Expansionary Policies in a Slowing Economy

Prelims: Indian Economy | Current events of national and international importance

Why in news?

- **Expansionary policies –** Expansionary policy is a macroeconomic policy that seeks to boost aggregate demand to stimulate economic growth.
- It led to increase the availability of funds, which, in turn, leads to increased consumption and greater economic growth.
- It is controlled by Monetary policy and Fiscal policies.
- **Monetary Policy –** Monetary policy refers to the actions undertaken by a central bank to manipulate the money supply and credit conditions to stimulate or restrain economic activity.

Key Components of Monetary Policy	
Quantitative Tools	**Qualitative Tools**
• CRR (Cash Reserve Ratio) • SLR (Statutory Liquid Ratio) • Repo Rate • Reverse Repo Rate • Bank Rate • Open Market Operations	• Moral Suasion • Direct Action • Selective Credit Control • Adjustments in loan consumption

- RBI cut repo rates twice in 2025, April (25 base points) and June (50 base points).

Repo Rate full form is Repurchase Agreement or Repurchasing Option. Banks obtain loans from the Reserve Bank of India (RBI) by selling qualifying securities.

- **Current repo rate** – 5.5%.
- It is justified by low inflation (around 3%, six-year low) and moderate growth forecast (6.5% for 2025-26).
- **Fiscal policy** – Fiscal policy refers to the government's use of spending and taxation to influence the economy.
- It's a key tool for achieving macroeconomic goals like stable prices, full employment, and sustainable economic growth.
- By adjusting tax rates and public spending, governments can manage the overall demand in the economy and steer it towards desired outcomes.
- Significant **income tax cuts** announced in February 2025 aimed at boosting consumption.
- **Need for Policy Coordination –** Fiscal and monetary policies both influence **aggregate demand** and **inflation**.

Expansionary fiscal policy (tax cuts/spending) + expansionary monetary policy (rate cuts) =

Risk of excessive inflation if poorly coordinated.

- **Current economic concerns –** Signs of **muted growth** despite expansionary policies.
    - **Credit growth** – It is at 3-year low (**9%** in May 2025).
    - **Unemployment** – It increased from **5.1% to 5.6%**.
    - **Global risks –** US tariff wars, Iran conflict and is expected tax cut-driven consumption boost has not materialized yet.
- If growth remains weak, Tax collections fall and Fiscal deficit widens.
- Pressure to cut government spending may affect vulnerable populations.
- Market mechanisms may not sufficiently uplift wages and consumption for the bottom of society.
- Need for **sustained government intervention**, wage growth, and targeted welfare spending.

Reference

The Hindu| Expansionary Policies in a Slowing Economy