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Stimulus Package to Reverse Economic Slowdown

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Recently, many economic indicators have pointed to a sharp slowdown in demand, both in rural and urban India.

- For instance, the automobile sector is facing a prolonged slump in demand, leading to massive job losses.
- In this context, the government looks to reverse economic slowdown with a **stimulus package**.

Reasons for the Slowdown

- India's merchandise exports have contracted, signalling the impact of **US-China trade war**.
- **Poor sentiment** in the **equity markets** and in the **banking sector** have led to **stalling the investment** in India.
- With domestic **economic activity remaining weak**, while the **global slowdown** and **trade tensions** have intensified, there are further chances of intensification of this slowdown.
- In this scenario, **the industry has demanded a stimulus package of ₹1 trillion** to initiate an investment cycle amid slowing global and domestic slowdown.

REVERSING THE SLOWDOWN

The Centre will unveil a host of measures to help the private sector and bolster economic growth. (in %)

FY19 GDP growth rate

6.8

March quarter growth rate

5.8

Real growth rate needed to become a \$5 trillion economy by FY25

9

Growth rate projected by RBI for FY20

6.9

\$2.7 tn

Size of the economy at the end of FY19



THE government is likely to take steps to boost infrastructure investments.

SPECIFIC sectors, including the auto industry, may be offered GST relief.

THE Centre is also looking at ways to cut red tape on cross-border trade.

IT may also make efforts to improve ease of doing business.

The government realized that **the tight fiscal policy is proving to be counterproductive** and that **monetary policy alone is not enough to spur economic growth.**

Therefore, it has laid down a set of measures **including tax cuts and targeted sops**, to reverse an economic downturn.

Proposed Measures

The measures being considered are:

- The stimulus package will include **Rs 100 trillion infrastructure investment** over the next five years
- **Goods and services tax (GST) relief** to specific sectors, including the automobile sector, that could boost demand.
- **Reduce Red tape** on cross-border trade and improve **ease of doing business.**
- The government also held that, in an effort to boost exports, it is working on a **new World Trade Organization-compliant duty reimbursement scheme.**

Significance

- Earlier Fiscal Responsibility and Budget Management (FRBM) Act **constrained** the government from providing a fiscal push in the Union budget.

- But the government is considering the use of **escape clause** (in the FRBM Act) for deviation in the fiscal deficit up to **50 basis points**.
It may give the government leeway to spend an **additional ₹1.15 trillion** in the current fiscal.
- **Escape Clause:** The panel led by **N.K. Singh** to review the FRBM Act had suggested an escape clause, allowing deviations up to 0.5 percentage points of Gross Domestic Product, based on triggers including far-reaching structural reforms in the economy **with unanticipated fiscal implications, acts of war and farm distress**.

Source:Mint