

EAC rings alarm bell on off-budget items

Together With Unbudgeted Expenses, Subsidies Amount To 5% Of GDP

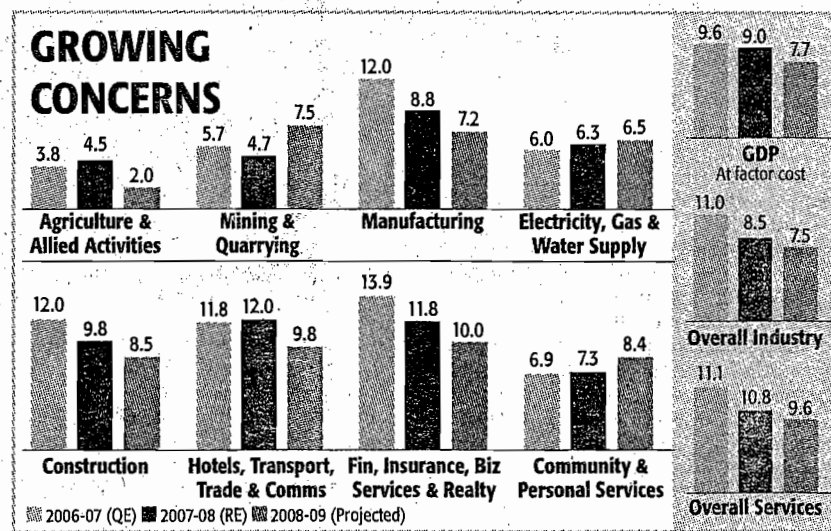
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NEW DELHI

THE Prime Minister's Economic Advisory Council (EAC) has sounded a note of caution on the "off-budget" liabilities of the government and said fiscal situation no longer looks stable and sustainable.

Off-budget subsidies — such as those given to oil and fertiliser companies through bonds and not shown in the budget — along with certain "unbudgeted" expenses could amount to 5% of the GDP. This is over and above the budgeted fiscal deficit of 2.5%, the EAC said in its economic outlook for 2008-09.

"Despite appreciable fiscal consolidation, large and growing off-budget liabilities are a matter of concern. With these included, the fiscal situation no longer looks stable and sustainable," it said.

While the government has asked the 13th Finance Commission to prepare a road map for fiscal accounting of such liabilities, the EAC outgoing chairman C Rangarajan wanted the government to put a limit on off-budget items and bring transparency in accounting. Subsidies given towards oil and fertiliser bonds have faced criticism as they result in under-



Source: Report of the Economic Advisory Council to the Prime Minister

statement of the deficit. For example, the fertiliser subsidy provided in 2007-08 was Rs 30,501 crore, but an additional Rs 7,500 crore was provided by way of bonds.

"The problem with the off-budget liabilities

is that not only do they impose an additional burden that has to be extinguished when liabilities mature, but they also have a significant servicing cost," the EAC said.

Fertiliser subsidy this fiscal is likely to be

more than Rs 95,000 crore. Of this, only Rs 30,985 has been budgeted. This implies that fertiliser subsidy would be 1.2% of the GDP. Similarly, oil bonds could be a little over 2% of the GDP. The panel put the blame for off-budget items on the keenness to adhere to the targets in the Fiscal Responsibility and Budget Management Act. Interestingly, finance minister P Chidambaram had earlier hinted at taking these subsidies on board.

The government has projected a revenue receipt of Rs 6,02,935 crore and an expenditure of Rs 6,58,119 crore in 2008-09. However, expenditure is expected to be substantially higher in the wake of costlier global oil prices, fertiliser subsidy, implementation of pay panel recommendations and farm debt waiver package. The revenues could also come under pressure in the wake of slowdown in economy and revenue loss because of duty cuts to fight inflation.

The cash outgo on account of farm loan waiver package would be Rs 25,000 crore in 2008-09. The exchequer would lose about Rs 30,062 crore this fiscal if the government implements the Sixth Pay Commission Report. The duty cuts on oil products will cost Rs 22,000 crore and the inflation package announced earlier would cost over Rs 5,000 crore.