Finmin may trim FY15 budgeted subsidy bill by 15-16% for fiscal fitness

Measures being considered could reduce the subsidy bill of Rs 2.45 lakh crore projected in the interim Budget for FY15 by around 15-16%.

With little more than a month left for the finance minister to present the Budget, officials in the North Block have got busy working on possible measures to bring down the subsidy burden.

Economic affairs and expenditure department officials have recommended to finance minister Arun Jaitley the need to partially decontrol prices of urea-based fertilisers. Some of the other suggestions include complete elimination of diesel under-recoveries and bringing down the cap of subsidized LPG cylinders to 9 from the current 12.

The measures being considered could reduce the subsidy bill of Rs 2.45 lakh crore projected in the interim Budget for FY15 by around 15-16%. That would save about Rs 37,000-40,000 crore that can be diverted to capital spending, government sources told FE.

“The idea is to rationalize subsidies as much as possible, without creating a major political backlash. Simply increasing overall spending will lead to a higher-than expected fiscal deficit. That will no down well with the markets and the credit ratings agencies,” a senior finance ministry official said.

Such a move could lead to amending the Fiscal Responsibility and Budget Management Act as well, the official said. While an outright rise of total spending is still on the cards, officials say that they would like to exhaust all options of rationalizing expenditure before looking to increase it. While the Fiscal Responsibility and Budget Management Act has been in force since 2003, the end goals are often changed by the finance minister of the day. In his interim budget speech earlier this year, P Chidambaram had said: “We must achieve the target of fiscal deficit of 3% of GDP by 2016-17, and remain below that level always.”

Food and fertilizer subsidies are considered more politically sensitive as compared to fuel subsidies. The bureaucracy hopes that outright majority in Lok Sabha enables the government to take some decisions which may be politically unpopular but make sound economic sense.

The FY15 budgeted major subsidies are Rs 67,970 crore for fertilizers, Rs 1.15 lakh crore for food (including Rs 88,500 crore for implementation of the food security act), and Rs 63,427 crore for petroleum.

Officials said that Jaitley is yet to take a final call on these recommendations, but added that the cut would likely reflect in the full budget to be presented in first or second week of July.

For fertilizers, urea is the only controlled fertilizer and is sold at statutory notified uniform sale price. Partially decontrolled Phosphatic and Potassic fertilizers are sold at indicative maximum retail prices. Both the uniform sale price and the indicative maximum retail prices are less than the cost of production, for which the fertilizer companies are compensated by the government.

While officials are not willing to reveal how much partially decontrolling urea will save the exchequer, it should be worth remembering that out of the total budgeted subsidy provision of Rs 67,790 crore for fertilizers, about Rs 43,300 is for urea.

As reported in FE earlier, finance and oil ministry officials are pitching for a complete elimination in diesel under-recoveries, which stood at Rs 4.41/litre on May 16. If the current practice of increasing diesel prices by about 50 paise per month continue, and if there are no major shocks in global crude prices, diesel subsidies, which amounted to Rs 62,837 crore last fiscal, can be completely eliminated within 6-8 months.

The UPA government had raised the cap on subsidized LPG cylinders refills from 9 to 12 on pressure put by the Congress vice-president Rahul Gandhi. That meant more than 90% of all cylinder refills had to be subsidized. This measure is likely to be rolled back as well.

Policy watchers, however, are cautious. “In theory, this sounds great. Any move that can cut some portion of the subsidies and increase capital spending should be welcomed. But we will have to wait till the end of the fiscal to see if it has actually worked, since actual subsidy payments always exceed budgeted targets,” said Madan Sabnavis, chief economist with Care ratings. “But in case they are able to do such a thing, it will be the best possible situation.”

(Financial Express)