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STATEMENT OF THE UNION FINANCE MINISTER SHRI P.CHIDAMBARAM ON FISCAL ROADMAP AND CONSOLIDATION

New Delhi: Kartika 7, 1934

October 29, 2012

Please find below the text of the Statement of the Union Finance Minister Shri P. Chidambaram on Fiscal Roadmap and Consolidation made here today by him in a Press Conference:

"Shortly after I assumed office, I issued a statement on August 6, 2012 outlining the steps that would need to be taken to meet the challenges that face the Indian economy. At the top of the list was the need for fiscal consolidation. I had referred to the appointment of a Committee chaired by Dr. Vijay Kelkar to assist the Government in formulating a path of fiscal consolidation. The Committee's report was put on the website a few weeks ago.

The Economic Slowdown

In 2011-12, the slowdown in the world economy, lower growth in India, higher inflation, lower tax receipts and increased expenditure (including subsidies) led to considerable fiscal stress. At the end of the year, the fiscal deficit was at 5.8 per cent of GDP. Government recognised that, if immediate corrective steps were not taken, the economy may go into a cycle of low growth, high inflation and high deficit. That would be unacceptable, given the need to generate jobs and incomes for a large population, most of whom are young. Therefore, on behalf of the Government, I reiterated our commitment to bring the economy back on the high growth trajectory. Towards this end, some difficult but crucial decisions were taken recently. It is a matter of satisfaction that, despite the additional burden on certain sections of the people, by and large, the people have understood the imperative need for such difficult decisions.

The Report of the Kelkar Committee

The Kelkar Committee has cautioned us that a business-as-usual scenario for the current year may lead to the fiscal deficit rising to 6.1 per cent of GDP. This would have grave consequences for the economy is, therefore, totally unacceptable. The Committee has recommended a number of reform measures in taxation, disinvestment and expenditure. On the taxation side, the Committee has strongly advocated a transition to the Goods and Services Tax (GST) and a quick review of the Direct Taxes Code (DTC) before its introduction and passing in Parliament. Besides, the Committee has recommended administrative measures to improve tax collection. On disinvestment, the Committee has suggested a number of new models for disinvestment and has also urged Government to disinvest its residual stake in some companies that were privatised earlier. On the expenditure side, the Committee has suggested rationalisation of schemes and strict control and monitoring of expenditure. These recommendations are wholesome and have been accepted by the Government.

The Department of Revenue and the Department of Expenditure have initiated action on the recommendations of the Committee. The Department of Disinvestment has obtained approval of the Cabinet for disinvestment in Hindustan Copper Ltd., NALCO, SAIL, RINL, BHEL, OIL, MMTC and NMDC. Government expects to realise the budgeted receipts under ‘disinvestment’ and ‘non-tax receipts’. Every effort will also be made to realise the revenues budgeted under ‘tax receipts’. Government also expects to be able to contain and economise on expenditure, both on the Plan and the non-Plan side. While funds will be made available for essential expenditure, especially capital expenditure, every effort will be made to avoid parking or idling of funds. As regards subsidies, Government will also increasingly rely on Aadhaar-enabled direct cash transfers of merit subsidies to eliminate duplication or falsification.

The Twin Deficits – CAD and FD

Government is determined to address the twin challenges of current account deficit (CAD) and fiscal deficit (FD). During 2011-12, the CAD increased to USD 78.2 billion or 4.2 per cent of GDP. The Department of Economic Affairs, in consultation with the RBI, has projected a CAD of USD 70.3 billion in 2012-13 or 3.7 per cent of GDP. Any moderation in CAD would be welcome. Government is confident that the CAD will be fully financed by capital inflows, and expects that a substantial part of it will be in the form of Foreign Direct Investments (FDI), Foreign Institutional Investments (FII) and External Commercial Borrowings (ECB).

The Fiscal Consolidation Plan

As regards the fiscal deficit (FD), taking into account the steps outlined above and other steps that are being implemented or contemplated, Government has decided to adopt the following plan of fiscal consolidation during the period of the 12th Plan, i.e. from 2012-13 to 2016-17.

Year	Fiscal Deficit (%)
2012-13	5.3
2013-14	4.8
2014-15	4.2
2015-16	3.6
2016-17	3.0

The burden of fiscal correction must be shared, fairly and equitably, by different classes of stakeholders. However, as I said on August 6, 2012, “the poor must be protected and others must bear their fair share of the burden.” In particular, I would like to emphasise that all the flagship programmes designed to help the poor and bring about inclusive development will be fully protected under the revised fiscal consolidation plan. As fiscal consolidation takes place and investors’ confidence increases, it is expected that the economy will return to the path of high investment, higher growth, lower inflation and long term sustainability.

Our impressive record during 2004-08 should serve as a constant reminder that with sound policies and determination we have the capacity to achieve our goals. Government seeks the support of all sections of the people in implementing the fiscal consolidation plan as well as other measures to reform and strengthen the economy".

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