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This is not the time for fiscal rectitude, says NK Singh

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NK Singh, Chairman of the 15th Finance Commission, is an old hand when it comes to dealing with economic 'situations', particularly on the revenue side. For one, Singh believes that this is not the time for fiscal rectitude. In conversation with *BusinessLine*, Singh shares his thoughts as to why FY21 cannot be written off and that these are extraordinary times that need extraordinary ways to innovate and address. *Excerpts:*

THE BL INTERVIEW

When you look back at your time as Revenue Secretary and compare the economic situation then with today's, do you think FY21 should be written off?

There is no way you can write off a year. No matter how problematic this year may be in terms of its unique challenges – the pandemic, the livelihood issues, economic revival and growth – still it cannot be written off.

We recognise that the first quarter contraction was also the result of the severest lockdown that any country has seen. Look at the graded view of the contraction.

There is a very high correlation between the severity of the lockdown and the extent of the contraction, because in relation to other countries, our contraction is not that sharp. If you look at the 85 per cent lockdown, which we had, with other countries such as Brazil, the UK, and parts of Europe, they, too, have an equally sharp contraction, even though they have not gone in for this severe lock down.

Also, it cannot be written off because important reform initiatives have been undertaken during this period, which will certainly have a very beneficial medium-term impact. So, as macro economists talk about R (Rate of Return on Capital) minus G (Growth), I think a lot depends not only on R, but also on G when it comes to the fiscal framework. And, we not only expect the G to increase sharply next year, which is automatic, but also multiplier benefits from the ongoing reforms.

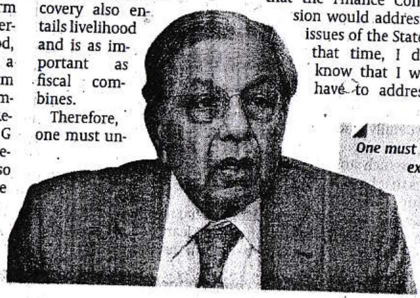
Considering the fiscal constraint and requirement for more expenditure on health, how will the dynamics of allocation work to ensure that everyone gets equal space?

I don't know how the dynamics will be worked out. But certainly we are working on it and we would complete our exercise before we submit the report to the President. But let me say this again. This is not the time for fiscal rectitude, much lesser time for fiscal consolidation. This is a time where economic recovery also entails livelihood and is as important as fiscal combines.

Therefore, one must understand that these are extraordinary times. This must be reflected in the way we approach the entire debt and fiscal framework of both the Central government and the States.

If you recall, I chaired a committee on FRBM, which submitted its report in 2017. The report was accepted by Parliament in 2018; at that time, the focus was on the Central government, though the debt cliff and the stochastic analysis of the entire debt trajectory were for the country as a whole.

Subsequently, it was felt that the Finance Commission would address the issues of the States. At that time, I didn't know that I would have to address it myself as the Chairman of the Finance Commission. Therefore, as I said, we will need to recalibrate the entire framework.



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NK SINGH
Chairman, 15th Finance Commission

What is your view on the borrowing options for the GST compensation shortfall? How would you have handled this situation?

Since you are referring to my days in the Ministry of Finance, look very carefully at the documents of the framework in which we entered into an arrangement with the International Monetary Fund – something which we call the quarterly performance criteria – for access to the upper credit tranche of the resources of Fund.

One of the factors we had also committed was that we would ultimately have an integrated framework, which was really the precursor to the GST.

I would say that the Central government was rather generous when it guaranteed 14 per cent to the States for five years, which was far in excess of what the States were getting based on State VAT. So, there was really a huge amount of generosity in guaranteeing, which was embedded in the GST Compensation Act.

And, hence, when I take your direct question, I am not at all concerned about the business of borrowing by the Central government or borrowing by the State, because as far as the money concerned, I am looking at the general government. The general government means the Centre and the States. So, I am not looking at reshuffling of accounts.

I am looking at the fact that at no point in time has the Central government said that compensation will not be met. It is, therefore, in conjunction with this that the period of the cess, which was to have ended, is going to be extended till such time as these debts are not discharged. So, very frankly, there is a lot of noise surrounding this controversy, and we need some shifting.

And I said from the viewpoint of rating agencies because they are looking at the country debts. They are not looking at segregated debts...I think the important thing really is that the need to focus on the concrete debt as a whole and not segregated entity in multiple ways. If you look at the terms of reference of the Finance Commission, what I have outlined is quite consistent with that reference, namely focussing on the path of consolidation of finances, debt and so on of the general government

What is your overall sense of the economy?

There is absolutely no doubt that the bottom is over and we have begun a sharp recovery, based on the high frequency indicators and the prognosis made by some domain experts. The World Bank has published their projections that the year would end with 9.6 per cent contraction. The RBI has come up with almost similar figure, and to read between the lines, it said with downside risks; it does not say the risks are evenly balanced. It says with the downside risks.

So, that is how they have projected real GDP growth rate of 9.5 per cent, which means that the considering the fact that inflation is expected to remain tamed, and if you take the inflation in the ballpark of around 4 per cent or so, for the fiscal year as a whole, it will really mean that the RBI expects that in nominal terms it would be minus 13. So, this already represents a sharp upturn.

The bigger the downturn, the sharper would be the upturn, because then you begin from a very low base and then the next fiscal year will see a correction and go much higher. So, the main thing really is to focus not on these figures. I certainly expect the third quarter (October-December) and fourth quarter (January-March) to look much better.