



Lalit Dangi

bringing India's stubborn inflation under control, thereby keeping the economy competitive internationally.

So, the case for hard action on fiscal deficit remains strong. Says Mr. Lalit Kumar Dangi, a financial expert, "Mr. Mukherjee will have to show that despite a serious slippage this year, the government has not abandoned the path of fiscal rectitude. The finance ministry is likely to peg the fiscal deficit for 2012-13 at around 4.9 per cent of the gross domestic product (GDP) in the Budget, while revising the figure for the current financial year from 4.6 per cent to around 5.5 per cent in the Budget estimate".

The 13th Finance Commission, headed by Dr. Vijay Kelkar, had recommended reduction of fiscal deficit by 0.6 percentage point in 2012-13, from 4.8 per to 4.2 per cent of GDP. By setting the fiscal deficit at 4.9 per cent, Mr. Mukherjee would be able to claim that he has accepted the cut suggested by the finance commission, while carrying forward the slippage this year. However, the moot question is how to cut fiscal deficit by 0.6 percentage points of GDP.

Well, expansion of the service tax is almost a certainty. According to a source in the North Block, "services constitute more than 60 per cent of India's GDP, but were projected to contribute just 8.7 per cent of the Centre's gross tax revenue in the Budget estimates for 2011-12. The forthcoming Budget is likely to introduce a negative list for service tax comprising about 20 categories such as construction, health, entertainment, restaurants, non-AC rail fares, travel by the metro or public buses, etc. All other services will be taxable".

Beginning with just three services in 1994, the service tax net has widened to include over 125 services, but even that is minuscule relative to the size of the sector. Analysts believe this step would alone increase service tax collections 20-25 per cent, which would help in narrowing the fiscal deficit. Moreover, taxing all but a few services would prepare the ground for a larger and much-awaited tax reform: Goods and Service Tax (GST).

According to a source close to the PM's office, "another proposal likely to meet the

FM's approval is to increase the excise duty or the central value added tax (Cenvat) from the present 10 per cent to 12 per cent. The Prime Minister's Economic Advisory Council (PMEAC) has strongly advocated the hike in excise duty which was reduced under the stimulus package to face the 2008-09 global financial meltdown. The government

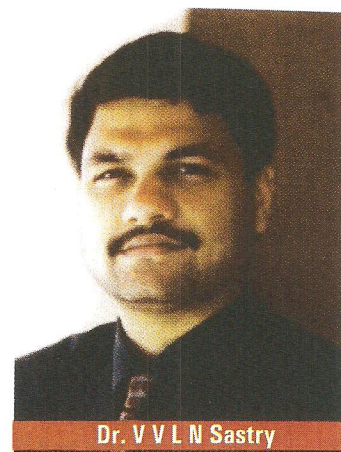
can get a good amount of revenue from this measure." Hiking excise duty at a time when IIP growth has hit rock bottom is certain to draw howls of protest from industry and send stock markets in a tailspin. However, Mr. Mukherjee could defend it as preparation for GST.

According to Mr. Lalit Kumar Dangi, "the finance minister could soften blow through a generalised accelerated depreciation - and not selective ones. This would give fillip to industry as a whole. It would have an immediate adverse revenue impact but, with industry rejuvenated, revenue could pick up a bit later".

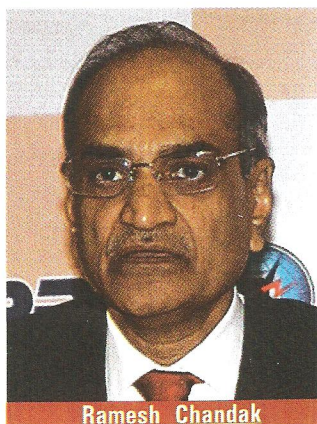
Fiscal deficit remains bloated because of subsidies. When Mr. Mukherjee said recently that he loses sleep on subsidies, no one was surprised. This year, subsidies together will amount to about Rs. 2.3 lakh crore. This is unconscionable. Worse, analyses of the kerosene subsidy suggest that at the most 25 per cent of the total expenditure reaches the poor. The rest is pocketed by a host of middlemen, contractors, bureaucrats and politicians.

Says a professor of economics from a Mumbai college, "the way the subsidy burden is growing year after year, it now threatens to derail the entire budget in a few years. Some harsh steps to slash the overall burden and target it better towards the intended beneficiaries are inevitable. With the state assembly elections out of the way and Lok Sabha elections two years away, the time is politically opportune for some drastic measures", he adds.

In the case of petroleum products, de-control of diesel price cannot be ruled out entirely. However, if it is not considered politically feasible, diesel-based passenger vehicles will be subjected to a higher excise duty or extra one-time charge. Whatever shape the extra levy may take, it will no longer



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