Economic Forecast and Challenges

Why in news?

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Fiscal signs from the first quarter of the current financial year are not encouraging.

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What are the existing issues with Indian economy?

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- Collections from indirect taxes following the introduction of the goods and services tax (GST) last year appear to have stabilised.
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- Even though disinvestment receipts might be weakened by the failure to sell Air India.
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- As a consequence of rising global demand for oil and production cut-backs by oil producing countries, prices at the pump in India are now higher.
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- Due to this there are also worries about the expenditure side that need to be addressed.
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- Apart from this Indian rupee is at historical lows against the dollar at the moment, It is likely that this will increase the subsidy bill by Rs 90 billion.
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What steps were taken by the government to handle economy?

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- In the Union Budget for 2018-19, the government postponed the path of fiscal consolidation.
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- The previous year’s fiscal deficit target had been breached; this year’s target was set at 3.3 per cent, as opposed to the 3 per cent recommended by the

fiscal consolidation path.
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- Monetary Policy Committee of the Reserve Bank of India is going forward to address the issues with Indian economy.
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- In recent years, low crude oil prices have benefitted the government's finances in two ways.
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1. It has ensured that fuel and fertiliser subsidies do not play a spoiler in the Budget.
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2. Lower oil prices have also allowed the government to steadily raise taxes and cesses on petroleum products, which came in handy for bumping up revenue collection.
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- But this has been used as a political point by the Opposition, putting pressure on the government to reduce such taxes, and, in turn, adversely affecting revenue collection.
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What are the challenges before Indian economy?

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- Even increase of a single dollar in the cost of natural gas raises the cost of production of urea by Rs 1,800-2,000 per metric tonne (MT), which would affect the government as fertiliser subsidies need to be increased.
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- Food subsidies and the cost of procurement of grain from farmers would also increasing.
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- Concerned by farmer anger in states such as Uttar Pradesh and Maharashtra, the government has also announced special packages for sugar that it estimates will cost an additional Rs 70 billion.
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- There is an account of additional spending on new programmes such as the Ayushman Bharat health insurance scheme for the economy.

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- A rise in off-balance sheet contingent liabilities such as, LIC being asked to pick up a stake in the struggling IDBI Bank is also a major challenge.
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- Altogether, the fiscal road ahead could get bumpy, Greater clarity and caution from the finance ministry is needed.
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Source: Business Standard

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