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GOVT DEFENDS MOVE TO COMBINE FISCAL, MONETARY MEASURES IN STIMULUS PACKAGE

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Public Finance, Taxation & Black Money incl. Government Budgeting

Nirmala Sitharaman on Friday responded to criticism that the economic stimulus has so far been a spate of liquidity measures while the country needs govt spending to boost demand

New Delhi: Faced with criticism that most of the financial support announced by finance minister Nirmala Sitharaman so far are liquidity measures while the country needs government spending to boost demand at a time the economy is projected to contract in FY21, the government on Friday defended its move.

“We also look at how the world has been claiming what they are doing. We have also gone into the details of who has included what stimulus into their package announcements," Sitharaman said on Friday while announcing the third tranche of support measures for the farmers.

“Facts are that most countries’ packages are a combination of actual fiscal outgoes and liquidity provisions. For example, there is one country (UK) that gave out a 15% (of GDP) package, 14.9% of it was liquidity. It is not as if only one part of the package is counted, the way it is being counted is being given to you accurately, there is a mix of fiscal impulses and liquidity provisions, and almost every country in the world counts it this way," expenditure secretary TV Somanathan said.

Most forecasters have estimated India’s economy to contract in the current financial year ending 31 March. Management consulting firm Arthur D. Little on Friday projected India’s GDP to contract 10.8% in FY21 while National Council of Applied Economic Research estimated the country’s economy to shrink by 12.5% during the financial year.

“The use of easy-credit and pre-existing funds mean that the immediate fiscal cost of today's (Thursday’s) announcements is rather small. There was expectation of more direct cash transfer to the needy (or allotting more in the NREGA fund which is seeing large off-take), but that did not come through. Instead, the focus was more on easy credit/ loans. Given the focus on credit, and using pre-existing funds (e.g. the CAMPA fund) and pre-existing mechanisms (e.g. NABARD loans), the direct fiscal cost of today's announcement is small, at 0.1% of GDP by our calculation," Pranjul Bhandari, chief economist at HSBC India said in a report released on Thursday.

During the first two tranches of announcements of prime minister’s cumulative 20 trillion stimulus package, analysts expect the fiscal cost not to be more than 25,000 crore. Ranen Banerjee, leader, economic advisory services at PwC said at best 10% (15,000 crore) of Friday’s announcement of 1.5 trillion package for the farmers can be utilized in FY21. “These are very good measures for the long term, but immediate fiscal impact is going to be minimal as actual disbursements will be challenging," he added.

The government earlier this month announced that it will borrow 4.2 trillion additional amount from the market taking the total borrowing to 12 trillion in FY21. This itself is expected to take the fiscal deficit to 5.5% of GDP from the budgeted 3.5% of GDP in FY21. The State Bank of India on Thursday projected India’s fiscal deficit to touch 7.9% of GDP, owing to higher expenditure and lower revenues.

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