



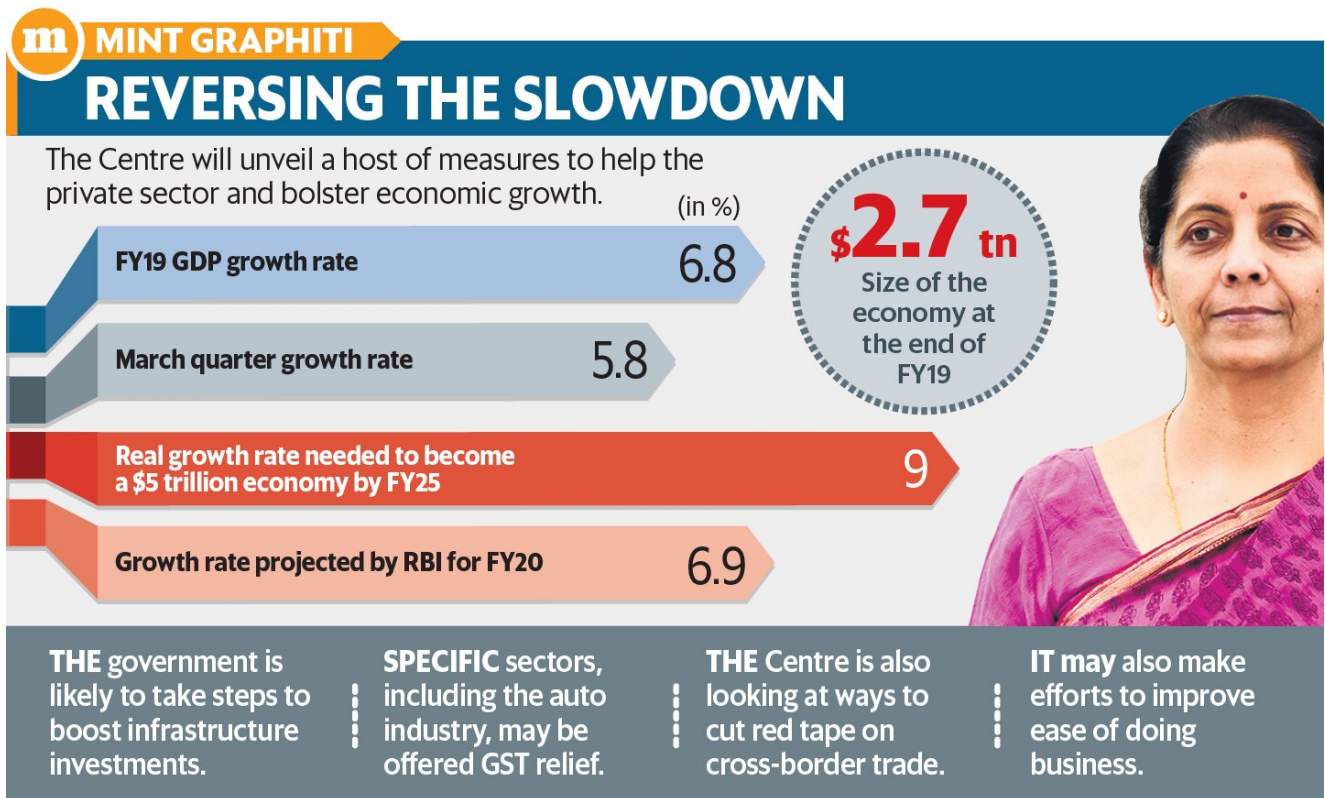
## Stimulus Package to Reverse Economic Slowdown

Recently, many economic indicators have pointed to a sharp slowdown in demand, both in rural and urban India.

- For instance, the automobile sector is facing a prolonged slump in demand, leading to massive job losses.
- In this context, the government looks to reverse economic slowdown with a **stimulus package**.

### Reasons for the Slowdown

- India's merchandise exports have contracted, signalling the impact of [US-China trade war](#).
- **Poor sentiment** in the **equity markets** and in the **banking sector** have led to **stalling the investment** in India.
- With domestic **economic activity remaining weak**, while the **global slowdown** and **trade tensions** have intensified, there are further chances of intensification of this slowdown.
- In this scenario, **the industry has demanded a stimulus package of ₹1 trillion** to initiate an investment cycle amid slowing global and domestic slowdown.



- The government realized that **the tight fiscal policy is proving to be counterproductive** and that **monetary policy alone is not enough to spur economic growth**.
  - Therefore, it has laid down a set of measures **including tax cuts and targeted sops**, to

reverse an economic downturn.

## Proposed Measures

- The measures being considered are:
  - The stimulus package will include **Rs 100 trillion infrastructure investment** over the next five years
  - **Goods and services tax (GST) relief** to specific sectors, including the automobile sector, that could boost demand.
  - **Reduce Red tape** on cross-border trade and improve **ease of doing business**.
  - The government also held that, in an effort to boost exports, it is working on a **new [World Trade Organization](#)-compliant duty reimbursement scheme**.

## Significance

- Earlier Fiscal Responsibility and Budget Management (FRBM) Act **constrained** the government from providing a fiscal push in the Union budget.
- But the government is considering the use of **escape clause** (in the FRBM Act) for deviation in the fiscal deficit up to **50 basis points**.
  - It may give the government leeway to spend an **additional ₹1.15 trillion** in the current fiscal.
- **Escape Clause:** The panel led by **N.K. Singh** to review the FRBM Act had suggested an escape clause, allowing deviations up to 0.5 percentage points of Gross Domestic Product, based on triggers including far-reaching structural reforms in the economy **with unanticipated fiscal implications, acts of war and farm distress**.

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