

'Higher MSP may spur inflation, fiscal costs'

The government's decision to hike MSP for kharif crops is expected to impact GDP by 0.1-0.2% besides adding to inflationary pressures, says a DBS report.

According to the global financial services major, higher MSPs carry inflation as well as fiscal costs.

"For the fiscal math, impact is likely to be in the tune of 0.1-0.2% of GDP, which might necessitate higher revenue support or lower capex spending to limit any risk to the 2018-19 deficit targets," DBS said.

Seeking to address farm distress ahead of general elections, the Centre on July 4 hiked price paid to farmers for paddy by a record Rs. 200 per quintal and by up to 52% for other summer-sown crops.

The move is expected to lead to higher inflation and widen fiscal deficit because of increase in food subsidy bill to over Rs. 2 lakh crore from Rs. 1.70 lakh crore provided in the Budget for 2018-19, experts said.

As per the report, for the rest of this financial year, the impact on inflation will be in the range of around 25-30 bps.

'Signal for rate hikes'

Regarding RBI's policy stance, the report said higher MSPs will add to inflationary pressures, fiscal slippage and this might prompt the central bank to go for another rate hike.

"For RBI, MSP increase poses an additional risk to their inflation view, besides fiscal slippage worries and higher oil prices," the report said adding "August rate hike risks remain on the table".

In June, the Reserve Bank of India had upped its retail inflation projection by 0.30%.

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