

# 'Budget should squarely focus on reducing the fiscal deficit'

*The government must focus on expenditure reforms in Budget 2013-14 and also introduce the Direct Taxes Code (DTC) and the Goods and Services Tax (GST) at the earliest to shore up revenue collections. Sudipto Mundle, Emeritus Professor at NIPFP tells Surabhi that the recent reforms have eased fears of a rating downgrade. Excerpts:*



## INTERVIEW

WITH SUDIPTO MUNDLE

The CAD is the biggest worry for the economy today, according to me. It is approaching 6 per cent of GDP instead of the 2 per cent level traditionally considered safe. The spike in gold imports in the last few months is partly due to the wedding season. The import duty hike will also help moderate it. The other main contributor is crude imports.

**Will the recent reforms over the past six months help ease of a rating downgrade?**

Even in the present situation, neither S&P nor Moody's have downgraded our sovereign ratings. Con-

ditions have begun to improve and a serious attempt is expected in the Budget to contain the fiscal deficit. Cutting back oil and other subsidies will help lift investor sentiment further.

**Should the government focus on giving clarity in the Budget or consider levying new taxes?**

The Budget should squarely focus on reducing the fiscal deficit and the logic for a new tax, if any, should come from that, rather than as an ad hoc measure. If the fiscal deficit is contained, investor sentiment improves and growth revives, tax collections will automatically improve even at the present rates. The other issue that needs to be looked into is infrastructure. Buoyancy in stock markets indicates renewed investor confidence. The question is whether the positive sentiments will remain long enough till growth resumes in the productive sector. For this a lot hangs on the Budget.

**What are the main challenges for Budget 2013-14?**

The main challenge is how to reduce the fiscal deficit.

There are difficulties in revenue collection as growth has slipped. Once growth revives, greater tax revenue too will return. The roll out of GST will also make a huge difference. In the current year, the extension of service tax coverage plus rate adjustment has had a great impact on revenue collections from this tax. Let's also see what happens regarding the DTC in the Budget.

**Will the recent measures to curb gold imports help check the current account deficit (CAD)?**