

GST Compensation Row Should Aid Enactment of Govt Debt Law

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THE reluctance by both the Centre and the Opposition-ruled States to bite the additional debt bullet on GST count is welcome. Yes, welcome because it offers fresh opportunity to the Nation to focus on the perils of excessive borrowings.

As we know, the Centre does not want to borrow money from capital market to pay GST compensation to the States. The Centre instead wants States to borrow against future receipts of GST compensation cess. The accruals into this cess fund are disbursed to States whose GST receipts fall short of threshold level of 14% growth over preceding year.

The opposition-ruled States believe that it is Centre's responsibility to find resources to meet its constitutional and statutory obligation to compensate States for messy GST reforms.

The concern over unsustainable borrowings figures in the Constitution under Article 292 & 293. The Government has never cared to enact a debt ceiling law to articulate the spirit of this Clause. This is in spite of the repeated recommendations by Finance Commission (FC) and expert committees over the decades.

The Covid-19 pandemic-driven lockdowns are pushing global and national debts to alarming levels. This is cause for concern as unsustainable debt endangers financial system. If not managed, unsustainable debt can trigger global financial meltdown.

As usual, the Government is found wanting in making projections on GDP contraction, fall in revenue growth and the resulting rise in debt. We have to thus rely on debt forecast by reputed entities.

According to a study by Motilal Oswal Financial Services,

"India's general government (center + states) debt rose to 75% of GDP in FY20 from 70% in FY18. It is likely to reach 91% of GDP in FY21 (the highest level since 1980 – since the availability of data) and stay at >90% of GDP up to FY23. This surge in India's government debt-to-GDP ratio would restrict its ability to grow its spending significantly and support economic activity in the 2020s decade, as it has done in the past few years".

Similarly, McKinsey Global Institute (MGI) has projected increase in government debt from roughly 68 percent of GDP in 2018 to more than 80 percent in 2020-21.

In a recent report titled ***'India's turning point -An economic agenda to spur growth and jobs***

', MGI reckons that the country has the potential to reduce Government debt back to 68% of GDP in 2030. The report has suggested a slew of reforms to shore up revenue to improve expenditure efficiency to cut debt in post-Covid period.

We do understand the need for the governments to borrow more in exceptional times to revive the economy. Simultaneously, we believe that debt should be reduced in phases in the post-Covid period for restoration of economic health.

In March 2018, Finance Ministry unveiled a road-map for sustainable government debt through Finance Act, 2018 and Fiscal Responsibility and Budget Management (Amendment) Rules, 2018.

The road-map provides for reduction in Government debt to 60% of GDP by the end of financial year 2024-2025. It also provides for reduction in the Centre's share of government debt to 40% with the balance 20% being the States' combined share with the same timeline.

Covid & lockdowns have made these targets impossible to achieve. As it is, this road-map is a deviation from the one recommended by FRBM Review Committee in its report submitted to the Ministry in January 2017. Chaired by Dr. N.K. Singh, the Committee had recommended

attainment of these objectives in 2022-23.

The Ministry did not disclose when and whether it would reach '40-20' % debt allocation agreement with the States to affirm cooperative federalism. It also left open the issue of allocating States' 20% share of debt among the States.

Time is now ripe to enact national law to fix ceiling of Government debt as 60% GDP, which is global standard for sustainable public debt. The proposed law should fix the share of Centre and the States in total Government debt. It should also provide norms for allocation of total States debt among the States.

It is pertinent to note that Finance Ministry had rejected FRBM Review Committee's most crucial recommendation. It called for replacement of FRBM Act with a new enactment via 'The Debt Management and Fiscal Responsibility Bill, 2017'. This bill was drafted by the Committee.

The 15th Finance Commission (15th FC) again indirectly put debt ceiling on national agenda in its interim report made public in January 2020. It observed: ***"The country needs an overarching legal fiscal framework that would mirror the revised FRBM Act, define the roles and responsibilities of key stakeholders, as well as the budgeting, accounting, internal control and audit standards to be followed at all levels of government"***.

15th FC thus recommended that Government should constitute an expert group (EG) to draft such a legislation. It believed this would be an important first step in establishing a statutory framework to implement the essential features of a sound Public Financial Management System in keeping with the international best practices. EG should specify those aspects of the legislation that will require consistent legislation at the level of the states, it added.

Prior to this, the 14th FC, in its report released in February 2015, recommended:

"We, therefore, urge the Union Government to replace the existing FRBM Act with a Debt Ceiling and Fiscal Responsibility Legislation, specifically invoking Article 292 in its preamble. This could be an alternative to amending the existing FRBM Act as proposed by us. We urge the State Governments also to consider similar enactments under Article 293(1)."

Earlier FCs, Public Accounts Committee (PAC) and other panels have repeatedly called for enactment of debt ceiling law.

The Government ought to start on a clean slate with full transparency on debt management. The first step in this regard should be a realistic and wholesome definition of Government debt. It should include all off-budget borrowings.

The debt should include the regular roll-over of payments to industries to the next year. The fertilizer subsidy dues being the most blatant and regular case in point.

The debt defining exercise should be accompanied by full disclosure of contingent liabilities that can devolve on the Central or State Government in case of default by entity that borrowed with government guarantee.

As put by a National Institute of Public Finance and Policy (NIPFP) study for 15th FC,

"Different definitions can be used to describe the extent of indebtedness of governments. Whereas public debt is closely related to the fiscal operations of the government, generally a broader definition of total liabilities is preferred. This includes liabilities on public account but excludes borrowing by public sector undertakings".

NDA Government should, therefore, signal the dawn of new era "refinement of all fiscal laws to remove ambiguities and to shun avoidable disputes of GST compensation type. Legal clarity on all issues would help all stakeholders of economy to focus on Vikas.

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