six per cent of the Gross State Domestic Product (GSDP) for this financial year. He also demanded that the State should be exempted from maintaining fiscal deficit equal to five per cent of the GSDP.

He said such measures are absolutely essential for raising economic resources for providing relief at the time of the lockdown, and suspension of all economic activity. Several other States have also dashed off urgent missives to the Centre demanding relaxation in running liquor/beverage shops to raise revenue from excise duty. Recently, Opposition parties had met on the subject of fiscal federalism at the time of Covid-19.

Thomas Joseph, Director and Professor at the Gulati Institute of Finance and Taxation, an institution under Kerala Government, which organised the Opposition convention on the fiscal constraints faced by the States, said an assistance to the tune of at least seven to eight per cent of the GSDP is required to help the States tide over the economic crisis in the Covid-19 pandemic.

He said the Opposition finance ministers and economists are preparing a charter to be submitted to the Centre on or before May 3 (when the second phase of lockdown was to end). “The States are at the forefront of fighting the pandemic. But the existing financial arrangements are such that States are under severe constraints. They have kept aside enormous expenditure to help people survive. Centre should not shy away from helping States and should spend at least seven to eight per cent of the GDP to fight this crisis,” he said.

He said almost all States agree that there has to be more assistance from the Centre.

“There is no other way but to borrow from the Reserve Bank. Fears of inflation are very unlikely in this scenario. The Centre should stimulate the MSMEs and purchasing power of people. What the Centre has done is not enough. States do not have money. They are facing huge deficit,” he said and added that Baghel’s demand is justified. “There is no empirical or theoritical base for FRBM Act. Borrowing limits should be increased to at least five per cent,” Joseph said.

States losing revenues
Chief Minister Baghel said the lockdown has not only led to revenue loss for Chhattisgarh, but also badly affected the economically weaker section of society, including daily wagers, labourers, small shopkeepers and rural households.

“Since it is the harvesting season, farmers are also facing difficulty in harvesting and selling crops,” he said.

As an exception this year, the limit on financial deficit of the State should also be enhanced to five per cent of the GSDP, Baghel said.

Baghel said that the Union Finance Ministry’s consent to the State for borrowing ₹5,375 crore from the market, which is equal to 50 per cent of the State’s net lending limit for the first nine months of this financial year, is insufficient to meet the expenditure in this period.

Recently, Chief Minister of Punjab Amarinder Singh and his counterpart in Tamil Nadu Edappadi K Palaniswami had also written to the Prime Minister on economic issues. “The fiscal deficit limits of 3 per cent of GSDP may be increased to 4.5 per cent for 2019-20 and 2020-21. Additional borrowing of 33 per cent above the permitted level for fiscal year 2019-20, may be allowed for 2020-21. The GST compensation for December-January may be released now,” Palaniswami said in the letter.

“With the States continuing to shoulder their committed liabilities and facing new demands on relief, health infrastructure expenditure, it is only fair and just that the 15th Finance Commission should be requested to recommend a special covid-19 Revenue Grant for the year 2020-21,” Singh had said in the letter.