

Options to revive the economy

What is the issue?

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

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What is the need for capital spending?

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- There is subdued growth coupled with the slowdown in exports.
- There is a demand for intervention and rethinking to push investments and demand in the economy.
- Capital spending on areas such as roads, railways, irrigation projects, affordable housing and building other productive assets will boost economy.
- 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.

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What is the role of RBI in boosting the economy?

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- 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.
- Having switched to an inflation-targeting regime, the monetary policy committee seems to be ignoring the weak growth trends while setting interest rates.
- 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.

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- This can be done by expanding interest rate subvention from the current rate to 4%.

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- Allowing commercial banks to lend more to SME exporters or tweaking working capital norms will also work in this regard.

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What options government have to boost economy?

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- **Intervention** -Implementation bottlenecks need to be addressed to take over sound assets that are stranded due to scarcity of funds.

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- Clauses on renegotiation and grievance redressal need to be included in such policies.

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- **Infra bonds** -Government could explore to issue special bonds for large infrastructure spending in railways and other projects in roads and highways.

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- **PPP model** -The recent PPP option announced for low cost housing is innovative as it targets issues in risk allocation.

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- Similar models can be offered to other infrastructure sectors where private investments can come in.

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- **Recapitalisation** -The government can look at raising this capital without putting pressure on the balance sheet by trimming its large holdings in these banks.

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- **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.

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- **Addressing GST** -Problems faced by exporters such as withdrawal of duty drawback benefit need to be addressed immediately.

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- 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.

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- **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.

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Source: The Hindu

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