Printed from
THE TIMES OF INDIA

Bank recap to have minor impact on Centre's debt consolidation: N K Singh

TNN | Oct 31, 2017, 04.55 AM IST

Former expenditure and revenue secretary N K Singh recently headed a committee to suggest a revived fiscal responsibility law, which also called for reducing central government's debt:GDP (ratio) to 40% from 49.4% by FY-23. Singh, who is now a lawmaker, tells TOI that the recapitalisation bond will lead to achievement of target a year later. *Excerpts:*

The government has announced a massive recapitalisation plan. What does it mean for macro-economic stability, especially on the fiscal front?

The new economic strategy is a coherent and credible attempt to reverse sagging growth rates and reinvest new momentum to the growth process. It forms an integrated response to the current economic scenario. Notwithstanding some misleading photooptics, this is not the handiwork of one individual or the ministry. It is the outcome of intensive consultations and discussions with many entities, particularly the PMO, various wings of the finance ministry, RBI and infrastructure ministries. This demonstrates the abiding commitment of PM to macro-economic stability with a long-term vision. These series of important policy initiatives have been mindful that the hard won battle on macro-economic stability is not diluted and growth prospects are not jeopardized.

What is the impact on the government's fiscal health?

The direct budgetary impact of the recapitalisation bonds is around Rs 10,000 crore annually. More importantly, there is the issue of whether and to what extent the debt GDP ratio would deteriorate to the detriment of India's credit upgrading prospects. In the report of the committee that I had submitted, it was visualised that central government debt should decline to 40% from 49.4% by FY-23 and the balance 20% would be the prudent ceiling for states. My recalculation would suggest that instead of reaching the preferred 40% it could be pushed back by a year or so to FY-24, considering that 49.4% could be closer to 50% debt:GDP. The report has assumed a nominal GDP growth of 11.5% and interest rate of 7.3% on central government debt. Considering that the recapitalisation bonds will make an effective dent on the twin balance sheet problem and that investment in physical infrastructure would have its own multiplier effect on growth, then these variables are to change in a positive direction. Even this negative effect could be diluted over a period of time.

There is discussion on whether the government should raise money directly or through an agency?

Under the current methodology followed by IMF, these are regarded as below the line entries and not regarded as fiscal deficit. Comparison with some of the earlier efforts made in relation to oil bonds is misleading because they were basically payments to oil companies for subsidies, which had been given by the government. In the present instance, there is no such hazard on account of any subsidy payment. The process does not add to demand or consumption, put any inflationary pressure, while improving the balance sheet of the banking institutions.