

Stimulus package to boost demand post Covid

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Covid has put a damper on economic growth, employment and the dream of a 5 trillion economy. Moreover, the importance of rescue and relief is felt through the hardships faced by the population. Therefore, the government is taking various steps to boost growth.

In news: Indian government has announced a set of measures in the hope of boosting consumer spending and capital expenditure.

Placing it in syllabus: Indian economy

Static dimensions

1. Background

Current dimensions

1. Boosting spending
2. How are states helped?

Content:

Boosting spending:

- Finance Minister Nirmala Sitharaman recently announced **measures in two buckets** – schemes intended to boost spending by central government employees, and those intended to push states' capital expenditure.
- The total estimated boost to the economy may add up to Rs 1 lakh crore.

The first is the **'Leave Travel Concession Cash Voucher Scheme'**.

- It is applicable to government employees.

- Cash payment to employees in lieu of one LTC during 2018-21.
- Full payment on leave encashment and payment of fare in three-flat rate slabs will be made.
- An employee, opting for this scheme, will be required to buy goods/services worth 3 times the fare and 1 time the leave encashment before March 31, 2021.
- Money is to be spent on items where 12% or more GST is imposed.
- Spending has to be done via digital means and only at GST registered businesses.
- Spending should happen before March 31, 2021.

The same tax concession for LTC tickets is available to state governments and the private sector too. It is estimated that the scheme could generate additional consumer demand worth Rs 28,000 crore overall.

The **second scheme introduced is the Special Festival Advance Scheme** (was a part of earlier pay commissions but was not included in the Seventh Pay Commission).

- It is a one-time measure for all central government employees.
- State governments can consider implementing the same.
- Rs 10,000 advance will be available for all central government employees to be repaid in 10 instalments.
- Advance will be available till March 31 2021.
- To be given as a prepaid rupay card.
- Cannot be drawn as cash from an ATM but can be spent anywhere.
- It will generate a consumer demand of an estimated Rs 8,000 crore if given by all state governments.

How are states helped?

- The government has tried to front load capital expenditure by states.

- The first such scheme introduces special assistance to states as follows:
- **Rs 12,000 crore in special interest free 50-year loans** will be provided to states –

Rs 2,500 crore of this will go to North East, Uttarakhand and Himachal Pradesh.

Rs 7,500 crore to go to other states in proportion to Finance Commission devolution formula.

Rs 2,000 crore goes to states which meet some of the criteria set out by the central government earlier.

- 50% of the amount to be given initially, and the balance amount after the first instalment.
- Money has to be spent before March 31, 2021.
- It has to be used to settle supplier bills.
- This money will be over and above the borrowing limits set for states.

An **additional budget of Rs 25,000 crore will be provided for capital expenditure** for roads, defence infrastructure, water supply, urban development.

Background:

- After unlocking the COVID lockdown, several initiatives and packages have been announced to boost the economy.
- The government has stuck to a **revised borrowing target of 12 trillion rupees** in the current fiscal year.
- The RBI has left **key policy rates unchanged**.
- It has retained an accommodative monetary stance to support an economy that is projected to contract by almost 10% in the current fiscal year.

Mould your thought:

1. What are the set of measures announced to boost consumer

spending and capital expenditure post COVID?

Approach to the answer:

- Write background
- Explain the two schemes proposed
- Write how states have been helped
- Conclusion