

Q. Reform subsidy regime is required to create a fiscal space for government for better economic recovery.

Elaborate

(200 words)

A. The recent surge of coronavirus cases has forced many governments to impose lockdowns which has reduced the economic activity as well as delayed the ongoing economic recovery.

Since the resources available in front of governments are limited so they need to efficiently manage and therefore a reform in subsidy regime is much needed. Major sectors involving large chunk of subsidies are - food distribution which has created more than 3 lac crore debt over FCI.

- Diesel & petrol subsidies which are mainly imported, around 80% of our requirement & cost nearly \$110 Billion on import bill.
- Electricity subsidies which are a major ~~debt~~ reason for rising debt over 4.6 lac crore for DISCOMs.

Due to these subsidies, revenue deficit ~~has~~ been increasing as well as ~~decreasing~~ Incremental Capital output ratio (ICOR) value. It has been one of key drivers in increasing the ~~the~~ Government debt to GDP ratio to 90%.

way forward

↳ Streamlining of beneficiaries in order to plug leakages & remove discrepancy related to Aadhar issues.

↳ Shantakumar Committee recommendation should be followed to decrease the number of beneficiaries in PDS system to 40 cr post pandemic.

↳ Intensify DBT, to achieve near 100% transfers through it.

DBT has been able to plug leakages & save around Rs. 1.7 lac crore during 2014-19.

↳ Diverting the saved earnings towards capital investment to achieve a holistic growth