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Fiscal Deficit after COVID-19

Why Should You Know?

- The spread of the pandemic affected the fiscal deficit situation in India through two channels. First, the governments had to allocate a sizeable portion of their budget to fight the pandemic.
- This included expenditure on health as well as social security and other payments needed to control the economic fallout of the event. Second, the enforced lockdown and containment measures led to a fall in economic activity. This leads to a fall all this cannot hide the organisational crisis that preceded the actual act of defection.
- More worryingly in the unfolding drama, two institutions involved themselves and set rather unfortunate precedents. When the matter went to the Supreme Court, the judiciary practically set aside the Tenth Schedule and disallowed the deputy speaker to take a decision on the question of defection and disqualification.

Judiciary Subsequently

- Having thus tied the hands of the deputy speaker, the judiciary subsequently refused to stay the floor test. While both these criticisms may appear to be irrelevant against the backdrop of the loss of the majority, it is the precedent that matters more.
- The Anti-defection Law provides that the presiding officer of the house has the power to decide on disqualification. That fundamental principle was ignored in the Maharashtra case. The other institution that got involved, inevitably, was the office of the governor.
- From ordering the police to provide protection to families of the rebel MLAs to seeking to scrutinise the decisions of the government, the governor's office became badly politicised. Therefore, the latter's decision of ordering a floor test smacked of bad faith rather than upholding of democratic principles.
- In other words, in the political drama that unfolded in Maharashtra, one could witness multiple institutional failures-party organisation as well as constitutional offices. Where does Maharashtra go from here?
- The Mva government is gone. Having lost its majority, this was only inevitable. But even as the damage done by wrong precedents haunts us, the next question that emerges is about the logical
- culmination of the defections. Under the Anti-defection Law, the rebel MLAs will have to merge with some party and only then support a BJP leader so that a new coalition can come

to power. It is to be seen whether this part of Anti-defection Law is followed. In all likelihood, the Shiv Sena MLAs will claim that they are the real Shiv Sena, thus not requiring them to merge with any party.

- This will gloss over the fact of their defection. In the post-truth era that we live in, it will be argued that there was no defection in the first place. Just as the judiciary bypassed the Anti-defection Law, politics will also bypass this law and treat the rebel MLAs as inheritors of the real Shiv Sena.
- For the MVA, there was thus the loss of the majority, while for the larger political system, it represented the loss of many a principle. The BJP has posted a pyrrhic victory with which its dominance will now extend to Maharashtra. But that dominance will be somewhat marred by the huge cost paid in terms of principles and procedures.

fiscal Situation of India in the Time of COVID-19

Why Should You Know?

- The global economy came to a near standstill because of the CoviD-19 pandemic. The economic shutdowns, implemented around the world, were unprecedented and entailed large economic costs.
- In this scenario, fiscal policy could provide temporary relief to those most affected by the shutdown. With the widespread disruption in economic activity carefully designed government expenditure could help ease the pain as well as nourish the economy back to its full potential.
- However, the policy action has to be guided by the available fiscal space; it cannot operate in a vacuum. In this context, this paper looks at the current fiscal situation in India and how it will be affected by the pandemic.
- India's fiscal spending can be described as fiscal populism (Alesina et al 1997; Bender and Drazen 2005; Nandy et al 2020). The government undertakes spending on social security through cash transfers or food programmes, boosting employment, maintaining airlines, and engaging in many other activities.

High Fiscal Deficit

- The cumulative result of all this expenditure is a high fiscal deficit. Many studies (Acharya 2016) have pointed out that the fiscal situation in India over the last few decades has been one of profligacy when compared to similar economies around the world. In the last two years, the combined deficit of the centre and state governments has been around 6.5%.
- It is expected that the contraction in foreign demand and domestic consumption will lead to significant job losses in both the formal and informal sectors of the country.
- Even with the health crisis almost averted, there are concerns regarding its long-term impact on the economy. For example, will there be a long-term fall in consumption? What will be the impact on firm and bank balance sheets? Will migrant labour return to work soon? These are questions that cannot be answered at this point. In these uncertain times, the fiscal push seems to be the natural policy lever.
- However, the current spending should be managed in a way that the fiscal health remains good, and India does not suffer from credit flight due to a credit-rating downgrade. This is a real concern because another rating downgrade will put India's sovereign rating in the non investment grade.
- Against this backdrop, we first estimate the optimal level of fiscal spending needed by India. To do this, we construct a cross-sectional data set of countries with information on the spread of COVID-19, economic stringency, and macroeconomic factors, such as sovereign credit rating.
- Using a regression analysis, we find that economic stringency and credit rating are the most significant factors that determine a country fiscal response to COVID-19. Based on our estimates and cursrent information, India could spend between 2.2% to 4.8% JUNE 25 JULY 3, 2013
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Current Spending

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SPECIAL ARTICLE

- Since the stimulus is correlated with sovereign ratings, it probably explains the low expenditure by India until now. Much of the fiscal stimulus must be funded by borrowing. whether domestically or from foreign multilateral institutions, financial firms, and non-resident Indians (NRIS).
- However, doing so involves a rating-downgrade risk because the sovereign bond rating for India is just above the investment grade." If India borrows excessively and if that creates a fear of crowding out private investments or consumption, the ratings may face a downgrade.
- To further understand the Indian situation, we look at other countries with a similar credit rating. In the top row, we mention India's outcomes in terms of the stringency measure (as of 9 April 2020), stimulus, GDP per capita, debt to GDP, inflation, and real GDP growth rates.
- Two features stand out. First, compared to the benchmark numbers presented above, India has spent much lower (column 2). This shows that the current discussions about the further fiscal stimulus are justified. Second, among this set of countries, only Italy has had high stimulus.
- To compensate for its losses, it has spent over 20% of its GDP, a massive number that is way off our benchmark estimates. However, Italy could depend on euro bonds, and so the fear of credit rating loss is less severe for it.

- We can also draw a close comparison with Hungary and Indonesia, which have had a lower economic impact. Both these countries have spent more than 2% of their GDP.
- It can, however, be argued that India has less borrowing space compared to its peers. For instance, compared to Hungary and Indonesia, India's macroeconomic indicators are weak. It has higher inflation (column 8) and higher debt-to-GDP ratio (column 7). Its GDP per capita is also lower than in the other two countries.

GDP Growth Rate

- Further, India has recently struggled with a low GDP growth rate. These factors increase the downgrade risk for India. It is, therefore, vital to create fiscal space by reallocating existing expenditures from the budget.
- The estimated 95% confidence interval puts it within 2.2% 4.8% of the GDP. We also provide the mean and confidence interval of the predicted spending by India. The higher side of our range is closer to the stimulus suggested in the media and public discourse.
- Given the nature of the pandemic, it is a challenging exercise forecast the exact impact on GDP: We thus take the current level of expenditure commitment by the central govern and calculate the impact on the fiscal deficit under various GDP realisations.
- The baseline case corresponds to the fiscal deficit number projected in the budget for FY 2020-21. The budget projected a fiscal deficit of 3.5% for FY 2021-22. Given COVID-19, the central government announced a slew of measures in mid-March to contain the economic fallout of the pandemic.
- The fiscal package announced by the government amounted to (1.7 lakh crore or 0.8% of the GDP. Throughout our calculations, we assume that the domestic five-year sovereign bonds 1 at 6% interest per annum are used to fund all the additional I expenditure.
- We look at three counterfactual scenarios for the central government's fiscal deficit, given this additional fiscal commitment. We also assume that the rest of the budget allocations remain the same.
- If the government reduces other allocations under the budget, it can keep the overall expenditure lower, leading to a lower deficit. However, overall revenues may also fall due to difficulty in disinvestment during such periods.
- So, we assume all other expenditures and revenues stay at the level announced in the budget, except the additional fiscal expenditure declared under the stimulus package.

- We consider three main scenarios for FY 2020-21 GDP (1) no fall in GDP, (ii) 10% fall in GDP, and (iii) 20% fall in GDP. Under each of these, the government can provide an extra stimulus of o.8% (low), 2.296 (medium), or 4.8% (high) of GDP.
- We also assume that the deficit is funded by issuing five-year G-Sec bonds, which increase the interest burden for FY 2020-21. We report the estimated fiscal deficit in Table 4.
- Scenario 1 corresponds to the case where we see no fall in GDP relative to the projected numbers in the budget. It is the most optimistic scenario, under which the expense goes up in line with the stimulus package, but there is no impact on GDP Also, the fiscal boost successfully counteracts the fall in economic activity, both during and after the lockdown.
- It assumes that the effects on the household, firm, and bank balance sheets are minimal. If this turns out to be the case, the deficit should rise by an amount equal to the 20.38 trillion for the current stimulus. The estimated fiscal deficit under Scenario 1 and a 0.8% stimulus is then 3.7%.

financial year (FY)

- We then quantify the effects of the CovID-19 pandemic on the fiscal deficit of the country for the financial year (FY) 2020-21. In particular, we estimate the deficit as a percentage of the GDP, taking the recently announced 21.7 trillion as the additional fiscal outlay, We find that in the absence of any fall in GDP (the most optimal scenario), the fiscal deficit would rise 104-3% of the GDP against a budgeted target of 3-5%.
- The most optimal scenario is, however, not realistic. Even if everything returns to normal, there will be lingering effects. Not all of the output lost during the lockdown will be compensated for.
- Moreover, many large cities may remain under partial lockdowns. So, the GDP is likely to fall further. But, by how much? In the most pessimistic scenario, the GDP could fall by 20%, and the central government's fiscal deficit could climb to 8.4% of the GDP, while it would be 3.6% of the GDP for the states.
- Under the minimum and maximum fiscal support bounds estimated using global benchmarks (2.2% and 4.8%). we expect the central government deficits to reach 7.7% and 8.4% of the GDP, respectively.
- The real impact on the GDP is still uncertain. If India's containment strategy works like China's and the economy returns to normal, a 10% GDP short fall is the most likely scenario. In this case, the fiscal deficit of the central government will be 5-3%, with the current 0.8% of GDP stimulus.

- We estimate the deficits to reach 5-7% and 6.3% under the alternative fiscal packages of 2.2% and 4.8% of the GDP, respectively. The aggregate subnational, that is, state level, fiscal deficit will also jump to 3.2% to 3.6% of the aggregate GDP.
- Finally, we argue that additional fiscal spending is the need of the hour. However, India should also take the current crisis as an opportunity for preparing a roadmap for fiscal prudence.
- Globally, as well as in the Indian context, it has been argued that the fiscal deficit has an impact on economic growth (Rangarajan and Srivastava 2005). The current crisis is an opportunity for implementing subsidy rationalisation, and for a careful 360-degree look at the expenditure profile.
- If the government can prune one-third of the current fertiliser, food, and petroleum subsidy, it will immediately release 20.75 tril lion (around 0.35% of the GDP). Not only will this substitution allow India to raise health and social security spending immediately, but also allow it to solve long-standing issues of market distortion due to these subsidies.

Democracy Tottering between Deal and Dialogue

Why Should You Know?

- In the context of the recent political upheavals, one common perception has perception has been that those who defected from the Maha Vikas Aghadi (MVA) or the Great Development Front coalition government have allowed themselves to be illuded by self interest. In the politics based on the plurality of group/sectional interest, it has always been extremely difficult to decide who is at fault.
- One could offer a common answer to this important question—both of them are at fault. However, the nature of their faults is different. For example, political parties with enormous resources and numbers have the moral responsibility to enlist on the basis of constitutional principles, corresponding party programmes, and the support of relatively smaller political groups.
- A party that is entrenched in numbers and resources has the added moral responsibility to put up the ruling combination or configuration in order to adhere to larger democratic principles, which will brighten the image of the country in the international field.

- These parties, therefore, have the responsibility to take initiative in making smaller groups as equal partners in expanding the scope of democratic principles. Such principles should be the guiding force behind the reconfiguration or reconstruction of the ruling combination.
- Thus, it is the responsibility of the so-called national parties to refrain from misleading the members to political manoeuvres that tend to compel the members from smaller groups to cross constitutional and procedural boundaries. However, as the editorial comment in the current issue of Economic & Political Weekly suggests, the recent defection move causing the fall of the MVA government in Maharashtra shows that both the party with resources and those who were deceived by such resources have contributed to the violation of both the principle and procedures of constitutional democracy.
- The political party with resources albeit indirectly but eventually-encouraging the morally vulnerable politicians from the so-called Bahujan castes does measure up to a moral fault, but succumbing to such an authoritarian desire is the double fault.
- Convergence of such a fault line becomes morally more objection able when it merges with the dominant desire of the authoritarian political party to rule over the mass of destitute people.
- The political party that has a desire to gain formal political power using whatever ways it adopts and enormous resources it controls only to rule over the poor masses who are reeling under the conditions of acute destitution is awful to say the least.
- It, indeed, is awful to come across politicians who, despite their humble background, become part of the power that desires to leave its stamp of domination over the masses, irrespective of the degraded quality of life of such masses. It does not matter whether they are hungry, poor,
- filled with anxiety, and so on. Thus, the ground of political power does become slippery, leading to continuous down-sliding, particularly of the Dalit and Bahujan politicians.
- This puts into question the egalitarian conception of democracy. Since the early 20th century, social thinking has been endorsing the need for egalitarian democracy that would enable hitherto excluded social groups to participate in the governance of the country. Social thinkers from western and southern India have consistently argued that egalitarian democracy is more enabling than a democracy with an authoritarian agenda.
- It was also expected that those politicians-particularly Dalit and Bahujan leaders would build on the advantage of such an egalitarian democracy. However, these first-time beneficiaries of democracy have not been spectacularly successful in augmenting this historical advantage by becoming democratic and making others more democratic. They

are supposed to build on this democratic legacy by adhering to the procedures that are a help to them as well.

- Recent political decisions and actions have rendered democracy as tottering between deal and dialogue. Arguably, their autonomy to form a ruling alliance with the majority party smacks of a "deal" that necessarily puts aside the need for dialogue with the electorate which elected these leaders at the first instance.
- But this does not happen in most of the cases where elected representatives cross over to a different party after getting elected. The process of dialogue would start from the internal critique of the disposition where the enslavers feel elevated when the slaves make a public acknowledgement of their master's gesture of "generosity." Generosity here is interpreted by its beneficiary as the crucial factor in putting the person in the seat of "power."
- As a part of internal critique, the legislators whose political as well as social credibility and career hinge on constitutional and democratic principles need to be sceptical about parties that undermine both democracy and the Constitution.
- These representatives should realise that a party with dominant ambitions need not treat constitutional and democratic morality as an infinite source of remaining responsible in their political practice. Dialogue has to necessarily take place within the framework of democratic principles and constitutional values. Democratic principles in general and parliamentary democracy in particular continue to offer us a unique opportunity to produce morally decent,
- politically attentive, and socially sensitive environment, both for the citizens and their representatives.
- Of the total 2.28 trillion budgeted for subsidies, more than 20.71 trillion is for fertiliser subsidies. There have been arguments about the unintended long-term consequences of fertiliser subsidies (Gulati and Banerjee 2015).
- While it has raised the consumption of fertilisers and raised farm yields, it has not increased production to match the consumption increase.
- A long-term concern is that the subsidy has resulted in an imbalance in the use of nutrients in agriculture, which again has long-term implications. A rationalisation of fertiliser subsidy can therefore improve agriculture input markets in India.
- The Economic Survey of India 2019-20 pointed to food subsidies as an inefficient outlet for public money. This component of subsidies had a large budget allocation of 21.15 trillion in 2020-21.

- A significant portion of this subsidy was used for funding the Food Corporation of India (FCI), which has a vast infrastructure for procuring agricultural output and distributing it. A big part of this subsidy funded the difference between the procurement price and the selling price of agricultural outputs.
- The Economic Survey argued that this had distorted market mechanisms in the agricultural output market, which had led to large buffer stocks with the FCI. Diverting a part of the T1.15 trillion subsidy towards direct transfers would that the benefits reach farmers without distorting marker incentives.
- Also, this expenditure leads to excessive borrow by the government, which puts extra pressure on lending situations and leads to the crowding out of private investment Overall, this rationalisation is essential not only from the perspective of keeping fiscal deficit lower, but also to reduce market distortion.
- If the government can prune even a third of this basket subsidies, it will immediately release about Rs. 0.75 trillion of funds Once matched with delaying some of the planned expenditure, can free up another trillion rupees for expenditure.
- The remaining can be borrowed from the domestic market and through NRI deposits. Another option is for the states to directly bor. row on a long term from multilateral institutions, if possible.
- The amount thus saved can be directly funnelled into providing relief measures against COVID-19. It can be used to upgrade the health infrastructure as well as provide social security to those in need. The Jan Dhan-Aadhaar-Mobile (JAM) infrastructure that has been developed in the last few years can be leveraged to provide direct transfers.

Conclusions

- Our paper provided calculations of a potential fiscal deficit for India in FY 2020-21 to support the expenditure related to fighting the COVID-19 pandemic. We show that the country can spend 2.2%-4.8% of its GDP, based on a global bench mark.
- However, the risk of a rating downgrade and a fiscal. deficit spike will make it harder to borrow and spend in the future. The government could, therefore, use this crisis as an opportunity to rationalise existing subsidies to mitigate the economic fallout of CoviD-19 and to prevent a debt overhang in the future.

The Political Economy of India's New Middle Class

Why Should You Know?

- There has been much academic focus on the expansion of the middle class in India even as there does not seem to be much concurrence about the various segments of this grouping, especially the ones that actually constitute/ represent this social category.
- The post-1990s India has witnessed the entry of a range of new social categories divided broadly in social/spatial terms and also in terms of their orientations and choices. This may be attributed to several factors like the spread of education in Indian languages, growing urbanisation and industrialisation, affirmative action policies, and vast expansion of public sector jobs un der a developmental welfare state.
- This explains why unlike the usage of rich or poor class in a singular form, the middle class is often referred to in a plural form.
- Essays in this edited volume, as the title itself suggests, focuses on the "new" middle class situated in the urban spaces, mostly big metropolitan cities, across the geographical regions of India and belonging to different communities.
- The editors suggest that the members of the "new" middle class are those who have entered the middle-class post liberalisation period, are beneficiaries of the liberalisation, have some disposable surplus income and are also inclined to consumer ism and lifestyle enhancement, and ideologically who see the growth of their career and wealth in the success of liberalisation.
- (p 1) Consistent economic growth over the last three decades following the economic transition that has witnessed "technological advancement ... the increasing role of knowledge in the production process, and unprecedented expansion of the service sector" (p 1) has led to the emergence of the new middle class.
- What connects the members of this class is their shared "contempt for the public sector and state welfarism" (p 2).
- Also, in political-ideological terms, the members show a "right-ward" orientation towards cultural nationalism and prefer a pro-business regime. However, in economic terms, the editors concede that the "new middle class," like broader middle classes," also remain internally differentiated" (p 2) into "lower-middle," "middle-middle," and "upper-middle"

categories, and this is reflected in the varying degree of enthusiasm they have for the neo-liberal reforms and unprecedented expansion of the service sector" (p1) has led to the emergence of the new middle class.

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- These essays are mostly a product of meticulous field-based research using mixed methods to analyse the social world of middle class belonging to different social categories like Nairs living near the Technopark in Thiruvanan thapuram, Dalits in Surat, upper-caste "old"middle-class families living in the two cities of Kolkata and Durgapur.
- There are essays that focus on the middle-middle and upper-middle segment based in the metropolitan cities like the "neo liberal" Delhi, Bengaluru, and Mumbai and also in the capital cities of the north-eastern states.
- The people/families studied/interviewed are either employed in the burgeoning private sec tor, including the information technology and services sector or are still in the traditional white-collar jobs.
- However, such classes are also getting affected by the economic transition as is discussed by Ibrahim Wani and Saima Farhad in their chapter on the Kashmiri middle class based in Srinagar.
- Though the focus of most essays is on the newly emergent middle class, one also comes across a distinction in some chapters, including the introduction between the private services sector-driven "new" middle class and the predominantly public sector-employed "old" middle class. Shaoni Shabnam refers to it in her case study of the "Bengali" middle-class families (bhadralok) located in Kolkata and Durgapur.
- She suggests that the distinction between the "old" and the "new" is to be made mainly in terms of the choices they make related to acquisition and consumption.
- Sunil Santha, in his study of the changing social world of Nair families located near the corporate hub, observes how new mobile phone models and video games seem to them "more important than any other matters in their social world" (p 30).

- Kaustubh Deka in his paper on the "hegemonic" middle class in the north-east observes how it has turned aspirational in the wake of new economic reforms. He refers to the newly found fascination for expensive cars and imported sports utility vehicles among the upper-upper middle class.
- There is a pronounced apathy and insensitivity among the new middle class as Manish K Jha and Pushpendra observe referring to its callous treatment of the migrant labour classes during the pandemic in Mumbai.
- They also refer to the general contempt the middle class has for the very people who serve them as living an "un-aesthetic, unhygienic, and chaotic" (p 12) lives in an "unintended" city space.
- The "old" middle class, whose existence can be traced to the late colonial India and which inherited political power and influence after independence from the British, was relatively more modest and had a keen awareness about the social world around them that inhabited the underclasses (Joshi 2010).
- Scenarios 2 and 3 paint a grim picture for both the economy and the fiscal balance sheet. We consider, under Scenario 2, a case where GDP shortfall is 10% compared to the estimates in the budget.
- This drop is in line with the one observed in China, a country with a large population like India and a similar healthcare infrastructure. Under a case with zero feedback into tax revenues, we expect the deficit to rise to 5-3% of the GDP under the low-fiscal-stimulus case.
- Of course, tax revenues will also fall when the earnings of households and businesses fall. As per our estimates, the elasticity between GDP and tax revenues (direct plus indirect) is 1.056 So a 10% fall in the GDP is associated with a 10.5% reduction in tax revenues. For the medium and high-stimulus cases, the fiscal deficit will climb to 5.7 and 6.3%, respectively.
- Finally, we consider the scenario of a 20% fall in GDP for India. The numbers from China that motivated Scenario 2 may be optimistic from a democratic country's perspective. China implemented very strict lockdown measures and used invasive tracking methods to control the pandemic. India could not implement measures as strict as China's.
- In a worst-case scenario, the aggregate GDP shortfall could have been 20% com pared to the budget estimate. If so, under the low-stimulus case, the fiscal deficit would jump by 2.0 percentage points to 73% of the GDP compared to budget estimates. Similarly, for the high-stimulus case, it could reach up to 8.4%. Lavfallin and will denend.

- As briefly mentioned, the actual shortfall in GDP will depend on how the crisis evolves, but our numbers give a sense of the likely future outcomes. One crucial point that we glossed over in the above calculations relates to the discussion on the fiscal multiplier.
- The initial fiscal stimulus package announced by the central government was 0.8% of the GDP, and it later may be added another 1-2 percentage points. Based on past studies (Dave et al 2018), the fiscal multiplier for India is low.
- So, the fiscal stimulus will, at best, lead to a one-to-one increase in GDP, that is, 1%-2%. It is thus unlikely to cover for the en tire loss in economic activity. Further, we think that the boost to consumer spending under this stimulus package could be much lower than what was suggested by the estimates based on past data. A fiscal stimulus might not work in the standard fashion if the markets are closed and consumers are confined to their homes.
- To complete the discussion, we also perform a similar analysis with state-level fiscal deficits, using FY 2018-19 information.
- Since the states have not announced any massive stimulus package like the central government, we calculate the increase in aggregate state-level fiscal deficit only on account of a reduction in GDP. Under Scenario 2, the state-level fiscal deficit will climb to 3.2%, and under Scenario 3, a 20% short fall in Gop, it will increase to 2.60%.
- Discussion This paper is motivated by the belief that while the COVID-19 pandemic is primarily a health crisis, its effects on the economy must be closely monitored. Prompt corrective actions are also necessary to ensure that both the effects and after-effects of the crisis are minimised.
- Several commentators and experts have argued for massive fiscal boosts. When uncertainty is high, private markets break down, and fiscal boosts are essential to ensure financial stability. We agree with these observations.
- However, we argue that even the existing fiscal boost of 1.7 trillion, which at 0.8% of the estimated GDP is small, can have significant effects on the fiscal deficit.
- We have shown that unlike the global financial crisis, the fiscal deficit under the COVID-19 crisis might end up much larger if not carefully monitored. The higher the fiscal deficit, the slower the recovery path to the FRBM-mandated target. It will not only lead to the crowding out of private investments now, but also in the foreseeable future.
- Additionally, as seen during the financial crisis, emerging market economies also face a large risk of a credit-rating downgrade (Amstad and Packer 2015). If that happens, borrowing by Indian firms will suffer even in the international market.

- A rating downgrade is not only associated with an increase in credit spread (Cantor and Packer 1996), but also a flight of capital as many institutional investors are not allowed to invest in non-investment-grade securities.
- Notwithstanding these issues, fighting COVID-19 has required a massive mobilisation of resources. While monetary policy can provide liquidity support, the role of fiscal policy cannot be ignored. It goes without saying that if the slowdown persists for a while, disinvestment will not be a very lucrative option to compensate for lower tax receipts.
- An immediate subsidy rationalisation and higher disinvestment once economic conditions improve will help bring down the fiscal deficit at a much faster rate. This will prevent a recurrence of the fiscal deficit overhang, as seen in the period after the global financial crisis.
- So, where should the government find the much-needed funds? By our estimates, 34.5 trillion to 210 trillion (that is, up to 4.4% of the GDP in expenditure above budget estimates) may be needed. There are three main ways to do it.
- First, borrow domestically or from abroad (including from the Indian diaspora), print money, or cut expenditure, that is, rationalise subsidies or postpone non-essential expenditure.

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