

'Fiscal arithmetic remains a major concern'



Professor NR Bhanumurthy on the challenges before the government

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quick chat with *BusinessLine*. According to him how the fiscal arithmetic is worked out and how India adjusts to global slowdown will be key in 2019. Excerpts:

Year 2018 has been a controversial year as far as the economy is concerned. What are the challenges the government faces in 2019 on the fiscal management front?

I think it has to be looked at from a macro perspective. What will be most challenging is how to deal with overall expected slowdown in the global economy. There are lot of indicators that suggest slowdown and even IMF and World Bank have cautioned that we are going to see a kind of a cyclical

slowdown in 2019. Some analysts are cautioning recession, maybe a milder one.

In fact, US stock markets have already reacted last week. So my guess is that world economy is entering into a slowdown phase and it has also been corroborated by declining intentional oil prices. For those who are following the counter cyclical policies they might be pushed to increase their public expenditures to avoid the sharp cyclical slowdown. Those who are following the pro cyclical policies they will have to take the path of fiscal tightening. India largely follows counter-cyclical policies and, hence, might lead to widening of fiscal deficits.

Government is over confident about maintaining its fiscal deficit for the current year...

If you combine the latest GST decisions and bank recapitalisation then it will definitely have pressure on the fiscal in the current year.

The governments will say so and need to be optimistic, they won't say we are going to face any slowdown although right now there are clear signs of slowdown in India. My guess is that this fiscal deficit target of 3.3 per cent of the GDP is going to be a tough task. But, unfortunately the way we present our Budgets in the beginning of February, they would still show revised numbers close to 3.3 per cent as there will be less clarity

on GDP Advance estimates based on just first two quarters' information. We will have to wait for the actual numbers that will come much later.

What are the four concern areas according to you for the fiscal management as we move into 2019?

For me the major concern is fiscal arithmetic and the quality of fiscal consolidation. Right now the Finance Ministry is maintaining 3.3 per cent number but we will have to wait for this when the new government comes and presents the full Budget.

My guess is that we might see a very different number than 3.3 per cent in June-July when

the full Budget is presented.

Second is the worsening of the banking sector issues where the central bank seems to be losing grip after the recent spate with the government in terms of how to deal with it. Hope PCA would not become a history. That is scary.

Third in my view is employment. I don't want to talk much about it because there is no right number. We just saw some numbers in the EPFO but it is going to be major issue as it has to be felt on the road.

Fourth, according to me, apart from the agrarian issues, how far and smoothly we are going to absorb the slowdown in the global economy will be a major issue.