SUPPLEMENTARY DEMAND

FM: Will not renege on pledges to states

Lok Sabha clears extra spending of ₹2.36 lakh cr with net cash outgo of ₹1.67 lakh cr

FE BUREAU
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FINANCE MINISTER Nirmala Sitharaman on Friday rejected the Opposition’s criticism that the Centre had blocked money meant for states, highlighting that while gross tax revenue dropped by close to 29.5% year on year in the April-July period, the Centre’s devolution to states dipped by only a fraction of the rate.

Sitharaman was replying to a debate on the first batch of supplementary demand for an additional spending of ₹2.36 lakh crore during the current fiscal, which was cleared by the Lok Sabha.

The minister said despite the pandemic and the crash in the gross tax collection to ₹3,80,000 crore in the April-July period from as much as ₹5,39,068 crore a year before, the tax devolution to states stood at ₹1,76,009 crore in the first four months of this fiscal, compared with ₹1,99,000 crore in the year-ago period.

She also asserted that the Centre has transferred 7% more money to states than the level it has kept for itself.

Commenting on the issue of shortfall in GST compensation cess funds, the minister said the GST Council will take a final call on this issue but the law doesn’t allow the transfer of funds from the Consolidated Fund of India to bridge the deficit.

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AS THE TAX collections falter and calls for more fiscal stimulus intensify to reverse a Covid-induced slide in growth, the government had placed the supplementary demand, which involved a net cash outgo of ₹1.67 lakh crore. Gross expenditure of another ₹68,868 crore will be by savings of the ministries/departments or by enhanced receipts/recoveries. This signals an expansion of the budget size for FY21 from the estimated ₹30.4 lakh crore, despite the resource constraints.

As the economy requires a massive credit push to get back on its feet, the supplementary demand includes ₹20,000 crore for infusion into state-run banks (it was not part of the FY21 Budget) to facilitate further lending. It also seeks ₹40,000 crore towards enhanced expenditure under the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS). This is over and above the budgetary allocation of ₹61,500 crore, making it the highest annual allocation for the job scheme, Sitharaman said. The supplementary demand includes a total of 54 grants and one appropriation.

“Launching MGNREGS is one thing but implementing it properly, without leakages and by benefitting the intended beneficiaries is clearly another thing,” Sitharaman said.

GST revenues have been way below the targets for last few months; the GST Council has recently estimated the shortfall in states’ GST receipts for FY21 (after factoring in the compensation cess proceeds) at a whopping ₹2.35 lakh crore. A big shortfall against the Centre’s budgeted GST receipts is also evident.

At least 12 states have already opted for the first of two borrowing options mooted by the Centre to bridge their GST revenue shortfall in FY21, which means they will borrow to make good the shortfall to the extent of that caused by the GST implementation without incurring any interest cost themselves. Also, they will get additional fiscal headroom without riders.

This option, which the Centre wants to incentivise, entails total borrowings of ₹97,000 crore by all states combined. The other option is to borrow to offset the entire shortfall of ₹2.3 lakh crore, inclusive of the part caused by Covid-19 pandemic. The Centre has made it clear that both the options don’t undermine the commitment to fully compensating the states for the GST shortfall.

The states that have preferred the first option are Andhra Pradesh, Bihar, Gujarat, Haryana, Karnataka, Madhya Pradesh, Meghalaya, Sikkim, Tripura, UP, Uttarakhand and Odisha. Punjab, Kerala, Tamil Nadu, West Bengal and Delhi have objected to the idea of states borrowing from the market. These states have maintained that the Centre must raise the loan to bridge the gap between their protected GST revenue and the actual collections.

Some analysts have said the revenue shortfall and extra stimulus requirements could warrant an additional resource mobilisation of ₹8.5-9.5 lakh crore over and above the likely budget revenue receipts in FY21. Given the massive plunge in revenue, the Centre was forced to raise its FY21 borrowing by ₹4.2 lakh crore from the budgeted level to ₹12 lakh crore. Of this, it has already raised ₹7.1 lakh crore from the market, which is 73% higher than a year earlier.

Nevertheless, mindful of its fragile fiscal position, the government of late applied brakes on certain spending. Its expenditure in July grew just 6% on year, compared with 46% growth achieved in June and the budgeted spending growth of 13.2% for the whole of FY21.

According to ICRA, the shareable tax pool may turn out to be ₹13.4 lakh crore in FY21, 30% lower than the budgeted amount of ₹19.1 lakh crore. The agency has projected the central tax devolution to the state governments at about ₹5 lakh crore (after adjusting for Centre’s extra transfers of ₹48,400 crore in FY20) in FY21, a substantial ₹2.8 lakh crore lower than the ₹7.8 lakh crore budgeted.