GOVERNMENT ANNOUNCES MEASURES FOR STIMULATING THE ECONOMY

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The Government has been concerned about the impact of the global financial crisis on the Indian economy and a number of steps have been taken to deal with this problem.

The first priority was to re-assure the people of the stability of the financial system in general and of the safety of bank deposits in particular. To this end, steps were taken to infuse liquidity into the banking system and also to address problems being faced by various non-bank financing companies. These steps have ensured that the financial system is functioning effectively without suffering the kind of loss of confidence experienced in the industrialised world.

Having assured stability of the system, the Government has focussed its attention on countering the impact of the global recession on India's economic growth. On the monetary side, the RBI has sought to pump sufficient liquidity into the banking system to enable bank credit to meet the expanded requirements of the economy keeping in mind the contraction in credit from non-bank sources. Banks have been provided adequate liquidity through a series of reductions in the CRR and additional flexibility in meeting the SLR requirement. Interest rate reductions have also been signalled by reductions in the repo and reverse repo rates, the most recent of which was announced on Saturday when both the repo rate and the reverse repo rate were cut by 100 basis points. Access to external commercial borrowings has also been liberalised so that borrowers capable of accessing funds from abroad are allowed to do so. The banks are being encouraged to counter what might otherwise become self-fulfilling negative expectations by enhanced lending to support economic activity.

These measures in the area of money and credit are being supplemented by fiscal measures designed to stimulate the economy. In recognition of the need for a fiscal stimulus, the government had consciously allowed the fiscal deficit to expand beyond the originally targeted level because of the loan waivers, issue of oil and fertilizer bonds and higher levels of food subsidy. In addition, the following steps are being taken:

1. Plan Expenditure:

In order to provide a contra-cyclical stimulus via plan expenditure, the Government has decided to seek authorisation for additional plan expenditure of upto Rs 20,000 crore in the current year. In addition, steps are being taken to ensure full utilisation of funds already provided, so that the pace of expenditure is maintained. The total spending programme in the balance four months of the current fiscal year, taking plan and non-plan expenditure together is expected to be Rs.300,000 crore.

The economy will continue to need stimulus in 2009-2010 also and this can be achieved by ensuring a substantial increase in plan expenditure as part of the budget for next year.

2. Reduction in Cenvat:

As an immediate measure to encourage additional spending, an across-the-board cut of 4% in the ad valorem Cenvat rate will be effected for the balance part of the current financial year on all products other than petroleum and those where the current rate is less than 4%.

3. Measures to Support Exports

i) Pre and post-shipment export credit for labour intensive exports, i.e., textiles (including handlooms, carpets and handicrafts), leather, gems & jewellery, marine products and SME sector is being made more attractive by providing an interest subvention of 2 percent upto 31/3/2009 subject to minimum rate of interest of 7 percent per annum.

ii) Additional funds of Rs.1100 crore will be provided to ensure full refund of Terminal Excise duty/CST.

iii) An additional allocation for export incentive schemes of Rs.350 crore will be made.

iv) Government back-up guarantee will be made available to ECGC to the extent of Rs.350 crore to enable it to provide guarantees for exports to difficult markets/products.

v) Exporters will be allowed refund of service tax on foreign agent commissions of upto 10 percent of FOB value of exports. They will also be allowed refund of service tax on output services while availing of benefits under Duty Drawback Scheme.

4. Housing

Housing is a potentially very important source of employment and demand for critical sectors and there is a large unmet need for housing in the country, especially for middle and low income groups. The Reserve Bank has announced that it will shortly put in place a refinance facility of Rs.4000 crore for the National Housing Bank. In addition, one of the areas where plan expenditure can be increased relatively easily is the Indira Awas Yojana. As a further measure of support for this sector public sector banks will shortly announce a package for borrowers of home loans in two categories: (1) upto Rs.5 lakhs and (2) Rs 5 lakh-Rs 20 lakh. This sector will be kept under a close watch and additional measures would be taken as necessary to promote an accelerated growth trajectory.

5. MSME Sector

The Government attaches the highest priority to supporting the medium, small and micro enterprises (MSMEs) sector which is critical for employment generation. To facilitate the flow of credit to MSMEs, RBI has announced a refinance facility of Rs.7000 crore for SIDBI which will be available to support incremental lending, either directly to MSMEs or indirectly via banks, NBFCs and SFCs. In addition, the following steps are being taken.

(a) To boost collateral free lending, the current guarantee cover under Credit Guarantee Scheme for Micro and Small enterprises on loans will be extended from Rs.50 lakh to Rs.1 crore with guarantee cover of 50 percent.

(b) The lock in period for loans covered under the existing credit guarantee scheme will be reduced from 24 to 18 months, to encourage banks to cover more loans under the guarantee scheme.

(c) Government will issue an advisory to Central Public Sector Enterprises and request State Public Sector Enterprises to ensure prompt payment of bills of MSMEs. Easing of credit conditions generally should help PSUs to make such payments on schedule.

6. Textiles

(a) An additional allocation of Rs.1400 crore will be made to clear the entire backlog in TUF Scheme.

(b) All items of handicrafts will be included under 'Vishesh Krishi & Gram Udyog Yojana'.

7. Infrastructure Financing

A large number of infrastructure projects are now being cleared for implementation in the Public Private Partnership mode. These projects may experience difficulty in reaching financial closure given the current uncertainties in the financial world. In order to support financing of such projects, Government has decided to authorise the India Infrastructure Finance Company Limited (IIFCL) to raise Rs.10,000 crore through tax-free bonds by 31/3/2009. These funds will be used by IIFCL to refinance bank lending of longer maturity to eligible infrastructure projects, particularly in highways and port sectors. In this way it is expected that IIFCL resources used for refinance can leverage bank financing of double the amount. Depending on need, IIFCL will be permitted to raise further resources by issue of such bonds. In particular, these initiatives will support a PPP programme of Rs.100,000 crore in the highways sector.

8. Others

(a) Government departments will be allowed to take up replacement of government vehicles within the allowed budget, in relaxation of extant economy instructions.

(b) Import Duty on Naphtha for use in the power sector will be eliminated.

(c) Export duty on iron ore fines will be eliminated and on lumps will be reduced to 5%.

The Government is keeping a close watch on the evolving economic situation and will not hesitate to take any additional steps that may be needed to counter recessionary trends and maintain the pace of economic activity.

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