

UNION FINANCE MINISTER ANNOUNCES STIMULUS TO BOOST DEMAND IN THE ECONOMY: HIGHLIGHTS

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

Mumbai / New Delhi, 12 October 2020

1) Measures to Stimulate Consumer Spending

Proposals to stimulate consumer spending has two components

LTC Cash Voucher Scheme

Special Festival Advance Scheme

1A) LTC Cash Voucher Scheme

Under LTC Cash Voucher Scheme, the Government has decided to give cash payment to employees in lieu of one LTC during 2018-21, in which full payment on Leave encashment and tax-free payment of LTC fare in 3 flat-rate slabs depending on class of entitlement will be given. An employee, opting for this scheme, will be required to buy goods / services worth 3 times the fare and 1 time the leave encashment before 31st March 2021. The items bought should be those attracting GST of 12% or more. Only digital transactions are allowed, GST Invoice to be produced.

The biggest incentive for employees to avail the LTC Cash Voucher Scheme is that in a four-year block ending in 2021, the LTC not availed will lapse, instead, this will encourage employees to avail of this facility to buy goods which can help their families.

Estimated cost of LTC Cash Voucher Scheme: For Central govt. : 5,675 crore; for PSBs & PSUs: 1,900 crore.

Tax concessions for LTC tickets available for state govt. & private sector too, if they choose to give such facility, these employees too can benefit

Indications are that savings of govt. and organized sector employees have increased, we want to incentivize such people to boost demand for the benefit of the less fortunate. On a conservative basis, we expect the LTC Cash Voucher Scheme to generate additional consumer demand in the range of 28,000 crore.

– Union Finance Minister Smt. Nirmala Sitharaman

1B) Special Festival Advance Scheme

Special Festival Advance Scheme which was meant for non-gazetted government employees is being revived as a one-time measure, for gazetted employees too. All central govt. employees can now get interest-free advance of Rs. 10,000, in the form of a prepaid RuPay Card, to be spent by March 31, 2021.

The one-time disbursement of Special Festival Advance Scheme is expected to amount to Rs. 4,000 crore; if given by all state governments, another Rs. 8,000 crore is expected to be disbursed. Employees can spend this on any festival.

2) Measures to Stimulate Capital Expenditure

2A) Capital Expenditure Boost for States

A special interest-free 50-year loan to states is being issued, for 12,000 crore capital expenditure

200 crore each for 8 North East states

450 crore each Uttarakhand, Himachal

7,500 crore for remaining states, as per share of Finance Commission's devolution

All the above interest-free loans given to states are to be spent by March 31, 2021; 50% will be given initially, remaining upon utilization of first 50%.

Under Part 3 of 12,000 crore interest-free loans to states, 2,000 crore will be given to those states which fulfill at least 3 out of 4 reforms spelled out in Aatma Nirbhar Bharat package. This is over and above other borrowing ceilings.

Capital expenditure - money spent on infrastructure and asset creation - has a multiplier effect on the economy, it not only improves current GDP but also future GDP, we want to give a new thrust to capital expenditure of both states and Centre

– Union Finance Minister Smt. Nirmala Sitharaman

2B) Capital Expenditure Boost for the Centre

Additional budget of 25,000 crore (in addition to 4.13 lakh crore given in Budget 2020-'21) is being provided for capital expenditure on roads, defence, water supply, urban development and domestically produced capital equipment.

The proposals to stimulate demand are designed to stimulate demand in a fiscally prudent way - some of them involve advancing of expenditure, with offsetting changes later - others are directly linked to increasing GDP

– Union Finance Minister Smt. Nirmala Sitharaman

Estimated Impact of Stimulus Measures

We estimate that the measures announced today, for boosting consumer spending and capital expenditure, will boost demand by 73,000 crore, to be spent by March 31, 2021. Given that private sector spending through LTC tax benefit would be at least 28,000 crore, we estimate total demand boost due to today's measures to be more than 1 lakh crore.

If demand goes up based on the stimulus measures announced today, it will have an impact on those people who have been affected by COVID-19 and are desperately looking for demand to keep their business going.

– Union Finance Minister Smt. Nirmala Sitharaman

[The presentation given by Union Finance Minister can be accessed here.](#)

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