M.P. caught between pandemic and penury

With revenues and economic activity drying up post lockdown, State has turned to massive borrowing to shore up finances

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The stringent lockdown imposed to curb the COVID-19 outbreak has had a crippling impact on the economy of Madhya Pradesh, where tax collection — SGST and IGST put together — dropped by close to 85% in April.

“Our collection around ₹250 crore, which is about 15% of the amount collected for the month last year. It is much lower than the target,” said Additional Chief Secretary, State Finance Department Anurag Jain.

Mining activity remains suspended across the State. Liquor shops will remain shuttered in the three red zone districts of Bhopal, Indore and Ujjain, but be partially open in the remaining six, during the continuing lockdown. There will be no curbs on liquor sales in the other 43 districts.

Falling fuel VAT

“‘In mining and excise, there is [now] hardly any revenue. The VAT on petrol and diesel has also come down to 60-65%,” said Mr. Jain.

As regards GST arrears, the Centre has settled only part of the pendency for December and January. The compensation loss for February and March of about ₹2,100 crore, and the remaining dues are still outstanding.

Staring at an imminent financial crunch, the State advanced its borrowings for April and May. The government borrowed ₹1,000 crore each on April 3 and April 10, while preparing to meet demands at least until April 14, when the lockdown was initially supposed to be lifted. Now, it plans to borrow another ₹1,000 crore in May. The advance borrowing is vital given that the open market borrowing limit is considerably lower than the State’s urgent needs.

Further, the priority is on only essential expenditure at present, relating to containing the COVID-19 pandemic, sustaining the lives of the poor, employment generation, and capital expenditure.

Under different schemes, the government has infused an additional ₹1,000 crore in the Health department to help it deal with the outbreak. Other departments will have to stick to the expenditure limit set for them. “Until now, we have not allowed the capital expenditure to suffer. But a situation may arise that some cuts may have to be made,” said Mr. Jain.

Returning to power in March after a dramatic, month-long, political tussle, Chief Minister Shivraj Singh Chouhan faced the twin challenge of making up for time lost by ramping up containment efforts and shoring up a floundering economy, as the growth rate countrywide continued a downward trend.

He requested the Centre for additional borrowing for the year. “At a time like this when the demand is low, the government should make increased meaningful expenditure, which has a bigger multiplier effect, to revive the economy,” said Mr. Jain.

Relief from RBI

Necessary relief has come from the Reserve Bank of India, which has hiked the Ways and Means Advance limit of ₹1,600 crore by 60%. To sustain up to June, Madhya Pradesh has planned to harness the raised ₹2,560 crore limit.

The new regime, where 24 Assembly constituencies will hold by-elections in four months, has begun doling out sops and freebies.

Social security schemes

Mr. Chouhan relaunched social security schemes for unorganised workers the Samadhi Yojana, a pet scheme of his previous tenure that was scrapped by the Congress regime. On May 9, he transferred ₹41 crore for the scheme which credits money via DBT.

In addition, Madhya Pradesh recently paid its share of the premium for the Pradhan Mantri Fasal Bima Yojana for the past two cropping seasons. Blaming the previous Congress regime for the pendency, Mr. Chouhan paid ₹2,200 crore. However, former Chief Minister Kamal Nath pointed out that the dues for kharif 2019 and rabi 2018-2019, had not been paid by Mr. Chouhan when he took over in 2018. The State still needs to pay its share for most recent season.

The Finance Department believes the actual payout will be much more, as the consequent claim received by farmers will help pump a multiplied sum of cash into the economy.

On May 4, Food MinisterGovind Singh Rajput announced that in just 16 days, the government had procured a record 50% more wheat than last year. This entailed a purchase worth ₹3,711.26 crore, of which around ₹2,420 crore has already been paid to the farmers. Although the Centre bears the chunk of the payment, even the meagre 5% contribution from the State is likely to further strain its finances.

In a bid to revive industries, Mr. Nath has advised Mr. Chouhan to ensure that half the SGST collected is re-funded as tax subsidy every other month. At least until March 31, he has suggested, the refund must be given to businesses and industries.