Prospects of fiscal stimulus measures

What is the issue?

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- The government recently announced plans for investment in roads and recapitalisation of public sector banks. (Click to know more on Bharatmala Pariyojana and bank recapitalisation)
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- How much can these contribute to revive the economy from its present status of slowed growth rate is highly uncertain.
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What are the challenges?

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- **Infrastructure** - Resource mobilization on the scale required for road projects may not turn out to be feasible.
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- Given the long gestation period for many infrastructure projects, the benefits to the economy might not kick in for some time.
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- **Credit** - It is not ensured that there would necessarily be an increase in the supply of credit through bank recapitalisation.
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- For one, the details of recapitalisation bonds will be announced in the next quarter and recapitalisation will happen in 2018-19, delaying any immediate revival.
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- Secondly, the space for lending depends on the allocation of capital among PSBs.
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- The finance minister says discretion will be used in allocation, but it will be discrimination based on the past record and future performance of PSBs.
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- **Demand** - The demand for credit in the economy is sluggish because

investment levels are low, investor confidence is weak, and interest rates are high.
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- Thus, even if there is an increase in the supply of credit, recapitalisation cannot ensure demand for credit.
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- This is reflected in the excess statutory liquidity ratio funds with PSBs.
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What is desired?

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- The infusion of equity capital into PSBs could help these banks to provision for their NPAs and clean up their balance sheets.
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- However, a sustainable solution depends on reforming the lending practices and ensuring that the practice of bad loans didn't continue.
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- Governance problems in PSBs, compounded through flawed appointments of independent directors as a form of patronage for supporters or cronies, must be addressed.
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Source: Livemint

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