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3. India Need for Structural Economic Reforms

Rising global energy prices, pressure on the Indian rupee, widening fiscal deficits, subsidy burdens, and slowing economic growth have revived debates on the need for structural economic reforms similar to those undertaken in 1991. The current economic challenges bear resemblance to the crisis India faced three decades ago, though the magnitude and nature of problems differ significantly. Policymakers and economists are increasingly emphasizing the urgency of bold reform measures to restore macroeconomic stability and sustain long-term growth momentum.

1.Why is India Facing Economic Stress?

Rising Global Energy Prices

1. The ongoing crisis in the Middle East has significantly increased global crude oil and fertilizer prices, creating severe pressure on India's import bill.
2. Higher import costs are increasing pressure on India's trade balance and current account deficit, threatening external sector stability.
3. Rising energy prices are also increasing transportation and production costs across sectors, affecting industrial competitiveness and consumer purchasing power.
4. As India imports approximately 85-90 percent of its crude oil requirements, any spike in international oil prices directly impacts the domestic economy through multiple channels.

Weakening of the Indian Rupee

1. The Indian rupee continues to depreciate against the US dollar, reaching record lows of around 96.9 to 97 rupees per dollar due to external uncertainties and capital outflows.
2. A weaker rupee increases the cost of imports including crude oil, fertilizers, medical equipment, and other essential commodities, compounding inflationary pressures.
3. Currency depreciation also affects India's external debt servicing burden and creates uncertainty for foreign investors considering long-term commitments.

Declining Investment Sentiment

1. Foreign Portfolio Investors are withdrawing investments from Indian markets due to global uncertainty, rising US interest rates, and risk aversion among international investors.
2. Domestic investors are also showing caution due to inflationary pressures, slowing economic growth, and uncertainty about future policy direction.
3. Weak investment sentiment affects capital formation, employment generation, and long-term productive capacity of the economy.

Inflationary Pressures

1. Rising fuel, fertilizer, and food prices are increasing inflationary pressures across the economy, eroding household purchasing power and consumption demand.
2. If inflation rises beyond the Reserve Bank of India's tolerance band of 2 to 6 percent, the RBI may be forced to increase repo rates further.
3. Higher interest rates increase borrowing costs for businesses and consumers, thereby slowing economic growth and dampening investment activity.

Climatic Concerns

1. The forecast of a strong El Niño phenomenon raises serious concerns regarding deficient rainfall and lower agricultural productivity during the upcoming monsoon season.
2. Weak agricultural output can reduce rural incomes, affecting consumption demand in rural areas which constitute a significant portion of India's consumer market.
3. Agricultural distress also leads to increased food inflation, affecting household budgets and overall economic stability.

2.Why are Subsidies Becoming a Major Concern?

Rising Fertilizer Subsidy Burden

1. India imports nearly one-fourth of its urea requirement from global markets, exposing the country to international price volatility and supply disruptions.
2. Imported urea is sold to farmers at highly subsidized prices, creating a massive fiscal burden on the government exchequer.
3. Excessive subsidy on urea creates perverse incentives for diversion and black marketing, with subsidized fertilizer often being smuggled to neighbouring countries.
4. The fertilizer subsidy bill has escalated substantially due to rising international prices and increased domestic consumption patterns.

Distorted Fertilizer Usage

1. Heavy subsidy on urea encourages excessive use of nitrogen-based fertilizers while discouraging balanced application of phosphatic and potassic fertilizers.
2. Imbalanced use of fertilizers adversely affects soil health, reduces long-term agricultural productivity, and creates environmental problems including groundwater contamination.
3. Farmers tend to overuse subsidized urea while neglecting other essential nutrients, leading to soil degradation and declining crop yields over time.

Rising Food Subsidy Burden

1. The government continues to provide free or highly subsidized foodgrain to more than 800 million people under various food security schemes.
2. Large food subsidy expenditure limits the government's fiscal space for capital investment in infrastructure, healthcare, education, and employment generation programs.
3. The increasing subsidy burden constrains the government's ability to respond effectively to other urgent development priorities and economic challenges.

3.Economic Reforms Needed

Fertilizer Subsidy Reforms

1. The government should shift toward Direct Benefit Transfer of fertilizer subsidies directly to farmers' bank accounts, eliminating intermediaries and reducing leakages.
2. Fertilizer subsidies can be linked with landholding size and integrated with the PM-Kisan database to ensure better targeting and prevent misuse.
3. Urea can be brought under the Nutrient-Based Subsidy scheme to promote balanced fertilizer usage and improve soil health management.
4. Gradual rationalization of subsidies should be accompanied by extension services educating farmers about optimal fertilizer application practices.

Food Subsidy Reforms

1. The government can rationalize the number of beneficiaries under food security schemes through better targeting mechanisms using Aadhaar-based authentication.

2. Subsidy benefits should be directed toward genuinely vulnerable populations while excluding those who have moved above the poverty line.
3. Transition toward cash transfers instead of in-kind food distribution can improve efficiency and reduce administrative costs.

Fiscal Consolidation Measures

1. Rationalization of subsidies can reduce fiscal deficits, improve macroeconomic stability, and enhance investor confidence in India's economic management.
2. Savings from subsidy reforms can be redirected toward productive capital expenditure in infrastructure, healthcare, education, and employment generation.
3. Improved fiscal discipline will create space for countercyclical policies during economic downturns and enhance overall economic resilience.

4.What are the Challenges?

Political Resistance

1. Subsidies and welfare schemes are politically sensitive issues, with any attempt to rationalize benefits facing strong opposition from political parties and interest groups.
2. Electoral considerations often prevent governments from implementing unpopular but necessary economic reforms, leading to policy paralysis.

Social Concerns

1. Sudden reduction in subsidies may increase hardships for poor and marginal households who depend heavily on government support for basic necessities.
2. Careful targeting and phased implementation are necessary to avoid social distress and protect vulnerable sections from economic shocks.
3. Reform measures must be accompanied by strengthened social safety nets and alternative support mechanisms.

Administrative Challenges

1. Implementation of Direct Benefit Transfer-based reforms requires accurate land records, reliable beneficiary databases, and robust digital infrastructure.
2. Tenant farmers and informal cultivators may face exclusion if reforms are not designed carefully to account for ground realities.
3. Technical glitches, banking infrastructure gaps, and digital literacy constraints can hinder effective implementation of technology-driven reform measures.

5.The 1991 Economic Reforms - Historical Parallel

Background of the 1991 Crisis

1. India faced a severe Balance of Payments crisis in 1991, with foreign exchange reserves declining to levels sufficient for only a few weeks of imports.
2. High fiscal deficits, rising inflation, and increasing external debt weakened the economy to the point where India had to pledge gold reserves to secure emergency loans.
3. The crisis necessitated immediate stabilization measures and fundamental structural reforms to restore economic viability.

Major Reforms Introduced

1. Liberalization involved abolishing industrial licensing for most sectors to reduce government control and encourage entrepreneurship.
2. Privatization opened Public Sector Undertakings to disinvestment and greater private sector participation, improving efficiency and competitiveness.

3. Globalization reduced import restrictions and encouraged foreign investment to integrate India with the global economy and access international capital and technology.

Outcomes of 1991 Reforms

1. India achieved higher and more stable economic growth in subsequent decades, transforming from a closed economy to an emerging market powerhouse.
2. Foreign exchange reserves increased significantly, eliminating vulnerability to external payment crises and building confidence among international investors.
3. The private sector emerged as a major driver of economic growth, employment generation, and technological innovation.

6.Way Forward

1. **Phased Implementation Strategy** - Reforms should be implemented gradually with clear timelines, allowing stakeholders to adjust while maintaining political consensus through effective communication about long-term benefits.
2. **Strengthen Social Safety Nets** - Simultaneous strengthening of healthcare, education, and employment guarantee schemes can cushion vulnerable populations from potential adverse impacts of subsidy rationalization.
3. **Build Political Consensus** - Cross-party dialogue and involvement of state governments in reform design can help build broader political support for necessary but potentially unpopular economic measures.

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