RBI pitches for reforms to contain fiscal deficit

The Reserve Bank today pitched for expediting economic reforms including reduction of subsidy and implementation of DTC and GST to contain the fiscal deficit which is expected to exceed the Budget estimate.

"Prospectively, improvement in fiscal situation in 2012-13 is not only contingent upon the growth performance but also on the progress in implementation of tax and expenditure reforms," RBI said in a macroeconomic review of the economy ahead of third quarter review of monetary policy.

Unless fiscal reforms are expedited, the Centre could miss the rolling target of fiscal deficit at 4.1 per cent of GDP for 2012-13 as set out in 2011-12 Budget, it said.

On the expenditure front, it said, the government needs to move towards deregulation of pricing of diesel for controlling its expenditure on petroleum subsidies.

It also said, "a delay in enactment of the Direct Tax Code (DTC) Bill (presently under consideration of the Standing Committee on Finance) may affect its scheduled introduction from April 1, 2012".

It is expected that DTC system would improve compliance levels as rates of corporation tax and surcharge are reduced and tax base is widened, it said.

In respect of Goods and Services Tax (GST), it said, while the Bill to amend the Constitution for introducing this tax was tabled in March 2011, the draft GST legislation requires consensus on a number of issues involving both the Centre as well as State governments.

RBI also noted that the larger fiscal spending could further affect growth in the economy amidst a widening current account deficit.

There is need for cutting government's consumption expenditure and stepping up its capital spending in order to lift both the current and future growth. This will help the economy to get back to higher potential growth that it had realised in the pre-crisis period, it said.

It is estimated that the higher expenditure on petroleum subsidy could drive up the fiscal deficit by around 0.8 percentage points of GDP for 2011-12, RBI said.

The government pegged the fiscal deficit target at 4.6 per cent for the current fiscal.

The government will face additional pressures on account of food subsidies when the proposed Food Security Bill is enacted and implemented, it said, adding, the government needs to control its expenditure on petroleum subsidies.

Subsidies and the resultant higher fiscal deficit may help in keeping inflation suppressed in near term, but over time the impact of higher subsidy induced deficit would exert pressure on the inflation path, it said.

(The Economic Times)