

The booster shot

The NDA government has unveiled a set of measures including greater spending on the building of roads and expressways, a recapitalisation plan for banks, and financial support for medium and small scale enterprises in 50 clusters. The attempt to boost spending and bolster growth is a step in the right direction.

One of the biggest challenges this government faced when it took over in May 2014 was the balance sheet stress of banks, especially the state-owned ones. The government has now decided to infuse Rs 2.11 lakh crore into state-run banks over the next couple of years, mainly through the issue of recapitalisation bonds, dilution of government equity both through capital markets and mergers, and budgetary support.

While the details are still to be worked out, the fact that it is being front-loaded and would be done over the next two years should comfort the markets. The capital infusion is a welcome step since the strengthening of banks is critical, especially from the perspective of small and medium enterprises and smaller firms, which are not in a position to raise funds from the bond or debt markets when banks are loath to lend. Given the cost of capital and the tax-funded money at stake, it is important that this capital infusion is accompanied by governance changes in these banks if the proposed measures are to have an enduring impact.

The government's capital spending programme is well on track. In 2016-17, total capital expenditure from the Union budget was Rs 290,299 crore, which itself was higher than the originally budgeted figure of Rs 247,023 crore. For the current fiscal, the budgeted capital expenditure is Rs 309,801 crore. Of this, Rs 146,000 crore has already been spent during April-September and the targeted expenditure is likely to be achieved. That is a good sign.

But capital spending by PSUs and departmental undertakings like Railways seems to be lagging. The Railways has managed to achieve a capex of just Rs 50,762 crore so far, against the budgeted Rs 131,000 crore. Central PSUs have, likewise, spent only Rs 1.37 lakh crore against the budgeted capex of Rs 3.85 lakh crore. The exception is the Ministry of Road Transport and Highways: 8,231 km of national highways got built in 2016-17, up from 6,061 km, 4,410 km and 4,260 km in the preceding three years. Rural roads construction under Prime Minister Gram Sadak Yojana has also made good progress - from 25,316 km in 2013-14 to 47,447 km in 2016-17. This belies the clamour for a fiscal stimulus.

However, the collapse of private investment and the absence of animal spirits among entrepreneurs should worry the government. Growth cannot return without the private sector weighing in with investment.

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