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'Maharashtra only state that can pay for farm loan waiver from its own resources'

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Maharashtra is the only state with the fiscal capacity to pay for a farm waiver from its own resources without breaching its fiscal responsibility commitments, according to a study by CARE Ltd.

The ratings agency has reached the conclusion from an analysis of the state budgets for the current financial year, taking into account the fiscal deficit target equivalent to 3% of gross state domestic product (GSDP) set by the 14th Finance Commission.

Earlier this week, the Maharashtra government announced a sweeping farm loan waiver for marginal farmers which is expected to cost the state government Rs30,000 crore. This follows a similar announcement by the Uttar Pradesh government in April; UP's waiver is worth Rs35,000 crore.

Farmers in states from Punjab to Tamil Nadu, reeling from factors ranging from drought and higher input prices, are staging protests demanding similar waivers.

Not only have experts warned about the moral hazard posed by loan waivers, they are also pointing to the danger of state finances being upset by such largesse, given that the central government has ruled out bearing a share of the burden.

The CARE analysis shows that among the states it analysed, Maharashtra has the highest fiscal headroom of Rs38,789 crore that it can sustain over its current fiscal deficit in order to remain on the fiscal consolidation path.

This fiscal leeway has been calculated on the basis of the current financial year's fiscal deficit projection and the additional headroom available as per the 14th Finance Commission's recommendations.

While asking states to stick to a fiscal deficit of 3% of GSDP, the panel had provided additional headroom of 50 basis points provided a state meets certain conditions such as a running a revenue surplus and a debt-to-GSDP ratio of less than 25% the previous year. One basis point is 0.01%.

Consquently, states such as Bihar, Karnataka and Telegana can run a maximum fiscal deficit of 3.5% of GSDP, and still not stray from the fiscal consolidation path.

However, their current fiscal deficits are close to the maximum permissible limit, leaving them with little leeway to meet farm loan waivers (if any are given) from their own resources.

Maharashtra has the lowest fiscal deficit ratio in CARE's sample (barring Goa) at 1.5%, which gives it the maximum headroom.

In this analysis, CARE's key assumption is that states will stick to the revenue and expenditure targets set in their budgets and will not have to compromise on any of these headings.

States' fiscal headroom

Maharashtra has the highest fiscal headroom of Rs38,789 crore that it can sustain over its current fiscal deficit in order to remain on the fiscal consolidation path

(in Rs crore)

State	Fiscal leeway	Agri loans as of 2016
Maharashtra	38,789	87,051
Karnataka	11,547	87,634
Tamil Nadu	3,160	116,878
Madhya Pradesh	74	50,589
Rajasthan	83	66,047

Note: Fiscal leeway is calculated as maximum fiscal deficit permissible minus projected fiscal deficit for current year based on state budgets

Source: CARE

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