Source : www.indianexpress.com Date : 2019-08-28

USE WINDFALL WELL

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Banking, NPAs and RBI

The decision of the RBI's central board on Monday to accept the recommendations of the Bimal Jalan Committee and **transfer Rs 1.76 lakh crore to the government** this fiscal year should signal a welcome end to the conflict between the finance ministry and India's central bank on at least the issue of quantum of transfers to the exchequer.

The souring of ties between the two had led to the exit of former governor, Urjit Patel, and his deputy, Viral Acharya, and a face-off later between the Jalan Committee and the secretary, economic affairs, the government's nominee on the panel.

With the RBI board endorsing the Committee's suggestions, the central bank will pay out a little over Rs 1.23 lakh crore of surplus and Rs 52,637 crore of excess provisions on its books in FY 20. This effectively means a windfall of Rs 86,000 crore for the government considering that it has already budgeted for a surplus or dividend of Rs 90,000 crore from the RBI this fiscal.

Now that the debate on transfer of excess capital has been settled, the government should quickly get down to sequestering or earmarking this one-time pay-out, distinct from the Consolidated Fund of India, for public investment or spending on projects. There is a compelling case for that now.

With India's growth engine sputtering, reflected in a decline in private investment, little or no risk-taking by industry or businessmen and now, worryingly, a fall in demand — with consumers worried about incomes and jobs loath to spend — and no leeway for a fiscal stimulus, it is only the government which can make up for the slack.

That's why it is important not to lose the opportunity to utilise the windfall gain unlike in the past when receipts from spectrum auctions of over Rs 1 lakh crore on two occasions were used for revenue expenditure and to pare the fiscal deficit.

Instead of putting away these funds for recapitalisation of banks, as has been suggested by some, including the former chief economic advisor, Arvind Subramanian, the government should productively employ these funds by identifying projects where land acquisition and other statutory approvals have been obtained. These could feature even projects helmed by the private sector.

A close monitoring of projects which lead to creation of durable assets and where the government or one of its arms invests these funds, including in equity, can help kickstart growth enhancing economic activity and also help generate good returns down the line. The timing, too, is opportune with the RBI having lowered interest rates by 110 basis points starting from February this year.

With other headwinds, such as the threat of a global downturn and limited tools in the hands of central banks to provide another boost this time around, it is the government which should lead from the front. Like transmission of interest rates, the impact of such capital spending will be felt only after a few quarters, which is why policymakers should move fast on this.

END