Home / Economy / 18 states get ₹54,000 cr in capex loans

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SYNOPSIS

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NEW DELHI : Spending by states may be headed for a pick up amid concerns abou slowing economic growth, with more than half the ₹1 trillion allocated by the Centre

₹1 trillion was allocated as interest-free 50-year capital expenditure loans for states to be spent on new or ongoing projects. The pick-up in the sanctioned amount comes amid a slow capex off-take by states in the initial months, with 21 states on an average achieving only 15% of the budgeted target till July.

“We have already sanctioned close to ₹54,000 crore till recently to states from the ₹1 trillion allocated as interest free loans," said a senior finance ministry official.

The pick-up in the sanctioned amount points to a potential revival in job-creation in the second half of the fiscal.

Capital expenditure acts as a multiplier for economic growth with spending on infra projects. The states that have got the sanctioned amount include Maharashtra, Tamil Nadu, Kerala, Karnataka and Haryana.

To encourage early capital spending, the Centre has also front-loaded tax devolution to states.

It released two instalments of tax devolution to states amounting to ₹1.17 trillion in August, against the normal monthly devolution of ₹58,333 crore.

Funds provided to the states under the interest free loans can be used for new and ongoing capital projects as well as for settling pending bills.

Aditi Nayar, chief economist, ICRA Ltd said while sanctions are healthy, the outgo under the interest-free state capex scheme has been muted up to August.

“We are hopeful that activity will accelerate meaningfully in the post monsoon months," said Nayar.

She added that the question is whether states will use it to fund the budgeted capex or for additional capex over and above what they had budgeted.

“That is where execution will play a role. How much can they execute this year? If they can execute more than what they budgeted then this will be supplementary. Otherwise, it may just end up funding what was anyway budgeted for this year," said Nayar.

The Centre is releasing the capex to states with conditions such as facilitating Gati Shakti, funding the PM Gram Sadak Yojana, incentivising digitisation, laying optical fibre cable networks, urban reforms, disinvestment and monetisation.

Sinha, chief economist, CareEdge.

While the first instalment of 50% of the amount would be released after the list of projects submitted by the state is approved, the remaining will be given as second instalment after the utilisation certificate is submitted.

Devendra Kumar Pant, chief economist, India Ratings said that while revenue collection both for union and state governments has shown good buoyancy, capex hasn't kept the same pace. "One of the major reasons for slow capex growth has been the change in the states' borrowing limits. Borrowings by the state public sector enterprises is now part of the net borrowing of the state."

Even the borrowing of state public sector enterprises done in previous fiscal will be adjusted in next five years. Revenue expenditure being sticky has little scope for control and in such a situation, the axe falls on capex," said Pant.

Madan Sabnavis, chief economist, Bank of Baroda said that, "as we are now in the second half of the year, states would tend to calibrate their capex with revenue flows." He added that this will hasten further in the fourth quarter. The sanctions by centre will provide base for states which could face slow down in revenue as consumption tapers, he said.

While ₹80,000 crore will be allocated to the states in proportion with their shares in central taxes and duties in line with the 15th Finance Commission recommendations)

Queries emailed to the ministry of finance remained unanswered till press time.

The government of India reserves the right to reject any project which, in its opinion, does not have sufficient economic merit in terms of short-term stimulus combined with long-term benefits to the economy,

Project with capital outlay of less than ₹5 crore (₹2 crore for North-eastern states) and repair and maintenance projects irrespective of capital outlay will not be considered under the scheme.

ABOUT THE AUTHOR

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" Dilasha Seth is a journalist reporting on macroeconomic policy for the last 11 years. She writes extensively on issues including international trade, macroeconomic data, fiscal policy, and taxation. At Mint, she reports on trade deals that India is signing besides key policy decisions of the Ministry of Finance. She...

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