

Indian economy and stimulus package

What is the issue?

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There is a declining trend in terms of investment and manufacturing, which calls for discussion on stimulus package.

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What is a stimulus package?

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- A stimulus package is a package of economic measures put together by the government to stimulate a struggling economy.

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- The objective of a stimulus package is to reinvigorate the economy and prevent or reverse a recession by boosting employment and spending.

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- Stimulus package argues that the impact of a recession can be lessened with increased government spending.

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What are the challenges faced by Indian economy?

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- Since the economy recovered from the Global Financial Crisis in 2011-12, there has been a weakness in manufacturing.

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- There has been no fresh investments in the businesses for creating additional capacity.

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- The inadequate demand cannot be revived by temporarily increasing public expenditure.

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- Appreciating real exchange rate has weakened both the domestic market and the export market.

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- This appreciation is driven by FII inflows and remittances, without any increase in productivity of the industry.

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How these challenges can be tackled?

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- Rupee could be depreciated to neutralise the real exchange rate appreciation.
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- The government can intervene in specific sectors with multiplier effect, to create additional demand.
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- Labour intensive sectors like construction, apparel, assembling etc. could boost the manufacturing sector.

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Does Indian economy needs a stimulus package?

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- At present, there is no external financial shock which calls for a rapid response like the 2008 crisis.
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- The internal shock of demonetisation is over and the economy has been remonetised.
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- Initial disruption due to implementation of GST needs to be mitigated and compliance problems addressed.
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- There is no other factor which could be seen as a shock which calls for an immediate response in terms of a stimulus package.

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Way forward

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- Recent historical experience shows that comparative advantage is often

created and nurtured by smart state action.

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- The successful East Asian economies, starting with Japan, followed by South Korea, and more recently China have followed this model.

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- India needs to attempt this and succeed in getting higher growth with jobs.

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Source: Business standard

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