

NIPFP

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National Institute of Public Finance and Policy NEWSLETTER

Director's Column



The impact of global financial meltdown and recessionary trends in the OECD countries is much more severe on the Indian economy than was initially presumed. We have already seen the liquidation and plight of foreign institutional investments putting pressure on the exchange rate, crashing stock prices, and drying up liquidity. The liquidity problem has impacted adversely

on the real sector of the economy and slowdown in exports has added to the woes of the manufacturing and service sectors.

The Government of India has come out with swift measures to shore up liquidity and to revive the economy. Through a series of measures, the Reserve Bank of India cut the CRR to 5 percent, SLR to 24 percent and Repo rate and reverse repo rates to 6.5 percent and 5 percent respectively. The important fiscal stimulus measures included reduction in the CENVAT rate by four percentage points, additional spending provision of Rs. 20,000 crore, and additional leeway for the states to incur deficits by half a percent of GDP. In fact, much of the fiscal stimulus was contained in the two supplementary demands for grants approved by the Parliament in October and December. These enabled additional cash spending by about 3 percent of GDP and off-budget liabilities of about 2 percent of GDP.

On the whole the measures taken by the government are of three kinds. The first is the direct stimulus from additional spending and tax cuts by the government placing the purchasing power in the hands of the consumers or shoring up infrastructure. The second is to ease the constraints of the manufacturing and service sectors to enable them to invest more. These include measures to reduce the cost of their borrowing, stimulus to export, construction and commercial vehicle sectors. The third set of measures relates to enabling the private corporate sector larger investments by providing them access to external commercial borrowings.

The two supplementary demands for grants clearly bring out the underbudgeted spending in the Budget for 2008-09 into open. They also show that it is impossible to adhere to the targets set in the FRBMA. Indeed, in the prevailing situation, compliance with FRBMA is neither feasible, nor desirable. The important point is

that a significant proportion of the expenditures included in the supplementary budget actually accrued in 2007-08 was not defrayed to show compliance with FRBMA. This creative accounting has left very little additional headroom for providing the fiscal stimulus at a time when it is most required. Not surprisingly, the two fiscal stimuli packages hardly contained any notable fiscal components! It would not be possible to give a large spending package next year as well, even as the government is likely to breach the fiscal restructuring targets by a wider margin.

The challenges of bringing back fiscal restructuring plan after the revival of the economy seem more challenging for two reasons. First, the size of the fiscal deficit is likely to be very large – larger than even in the beginning of the decade. Second, the crisis has led to ad hoc policies and discretionary measures and to bring back the rule based policies would not be easy. The actual fiscal deficit of the central government in 2008-09 is likely to be far in excess of the targets. The two supplementary demands add cash deficit of 3 percent of GDP and off-budget liability amounting to 2 percent. Shortfall in tax revenue could amount to one percent of GDP. This implies at the central level alone, the fiscal deficit could be 6.5 percent and when the states' borrowings are included, the total will be in excess of 10 percent. The Thirteenth Finance Commission will be faced with a daunting task of making recommendations to bring this down to a reasonable level, when the economy stabilises.

This provides enormous opportunity to the NIPFP to work on the fiscal restructuring and reform programme for the government to adopt when the economy revives. There are also difficult issues of financial sector reforms. In addition, we need to work out the architecture and engineering aspects of the Goods and Services Tax, now that the central government has agreed to the basic design recommended by the Empowered Committee of State Finance Ministers. These have to be carried alongside the work on subnational fiscal reforms, financing human development and fiscal decentralisation, and federalism. Surely, the next year is going to be extremely daunting as it will be exciting, and I am sure NIPFP will stand up to face the challenges.

M. Govinda Rao

PROJECTS COMPLETED

- ***Fiscal Health of Indian Cities***

M. Govinda Rao and Simanti Bandyopadhyay

SPONSORED BY THE WORLD BANK

The draft report of the study was presented at the World Bank in Washington, DC. On the basis of the comments received, the report was finalised by Simanti Bandyopadhyay. At the request of the World Bank Institute, a working paper on the subject was also prepared. The paper provides an overview of fiscal health of five urban agglomerations in India, namely, Delhi, Hyderabad, Kolkata, Chennai, and Pune. The main findings suggest that in general, the actual spending by these ULBs is a fraction of their expenditure needs. Also, while there is considerable unutilised potential for revenue generation, the actual revenue collections are low. The recommendations call for better utilisation of 'own revenue' handles – both tax and non-tax. It also points out the shortcomings in the working of State Finance Commissions and the need to develop appropriate norms for estimating expenditure needs.

- ***Economics of Tobacco Taxation and Tobacco in India***

M. Govinda Rao, Kavita Rao, Prabhat Jha

SPONSORED BY PUBLIC HEALTH FOUNDATION OF INDIA & INTERNATIONAL TOBACCO HEALTH RESEARCH NETWORK

The study aims to collate information on the health impact of tobacco consumption and analyse the costs and benefits of discouraging consumption of tobacco. It also analyses the tax structure facing this industry and explores the potential for taxation as a tool to achieve this objective.

- ***Government of Punjab – Preparation of Memorandum for the 13th Finance Commission***

M. Govinda Rao

COMMISSIONED BY GOVERNMENT OF PUNJAB

A draft memorandum for submission to the 13th

Finance Commission was prepared at the initiative of the Government of Punjab.

- ***Monitoring and Tracking of the 20 JnNURM Cities – Renewal of the Assignment for 2008-09.***

Om Prakash Mathur

SPONSORED BY MINISTRY OF URBAN DEVELOPMENT

The Jawaharlal Nehru National Urban Renewal Mission (JnNURM) requires participating states and cities to enter into a Memorandum of Agreement (MoA) with the Government of India on a time schedule, for implementing a set of urban sector reforms. The NIPFP is one of the three institutions who have been entrusted with the task of monitoring progress in respect of the implementation of reforms in 20 JnNURM cities. The NIPFP carried out the appraisal of JnNURM reform agenda during 2007/08. The Ministry of Urban Development has suggested that the NIPFP should continue to appraise the progress in 2008/09.

- ***Gender and Taxation: Revenue Generation for Social Protection in Developing Countries***

Pinaki Chakraborty and Lekha Chakraborty

This project was sponsored by IDRC and UNDP in collaboration with University of Kwazulu Natal, South Africa and American University, Washington D.C.

- ***Fiscal Responsibility and Budget Management Act in Goa***

Pratap R. Jena

The project work involves assessing progress of the state government in achieving the targets under FRBM act in the state and preparing medium term fiscal plan for the state for the year 2007-2008 to 2010-2011.

- ***Projection of CT and IT Receipts for FY 2008-09***

A.L. Nagar, Sanjay Kumar, Jay Dev Dubey

In this paper, a modified tax receipts forecasting model explicitly incorporating the GDP growth rate, is used. The

method of obtaining projections is also modified to use actual tax patterns in Q3 and Q4.

PUBLICATIONS

Monographs, Chapters in Books and Edited Volumes

- Premchand, A. "Trapped in the Comfort Zone of Denial: 50 years of Expenditure Management in India". New Delhi: NIPFP (2008).
- Rao, M. Govinda, Lekha S. Chakraborty, Amaresh Bagchi, "Fiscal Decentralisation and Gender Budgeting". New Delhi: NIPFP (2008)
- Sen, Tapas Kr., H.K. Amar Nath, Mita Choudhury, Provita Kundu, "Fiscal Reforms, Persistent Poverty and Human Development: The Case of Orissa". New Delhi: NIPFP (2008).
- Bohra, O.P. "Resource Mobilization of Local Governments: A Central Finance Commission Approach" in (ed.) Biju M.R. *Financial Management of Panchayati Raj System*. New Delhi: Kanishka Publishers, and Distributors (2008).
- Mukherjee, Anit N. and Kaushik Ranjan Bandopadhyay, "Impact assessment of rural poverty alleviation programmes from rights-based perspective" in (eds.) Gupta K.R. and Prosenjit Maiti, *Rural Development in India: Volume III*. New Delhi: Atlantic Publishers (2008)
- Chakraborty, Lekha, "Sensitising Financial Allocations through Gender Budgeting, in (ed.) Das B. *Gender Issues in Development*, New Delhi: Pearson Publications (2008)
- Rao, M. Govinda and Pratap R. Jena, "Recent Trends in State Finances". in (eds.) Rao M. Govinda and Anwar Shah, *States Fiscal Management and Regional Equity: An Overview*. New Delhi: Oxford University Press (forthcoming).
- Chakraborty, Pinaki, *Fiscal Reforms and Sustainability: A Study of Kerala*. Cambridge Scholars Press (forthcoming).
- Chakraborty, Pinaki and Yan Zhang, *Economic Reforms and Infrastructure Spending*. UNU-WIDER Research Paper (forthcoming).

JOURNAL ARTICLES

- Chakraborty, Lekha (2008). "Deficient Public Infrastructure and Private Costs: Evidence from Water Sector," *Economic and Political Weekly* (July).
- Jena, Pratap R. and Manish Gupta (2008). "Revenue Efforts of PRIs: Evidence from Four States". *Economic and Political Weekly* 43(30), (July).
- Anand, Mukesh (2008). "Pay Commission: Missing the Wood, Missing the Trees". *Economic and Political Weekly*, 43(35), 11-5 (September).
- Rao, M. Govinda, Tapas K. Sen, Pratap R. Jena (2008). "Issues Before the Thirteenth Finance Commission". *Economic and Political Weekly*, 43(36) (September).
- Thomas Issac T.M, and Pinaki Chakraborty (2008). "Intergovernmental Transfers: Disquieting Trends and the Thirteenth Finance Commission". *Economic and Political Weekly* (October).
- Bhattacharya, Rudrani, Ila Patnaik, Ajay Shah (2008). "Early Warnings of Inflation in India," *Economic and Political Weekly* (December).
- Bhattacharya, Rudrani with Satya P. Das (2008). "Advent of Industrial Mass Production: Three Stages of Economic Development". *B.E. Journal of Macroeconomics, (Topics)*, 8(1).
- Mukherjee Anit N. and Krishanu Karmakar (2008). "Untreated Morbidity and Demand for Healthcare in India: An Analysis of National Sample Survey Data". *Economic and Political Weekly* (November).

Working Papers/Discussion Papers/Policy Briefs

- Rao, R. Kavita “Goods and Services Tax for India”. *NIPFP Working Paper No. 57, November 2008.*
- Nagar, A.L., Amit Shovon Ray, Aparna Sawhney, Sayan Samanta. “The Interface between Economic Development, Health and Environment in India: An Econometric Investigation”. *NIPFP Working Paper No. 56, October 2008.*
- Rao, Govinda M., Tapas Kr. Sen, Pratap R. Jena. “Issues before the Thirteenth Finance Commission”. *NIPFP Working Paper No. 55, August 2008.*
- Bhattacharya, Rudrani, Ila Patnaik, Ajay Shah. “Early Warnings of Inflation in India”. *NIPFP Working Paper No. 54, August 2008.*
- Reddy, Y.V. “Fiscal Policy and Economic Reforms”. *NIPFP Working Paper No. 53, July 2008.*
- Chakraborty, Lekha “Deficit Public Infrastructure and Private Costs: Evidence from a Time-use Survey for the Water Sector in India”. *Working Paper No. 536.* The Levy Institute of Bard College, New York (2008).

TRAINING PROGRAMMES/ WORKSHOPS/ MEETINGS



Veerappa Moily, Chairman, Administrative Reforms Commission & M. Govinda Rao, Director, NIPFP at workshop on *Strengthening the Financial Management System in India.*

- Workshop on *Strengthening the Financial Management System in India.* NIPFP, New Delhi, July 23, 2008.
- Two-week Training Programme for *Deputy Secretaries* in the Department of Finance for various state governments. NIPFP, New Delhi, October 13-24, 2008.
- 3rd Meeting of *NIPFP-DEA Research Programme on Capital Flows.* India Habitat Centre, New Delhi, November 30 and December 1, 2008.
- Workshop on *Gender and Taxation,* NIPFP, New Delhi, November 3, 2008. Organized by NIPFP in collaboration with the American University, Washington DC, and University of Kwazulu-Natal, South Africa to disseminate the research findings of two-year long multi-country study on Gender and Taxation.
- *13th Standing Committee Meeting on Stamp Duty.* NIPFP, New Delhi, November 7, 2008.
- Two-week Training Programme on *Issues in Public Finance,* Probationers of the Indian Revenue Service. NIPFP, New Delhi, November, 10-21, 2008.

R. Kavita Rao was the programme co-ordinator.

- Training Programme on *Practical Issues of Tax Policy in Indirect Taxation and Tax Administration in Developing Countries,* NIPFP New Delhi. December 8-12, 2008.

Jhumur Sengupta coordinated the programme.

EVENTS

- **Inauguration of Research and Training Centre at NIPFP**



Honourable Home Minister, P. Chidambaram inaugurated the new Research and Training Centre at NIPFP on December 23, 2008.

PRESENTATIONS BY NIPFP FACULTY AT NATIONAL / INTERNATIONAL CONFERENCES

- Rao, M. Govinda. Chaired a session on **Scenario in Inter-State Disparities** at the workshop on Inter-State Economic Disparities in India: Implications for the Thirteenth Finance Commission, September 20, 2008.
- ----- . Presentation on **South Asia Environment and Human Security** at the conference on Development Challenges in South Asia at Vision Theatre, National Museum of Australia, Canberra, October 2, 2008.
- ----- . Presentation on **Improving Governance through Public Financial Management**, at the conference on Public Finance Management of Improving Programme Delivery, at the Institute of Government Accounts and Finance, October 22, 2008.
- ----- . **Measurement and Disclosure of the True Fiscal Position** meeting on India's Fiscal System, organized jointly by the Thirteenth Finance Commission and NIPFP, November 15, 2008.
- Chakraborty, Pinaki. Presentation on **Indirect Tax Incidence and Gender Equity in India** at the conference on Taxation and Gender Equity, World Bank, Washington DC, December 11-12, 2008.
- Nagar, A.L. Chaired a session on **Applications of Micro simulation Modelling in Government Policies** at the Pre-ICM international convention on Mathematical Sciences, Delhi University, December 18, 2008.
- Chakraborty, Lekha. Presentation on **Determining Gender Equality in a Federal Setting: Analytical Issues Before TFC** at the Thirteenth Finance Commission Conference at IRMA, Anand, December 22-23, 2008.
- Bhattacharya, Rudrani. Presentation on **India's Informal Sector: an Overview** at workshop organised by the Macro-policy Group, Department of Economics, University of Surrey, UK.
- Pandey, Radhika. Presentation on **Business Cycle Fluctuations and Fiscal Policy in India: Recent Trends and Policy Issues** at workshop organised by the Macro-policy Group, Department of Economics, University of Surrey, UK.
- Chidambaram, Siva. Presentation on **Bibliomining through GSDL: Project on Annotated Bibliography of VAT in India** at the International Conference on Asia Special Libraries (ICoASL 2008) on Shaping the Future of Special Libraries: Beyond Boundaries, New Delhi, November 26-28, 2008.
- ----- . Presentation on **Emerging Challenges and Issues: Resources Discovery Tools in the Digital Library Environment** at the international symposium on Emerging Trends and Technologies in Libraries and Information Service, Jaypee Institute of Information

Technology, New Delhi December 18-20, 2008.

- Bandyopadhyay, Simanti. Presented a paper on **Regulation, Technical Efficiency and its Determinants: Evidence from Indian Cement Industry** at the 12th international conference on Operational Research KOI 2008, Croatia, September 24-26, 2008.
- Bohra, O.P. Presentation on **Fiscal Decentralisation and External Resources of Panchayats: An Analysis** at the international conference on Three Decades of Rural Decentralisation in West Bengal: Lessons and Future Options, IIMC, Joka, Kolkata, December 12-13, 2008

LECTURES/ SEMINARS BY GUESTS AT NIPFP

- July 14, 2008: **Pricing-to-market in India's exports: The role of market heterogeneity and product differentiation.** Susanta Mallick, Senior Lecturer in International Finance, School of Business and Management Queen Mary, University of London.
- July 24, 2008. **The interplay between pre-emptive and defensive counter-terrorism measures: A two-stage game.** Subhayu Bandyopadhyay, Research Officer, Federal Reserve Bank of St.Louis. USA.

GUEST LECTURES BY NIPFP FACULTY

- Rao, M. Govinda. **Budgetary Affairs Commission (BAC)** of the Standing Committee of the National People's Congress, China. October 21, 2008.
- ----- . **Current Economic Reforms in India** Programme on Independent Directors for Army Generals at Management Development Institute, Gurgaon. October 21, 2008.
- ----- . **The Concept and Relevance of Impact Budgeting** for State Government Officials at Mascot Hotel, Thiruvananthapuram. September 2, 2008.

- Chakraborty, Lekha. **Gender Budgeting: Conceptual Issues and Cross-country Analysis.** Workshop for Afghanistan delegation of senior government officials, Institute of Government Accounts and Finance, Ministry of Finance and GTZ Kabul, New Delhi. December 3, 2008.
- ----- . **Gender Budgeting.** International programme on Financial Management for ITEC participants at Institute of Government Accounts and Finance, Office of Controller General of Accounts, Ministry of Finance, New Delhi. November 27, 2008.
- ----- . **Institutionalising Gender Budgeting: Scope and Limitations.** Lecture for Nepal delegation, Ministry of Finance officials at UNIFEM, South Asia, New Delhi. November 4, 2008.
- Bandyopadhyay, Simanti, **Financing Urban Development: Some Critical Issues.** Refresher Course in Economics for College and University Teachers, The Academic Staff College, Jamia Millia Islamia, October 16 to November 7, 2008.
- ----- , **Measurement of Efficiency of Firms with Environmental Constraints – Non parametric Data Envelopment Analysis Methods** to M.Phil/. Ph.D students. Centre for Economic Studies and Planning, JNU, New Delhi, November 18, 2008.
- ----- , **Measurement of Efficiency of Firms with Environmental Constraints – Parametric Distance Functions Method** to M.Phil/.Ph.D students. Centre for Economic Studies and Planning, JNU, New Delhi, November 11, 2008.
- Bohra, O.P. Two lectures on **Finances of Panchayats, and Rural Development;** and **Profile of Haryana.** IGNOU-MOPR-UNDP project on Capacity Building of PRIs, Chandigarh, November 17, 2008.

- -----**Problems Related to the Training Programmes of DoPT, GoI, and Haryana Govt.** HIPA, Chandigarh, October 6, 2008.
- ----- **Elementary Ideas of Project Evaluation including Cash Flow and Cost Benefit Analysis.** At ISTM, GoI, September 23, 2008.
- Mandal, Subrata. Two lectures on **Energy Planning in India and Economics of Climate Change.** Refresher Course in Economics for College and University Teachers, The Academic Staff College, Jamia Millia Islamia, October 16 to November 7, 2008.
- Anand, Mukesh. **Social Security and Pension Reforms.** Refresher Course for College and University Teachers, The Academic Staff College, Jamia Millia Islamia, New Delhi. October 16 to November 7, New Delhi.
- Nagar, A.L., **The Interface between Economic Development, Health and Environment in India: An Econometric Investigation.** TERI University, October 29, 2008.
- Chakraborty, Pinaki. **Outcome Budget: An Overview and Methodological Issues.** Orientation workshop on Impact Budgeting for Government of Kerala in collaboration with Tata Institute of Social Sciences, Mumbai, September 1, 2008
- Amarnath, H.K. **Reprioritizing Public Expenditure.** UNDP-Planning Commission Program on District Planning and Human Development, RBI College of Agricultural Business, Pune, October 22, 2008.

Ministry of Consumer Affairs, Food and Public Distribution, Government of India, New Delhi.

- -----, Member, Sectoral Groups (1) Easing Credit Flows; and (2) Alleviating Poverty: Keeping Growth Engines Going. Set up under Abiding Initiatives, Investment Promotion Council, Govt. of Bihar.
- -----, Member, Board of Post Graduate Studies of Department of Economics, Babasaheb Bhimrao Ambedkar University, Lucknow.
- -----, Member, Research Advisory Board of Madras School of Economics, Chennai.
- -----, Member, Audit Committee, Rural Electrification Corporation, New Delhi
- -----, Member, Board of Directors, Rural Electrification Corporation, New Delhi.
- -----, Member, Academic Advisory Committee of the Centre for Economic Policy and Public Finance of Asian Development Research Institute.
- -----, Member, Selection Committee of Director of IAMR.
- -----, Member, Non-official part time Director on the Board of National Thermal Power Corporation Ltd.
- Mathur, Om Prakash Member, Task Force 4, headed by Justice M.M. Punchhi, Commission on Centre-State Relations.
- -----, Member, Technical Advisory Group (TAG) on JnNURM, Ministry of Urban Development.
- -----, Vice President, NIUA's Governing Council.
- -----, Academic Advisory Panel of McKinsey and Company (Roadmap for Urbanisation in India).

APPOINTMENT ON COMMITTEES/AWARDS/ HONOURS/REVIEWER ROLES

- Rao, M. Govinda Chairman, Expert Committee to Review and Suggest Best Method of Declaration of Retail Sale Price on Pre-packed Commodities – Legal Metrology Unit, Department of Consumer Affairs,

- -----, Principal Editor, International Journal *Environment and Urbanization* by The International Institute of Environment and Development (IIED), London.
- Chakraborty, Lekha Reviewer of an article on “Inflation Targeting” *Journal of Developing Area*, Tennessee, New York (August).
- Chakraborty, Pinaki Member “Public Expenditure Review Committee”, Government of Kerala.
- -----, Panelist by UN-HABITAT, Comment on “International Guidelines and Strategy on Decentralization” at the conference on Decentralization of Local Powers and Human Rights, Mexico City.

NEW PROJECTS INITIATED

- **Fiscal Federalism for the Commission on Centre-State Relations.** Sponsored by the Commission on Centre-State Relations.
- **Mobilisation of State Resources and State’s Potential to Raise Revenues.** Commissioned by the Government of Jharkhand.
- **Preparation of National Urban Poverty Reduction Strategy (NUPRS).** Commissioned by the Ministry of Housing and Urban Poverty Alleviation.
- **Evaluating progress of Government of Haryana in achieving the provisions of Fiscal Responsibility and Budget Management Act- Haryana.** Commissioned by the Government of Haryana
- **Rationalising Taxation of Petroleum Products.** Commissioned by the Thirteenth Finance Commission.

STAFF NEWS

- Gautam Naresh, Senior Economist and Dinesh Chand Sharma, Assistant Library and Information Officer superannuated w.e.f. July 31, 2008.
- C. Rajaram, Accounts Officer, left the Institute on October 31, 2008.
- Lekha S. Chakraborty was promoted as Fellow, w.e.f. August 21, 2008.
- Pratap R. Jena was promoted as Fellow w.e.f. July 22, 2008.
- Pinaki Chakraborty was promoted as Senior Fellow, w.e.f. July 17, 2008.
- Radhika Pandey joined as Economist w.e.f. July 14, 2008.
- Sarika Gaur joined as Assistant Library and Information Officer w.e.f. December 5, 2008.
- Harish Chand joined as Messenger w.e.f. November 18, 2008.
- Mukesh joined as Messenger w.e.f. November 18, 2008.