

SENTIMENT BOOSTER: ON GOVT RESPONSE TO SLOWDOWN

Relevant for: Indian Economy | Topic: Issues relating to Planning & Economic Reforms

For an economy that is downbeat in growth and in sentiment, the comprehensive package of measures announced by Finance Minister Nirmala Sitharaman on Friday may just be the right boost. They address growth slowdown concerns; free up funds for investment and spending by banks, housing finance companies and MSMEs; and importantly, undo some controversial proposals, in the budget and outside it, which were affecting sentiment in the markets and the corporate sector. And, importantly, these have all been done without any significant financial burden on the government. Some of the measures promote the ease of doing business and even the ease of living for ordinary citizens. The auto sector's biggest demand — that of reduction in GST rate — may not have been conceded, but Ms. Sitharaman has given the sector enough to cheer about. The accelerated depreciation of 15% (in addition to the existing 15%) for all vehicles acquired till March 31, 2020 and the deferment of the proposed increase in registration fee for new vehicles to June 2020 are positive measures that will boost sentiment and, it is to be hoped, translate into demand. As the festive season sets in, banks will have more space to increase their lending consequent to the upfront funding of 70,000 crore (announced in the budget) that they will get from the government towards recapitalisation. This, together with the strong push for repo rate linked loan products, is likely to benefit consumers borrowing to buy new homes, vehicles and durables.

The roll-back of the capital gains tax imposed in the budget on foreign portfolio investors, the withdrawal of angel tax on start-ups and the promise that non-compliance with corporate social responsibility (CSR) norms will be decriminalised show a government that is willing to listen to feedback from the ground. Much of the mayhem in the markets could have been avoided though if only the Finance Minister had acted earlier on the negative feedback to the FPI tax proposal. Some of the smaller steps can go a long way. Expediting delayed payments by government departments and public sector units is alone expected to release a massive 60,000 crore into the economy. The assurance that all pending GST refunds to MSMEs will be paid within 30 days and going forward such refunds will be made within 60 days is a great relief for the sector. This will ease the cash flows of MSMEs who often work with stretched finances. The most significant takeaway though from Ms. Sitharaman's announcements is the fact that the government is no longer scared of the *suit-boot ki sarkar jibe*. She declared upfront that the government respects "wealth creators" and the measures are aimed at helping them. Will these measures put GDP growth back on the rails? Will they restore the jobs lost in the last few months? The answers to these are in the hands of the wealth creators now. The government did what it could; it is now up to India Inc to take the ball and run.

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