



Centre's Financial Support - Pandemic Times

What is the issue?

- The states are having a tough time in tackling the COVID-19 pandemic, especially financially.
- The Centre needs to support States financially, for them to efficiently fight the virus.

What is the States' financial scenario?

- The States' main own revenue sources that account for half their total revenues are mainly from -
 - i. liquor sales
 - ii. stamp duty from property transactions
 - iii. sales tax on petroleum products
- All these are collapsed now due to the COVID-19-induced lockdown, affecting hugely the State finances.
- However, their expenditure such as on interest payments, social sector schemes, and staff salaries remains unchanged.
- They are also now called upon to spend more on their health infrastructure and on COVID-19 measures.
- In desperation, Tamil Nadu, Karnataka and Maharashtra commenced liquor sales, with outlets breaking all physical distancing norms.
- Some States have gone ahead and cut salaries of their employees and pension benefits to rein in expenses.

What is demanded of the Centre now?

- Funding support from the Centre and relaxation in borrowing rules by the RBI are crucial interventions now.
- The Centre is itself not in a comfortable place financially.
- But it at least has the means to replenish its finances through conventional and unconventional means.
- For instance, it appropriated almost all of the benefit of falling oil prices through increase in duties.

- It recently announced an increase in its borrowing by half for this fiscal.
- The burden is on the Centre to find the resources to immediately release the dues of the States.
- It must also reimburse the states for their COVID-19-related expenses.
- It could consider relaxing the fiscal deficit levels of the States from the current 3% level to at least 4.5%, just as it should relax its own level too.
- The States should at least be able to borrow more.
- The Centre should also give States the freedom to restart economic activity based on their own assessment.
- Greater leeway in restarting economic activity will relieve some of the financial stress, not just on the States but also on the Centre.

Source: The Hindu



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