Economic Pressures before India

Why in news?

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Union finance ministryhas announced that the government remains committed to the revised fiscal consolidation path.

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What are the pressures before Indian economy?

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- The rupee is among the worst-performing currencies in Asia over the past year, partly as a consequence of this trend and also as a result of crude oil prices putting pressure on the current account deficit (CAD).
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- The direct tax buoyancy has been good, with more taxpayers also coming into the tax net, the indirect tax situation is less clear.
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- The government's delays in disbursing the integrated GST pool are one indication that indirect taxes may be difficult to budget around for some time.
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What is government's plan on the economy?

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- Union government plans to keep the fiscal deficit at 3.3 per cent of gross domestic product (GDP) for the ongoing financial year.
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- Which would be accomplished without any squeezing of capital expenditure, as 44 per cent of budgeted capital expenditure had already been spent.
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- It is clear that the external account, while weak, is not in a danger zone yet, but even so the government has also announced a five-part plan to control

the CAD.
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- Manufacturing companies are permitted now to borrow externally even if the loans have a maturity of a single year instead of the three-year requirement earlier.
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- A hedging requirement for external commercial borrowing for infrastructure has been removed.
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- An unwise limit on foreign investment in corporate bonds has been lifted.
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What are the issues with government moves?

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- The government's expression of confidence in the economy comes at a time when global concerns are hitting all emerging economies, and particularly causing currency depreciation.
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- Many aspects of 5 year plan on CAD plan are familiar, as they are similar to methods introduced in 2008 and 2013, when too the CAD was ballooning.
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- But such packages that only short-term capital flows can solve the problem India finds itself in.
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- The reversal in trade liberalisation that the government has undertaken over the past years intends to continue, will only be seen as an indication of policy instability by global investors.
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- Rather than making India look attractive, it will cause stable capital flows to dry up.
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What is the way forward?

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- India needs to encourage stable capital flows, as hot money is naturally volatile and leaves the economy vulnerable to episodes such as it is currently undergoing.
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- Thus a rethink is needed, Instead of import controls, an exports boost is needed.
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Source: Business Standard

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