

# Budget 2013: Five challenges for Finance minister

Finance minister P Chidambaram has already promised a stable [tax regime](#), more reforms, and better fiscal management in the budget for 2013-14. However, this requires delicate balancing of various considerations.

ET takes a look at the [challenges](#) he faces.

## 1 Revive Growth Without Increasing Fiscal Deficit

**PROBLEM**  
Declining & Consumption-Driven Growth

GDP Growth (%)

Year	GDP Growth (%)
Jun 09	5.7
Dec 10	~8.5
Sep 12	5.3

**OPTIONS**

- Improve sentiment to encourage investment
- Increase savings through greater incentives
- Greater thrust to manufacturing and infrastructure sectors

**BAD IDEA**

Provide stimulus through higher govt spending

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## 2 Increase Revenues Without Raising Taxes

**PROBLEM**  
Low Tax-to-GDP Ratio

Centre's Tax-GDP Ratio (%)

Fiscal Year	Ratio (%)
FY06	9.95
07	11.03
08	11.89
09	10.75
10	9.67
11	10.33
12	10.18

**OPTIONS**

- Reduce the number of exemptions
- Build consensus on goods and services tax
- Improve tax compliance

**BAD IDEA**

More taxes on the high income earners

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## 3 Enough Pre-election Populism Without Increasing Expenditure

**PROBLEM**  
Rapid Recent Rise in Expenditure

Total Expenditure (% Growth)

Fiscal Year	% Growth
FY08	~20
09	22.10
10	~15
11	~16
12 (RE)	~10
13 (BE)	13.05

**OPTIONS**

- Shift to direct cash transfers from product subsidies
- Raise prices of public services and fuels gradually
- Better targeting of spending through fewer schemes

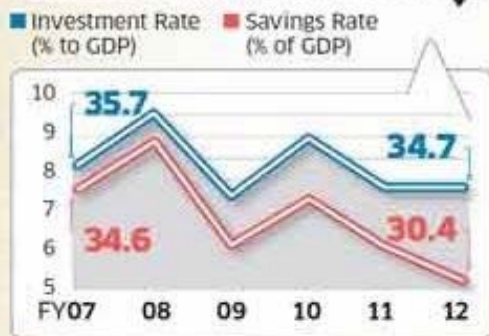
**BAD IDEA**

Ill-conceived food security law

## 4 Revive Investment and Saving Without More Doles

### PROBLEM

#### Sharp Slowdown in Investments & Savings



### OPTIONS

- **Get cash rich** public sector companies to invest
- **Solve land** related issue and environmental delays
- **Incentives to** increase financial savings

### BAD IDEA

Provide more tax incentives



## 5 Rein in Inflation Without Choking Growth

### PROBLEM

#### Persistently High Food Inflation Keeping Overall Inflation High



### OPTIONS

- **Remove restrictions** on movement and sale of farm produce
- **Give incentives** for increasing food processing
- **Easier export-import** regime for farm goods

### BAD IDEA

More regulation of prices



- ❑ I must get more and more people into tax net, even if they pay small amount of taxes. More and more amount of people must pay
- ❑ I have not drawn up the size of the next year's (divestment) programme, but preliminary thoughts, it will not be less than this year. This year we targeted ₹30,000 cr and it will not be less than that

*Finance Minister while addressing an Investors' conference in Hong Kong*

(Economic Times)