Options to revive the economy

What is the issue?

\n\n

Government with RBI’s support should step up capital spending in this fiscal to stir demand.

\n\n

What is the need for capital spending?

\n\n

\n
- There is subdued growth coupled with the slowdown in exports.
\n
- There is a demand for intervention and rethinking to push investments and demand in the economy.
\n
- Capital spending on areas such as roads, railways, irrigation projects, affordable housing and building other productive assets will boost economy.
\n
- It tend to have a multiplier effect on economic growth as higher spending on projects creates jobs which further creates greater demand for goods and services in the economy.
\n

\n\n

What is the role of RBI in boosting the economy?

\n\n

\n
- The RBI needs to play a role in providing support to the economy, it needs to place some priority on growth while deciding on monetary policy.
\n
- Having switched to an inflation-targeting regime, the monetary policy committee seems to be ignoring the weak growth trends while setting interest rates.
\n
- The RBI could outline a plan of cutting interest rates over a period of time

and the exporters should have access to easily available credit.
\n
- This can be done by expanding interest rate subvention from the current rate to 4%.
\n
- Allowing commercial banks to lend more to SME exporters or tweaking working capital norms will also work in this regard.
\n

\n\n

What options government have to boost economy?

\n\n

\n
- **Intervention -**Implementation bottlenecks need to be addressed to take over sound assets that are stranded due to scarcity of funds.
\n
- Clauses on renegotiation and grievance redressal need to be included in such policies.
\n
- **Infra bonds -**Government could explore to issue special bonds for large infrastructure spending in railways and other projects in roads and highways.
\n
- **PPP model -**The recent PPP option announced for low cost housing is innovative as it targets issues in risk allocation.
\n
- Similar models can be offered to other infrastructure sectors where private investments can come in.
\n
- **Recapitalisation -**The government can look at raising this capital without putting pressure on the balance sheet by trimming its large holdings in these banks.
\n
- **Job creation -** While growth revival through public spending will create jobs and recasting labour laws and allowing fixed term employment contracts will ensure more flexibility.
\n
- **Addressing GST -**Problems faced by exporters such as withdrawal of duty drawback benefit need to be addressed immediately.
\n
- Reducing the number of rates under GST and expanding its coverage to include electricity, oil and gas, alcohol and real estate at the earliest should be a priority.

\n

- **Agri FDI -**There is need to catalyse FDI in organized food retail which can create a supply chain transformation and strengthen the linkages between farmers and markets.
  \n

\n\n

\n\n

Source: The Hindu

\n