

A decorative graphic on the left side of the slide, featuring a vertical black line intersecting a horizontal black line. The intersection is surrounded by overlapping colored squares: blue, red, and yellow.

Budget 2008-09

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Introduction

■ The budget is presented in the background of:

■ High, but moderating growth.

■ Difficult international environment;

■ Unimpressive agricultural performance;

■ Rising oil and commodity prices.

■ Surge in Capital Flows;

■ Continued Infrastructure Bottlenecks.

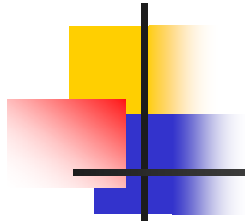
■ Counter-cyclical fiscal policy required:

■ keeping the fiscal deficits low to enable greater manoeuvrability to RBI for stabilising capital flows.

■ Augmenting infrastructure investments and enable greater PPP.

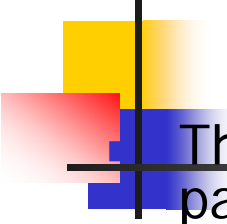
■ Evolve a stable tax system and create building blocks for the GST.

Fiscal Consolidation



	2006-07	2007-08	2008-09
Budgeted Rev Deficit	1.94	1.35	1.04
Budgeted Fiscal Deficit	3.44	3.06	2.51
Budgeted Primary Deficit	-0.19	-0.6	-1.08

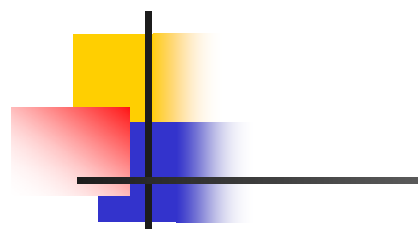
A Reality Check



There has been a significant consolidation since FRBMA was passed mainly due to increase in income tax revenue. Adjustment has been mainly on the revenue side.

- 2008-09 Deficit Figures Look Underestimates. Missing Items include:
 - Pay Commission Impact: Rs. 25000 crore
 - Farm Loan Waiver: Rs. 60000 crore/ Rs. 15000 for the first year(?).
 - Fertilizer subsidy: Rs. 25000 crore.
 - Food Subsidy: Rs. 15000 crore.
 - Provision for Plan B: 10000 crore.
 - Total : About Rs. 90000 crore or 1.9% of GDP

**Fiscal Trends of Central Government
(Percent of GDP)**



	2001-02	2003-04	2007-08	Improvement 2007-08 over 2001- 02	Improvement 2007- 08 over 2003-04
Gross Tax Revenue	8.20	9.20	12.47	4.27	3.28
Non-tax revenue	2.97	2.78	1.99	-0.98	-0.79
Gross Revenue	11.17	11.98	14.46	3.29	2.49
Shared Taxes	2.35	2.44	3.27	0.93	0.84
Grants	1.89	1.80	2.26	0.37	0.46
Net Revenue	8.83	9.54	11.19	2.36	1.65
Rev. Expenditure	13.22	13.09	12.54	0.68	0.55
Transfers to Imple. agencies	0.00	0.00	1.09	1.09	1.09
Net Exp	13.22	13.09	12.54	0.68	0.55
Net Exp-Grants	11.32	11.29	9.19	2.13	2.10
Interest Payments	4.71	4.49	3.39	1.32	1.10
Rev. def	4.39	3.55	1.35	3.04	2.20
Fiscal deficit	6.18	4.46	3.22	2.96	1.24

Tax Policy

■ Exemption limit and bracket change – may be justified in terms of indexation for inflation.

■ Misses the Big Picture; Too many objectives loaded to tax policy; Continues Tinkering.


- Tax holidays for hospitals and two-three star hotels – not a good idea. The reasons for lack of investment is land monopoly by development agencies.
- Tinkering in excise duties instead of unifying the rates;
- Abolition of Bank Transaction tax is desirable; other two taxes should also have gone.
- Redefinition of charitable purpose is necessary – Hope it will be done soon.



Progress on the GST front

- Reduction in CENVAT Rate,
- Increase in threshold for Service Tax.
- Reduction in CST.
- Convergence of rates, conversion of specific into ad valorem and clarity on sumptuary/sin /carbon taxes was needed.
- Reduction in VENVAT rate could have been combined with conversion of Service tax from selective to general.
- Will have to wait longer

Implications for Fiscal Federalism

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- Higher Buoyancy of Taxes – Provides Cushion to States.
 - Increase Discretionary Element in the Transfer System. Increase in the Allocation to Various Schemes. Ownership Issue.
 - Direct Transfers to Implementing Agencies and Third Level – Over one percent of GDP.
 - There is a sharp decline in the formula component of State Plan Schemes.
 - Capacity and Accountability of Delivery Systems?

Conclusion



~~Populist Budget: Popularity Will Have to Be Tested.~~

- Hides more than it reveals: What is hidden is more important than what is revealed.
- Opportunity to initiate reforms towards GST has been missed yet again.
- Difficult days are ahead and whichever government comes to power will have to face challenges.