

Title : Fiscal discipline crucial for India to improve economy

By :

Date : 31 August 2009 2003 hrs (SST)

URL : <http://www.channelnewsasia.com/stories/economicnews/view/1001927/1.html>

SINGAPORE: Experts, speaking at a recent seminar organised by the Institute of South Asian studies at the National University of Singapore, said India's government will need to fix the country's structural problems to improve its weak fiscal position.

They said this may include having greater financial discipline on fiscal spending, as well as making its tax system more efficient.

India's increased stimulus spending had widened its deficit for the last financial year to a seven-year high of about US\$70 billion or some 6 per cent of GDP.

But experts believe the worsening fiscal situation is not because of the government's massive fiscal stimulus packages alone.

In their view, the problem is more structural than cyclical. That is because many populist measures, such as food subsidies, are straining the government's finances.

Dr Amitendu Palit, visiting research fellow, Institute of South Asian Studies, said: "This is actually the right time because the government has come back with a clear mandate.

"There are no major elections in Indian states coming up, not before 2011. So this will actually be a right time, politically, to make the hard decisions and go ahead with reforms."

Experts said a big portion of government revenues is currently going towards subsidies which have been ad hoc measures to immediate concerns. The key reforms needed, according to experts, will be legislation to ensure that state and central government keep to their expenditure targets.

The government had received about US\$90 billion (4.47 trillion rupees) of tax revenue in the last financial year – some US\$4 billion short of its target. A more efficient tax system will help to reduce the fiscal deficit.

According to analysts, a goods and services tax could help if it is introduced – possibly by April – next year. This tax is meant to replace all indirect taxes at state and central level such as excise duty, service tax and value-added tax.

Dr Govinda Rao, director of the National Institute of Public Finance & Policy, India, said: "If you introduce the goods and services tax, and do it in the proper manner and with a good information system, you can actually increase the revenue substantially.

"That could help them in achieving fiscal consolidation as they go along. I think it is possible to contain the deficit by about 1.5 per cent to 2 per cent without much effort next year."

For this fiscal year, the government is targeting 8 per cent growth for the economy, but analysts believe growth could come in under 6 per cent.