Increase fiscal deficit ceiling and allow states to borrow directly from RBI, says Kerala FM

THE Covid-19 outbreak and nationwide lockdown have hit the finances of states hard, and Kerala is no exception. Its finance minister Thomas Isaac, known for his economic sense and straight talk, is under pressure to maintain fiscal prudence and, at the same time, manage resources to keep a financially struggling state going. The revenue has fallen to almost zero and the expenditure has risen on account of the ongoing fight against the pandemic.

During an interview with TNIE Editor G S Vasu, the Kerala FM minced no words while explaining his predicament. According to him, India is in for a long recession.

Isaac said he was disappointed that Union Finance Minister Nirmala Sitharaman did not even think of holding a consultative meeting with state finance ministers despite the country facing a huge economic crisis and claimed his three letters to the Centre asking for such a consultation were not even acknowledged.

The Kerala FM said the only way for states to come out of the crisis is to borrow more. But for that to happen, the Centre has to increase the fiscal deficit ceiling and allow states to borrow directly from the Reserve Bank of India.

He also demanded that the Centre bear the entire expenditure regarding both international and inter-state migrants, as the matter comes under the Union list. Saying that all states are in agreement with his opinion that they must get full GST compensation, Isaac sought to remind the Centre that it was agreed, before the GST law was passed, that if there are no funds, payment would be made by borrowing.

According to the Kerala finance minister, the government should spend more, instead of trying to be fiscally prudent. He said this is not the time for reforms, as the country is staring at a humanitarian crisis. “You have a Covid crisis and now you would have starvation crisis. Don’t allow things to slip into that level,” he warned.

Isaac said any fiscal package from the Centre to deal with the crisis should involve large-scale income transfer to people, and separate packages for the MSME sector and states.