

In pre-Budget talks, states want free hand on economy, income-tax sops and more in wish list to FM Arun Jaitley

FM Arun Jaitley has urged a cautious approach, need to be fiscally responsible

State finance ministers on Monday made a slew of demands, including relaxation in their fiscal deficit targets, greater freedom in deciding state plans, income-tax and excise sops to attract investments in backward regions and compensation for central sales tax losses when they met finance minister Arun Jaitley here for pre-budget consultations.

At the meeting called by Jaitley for inputs for the Union Budget 2014-2015, states presented wish lists that were mostly heavy on tax proposals.

Arun Jaitley promised a development model driven by states for which necessary flexibility will be extended, but urged states to be fiscally responsible with this greater devolution of power.

“Intergenerational equity must be kept in view while deciding today’s spending. I appreciate the fact that most of the states have been conforming to the FRBM targets. We must carry this forward,” he said.

Bijendra Prasad Yadav, finance minister of Bihar, said the fiscal deficit limit of 3% for states puts a brake on the developmental efforts of states like Bihar despite their being revenue-surplus.

“States with low income, but revenue surplus should be allowed a higher level of fiscal deficit upto 4% by making changes in the Fiscal Responsibility and Budget Management (FRBM) Act,” said Yadav.

Andhra Pradesh said the hurried division of the erstwhile state (for creation of the Telangana state) has placed it in a state of “serious fiscal crisis.” The total plan size of the state is a meagre R5,791 crore. “In this context, it would be impossible for AP to adhere to the provisions of the FRBM Act not only during the current financial year, but also in the next few years,” AP said in a written note given to Jaitley. The state sought exemption from the purview of the Act for the next three years.

Assam CM Tarun Gogoi said that at times states are not allowed by the finance ministry to participate in open market operations of the RBI, which he said should be allowed so long as the state stays within its fiscal deficit target.

A recent RBI report said that revenue-surplus was budgeted in 22 out of 28 states in 2013-14, and that there was a further move towards fiscal consolidation.

During 2013-14, the revenue surplus-GDP ratio is budgeted to increase to 0.4% from 0.2% in 2012-13, contributing to a reduction in the gross fiscal deficit-GDP ratio to 2.1% (from) 2.3% in 2012-13, it said.

The finance minister also sought states' support to address in a concerted manner the challenges facing the economy, such as inflationary pressures, the poor performance of sectors like manufacturing, mining and quarrying, and the less-than-satisfactory tax-to-GDP ratio. Jaitley said in his opening remark that the electoral mandate received by the NDA clearly spells out that economic growth could not be compromised at any cost.

The minister also said that the proposed Goods and Service Tax (GST) needs to be implemented at an early date. Jaitley said he hoped the issues on which consensus is yet to be formed would be sorted out soon.

Gujarat finance minister Saurabh Patel said that states, while welcoming the plan to introduce GST, highlighted the need for protecting their revenue. Officials who attended the meeting said no date has been fixed yet for the next meeting of the Empowered Committee of state finance ministers to discuss GST.

States also protested at the practice of the union government attaching riders on spending funds given for centrally sponsored schemes, which states consider as an encroachment on their liberty to design schemes best suited for them.

“Sufficient flexibility should be given to states with respect to programme content so as to alter the design as per local needs,” said Bihar finance minister. Bihar, which has been asking for the status of a special category state, demanded that the criteria for that tag should be reviewed.

States also voiced concern over the Centre raising revenue through cesses and surcharges and proposed that Budget 2014-15 should review all such levies.

Jaitley said the government was committed to breaking the vicious cycle of high inflation and high interest rates. “While we look forward to your support in tackling temporary fluctuation in prices, we also would like to evolve a mechanism which addresses the structural issues that create supply bottlenecks,” he said, adding there was a need to put in place strict measures and special courts to stop hoarding and black marketing.

Jaitley also said the National Food Security Act needed to be implemented in a cost-effective and efficient manner. Restructuring FCI for greater efficiency in delivering foodgrain is also a priority, he said.

The finance minister said that growth can be revived through increased investment in Infrastructure. Infrastructure growth can pull out sectors such as cement, steel and power from the current downturn and will lead to massive job creation, he said.

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