# Stimulus Package – the baby feeding…

--- Amar Ranu*, Jan 03, 2009

In the current global predicament, India can't fully insulate from the meltdown. The much awaited financial stimulus 2.0 went public with many more announcements in order to stimulate the dawdling economy. It announced an increase in cap on FII investment in corporate bonds, ease in external commercial borrowings and an additional Rs 30,000 borrowing by IIFCL in the form of tax-free bonds to finance additional projects out of which Rs 10,000 crore would be raised next week. With a view to revive the ailing economy, the package will facilitate funding of pending highways and port projects of about Rs 25,000 crore. The package, the last in the current fiscal would act as a baby step, as commented by industry think-tanks.

While the government allowed states to borrow Rs 30,000 crore to meet additional expenditure, it also relaxed norms on external commercial borrowing (ECB) for dealing with liquidity crunch. It also proposes to remove "all-in-cost" ceilings on ECB. It provided special instructions to PSU banks to deal with NBFC in a proper manner and price the risks appropriately. The lack of confidence among banks affected liquidity in NBFC. NBFC in infrastructure sector having Integrated Township Project would be allowed to borrow via ECB route which would boost the severely pressurized housing and construction sectors. In order to revive the commercial vehicle manufacturers which were hard hit in the global meltdown and the NBFCs which are generally active in Commercial Vehicles funding would be given a line of credit (LOC) by PSU banks. Further the government has allowed 50% depreciation on Commercial Vehicles bought in Jan-March quarter. The government has also raised the credit target for PSU banks and it also plans to recapitalize public sector banks of the order of Rs 20,000 crore over the next two years.

For the export sector which has been hit by the recession in USA, the Duty Entitlement Passbook Scheme (DEPS) has been extended till Dec 31, 2009. Moreover, duty drawback benefits on some items such as bicycle, agricultural hand tools and yarn (special category) are being enhanced with retrospective effect from Sept 01, 2008. EXIM bank would get a line of credit of Rs 5,000 crore which will provide pre-shipment and post-shipment credit, in rupees or dollars, to Indian exporters at competitive rates.

The FII investment limit in Corporate Bonds has also been raised from $ 6 billion to $ 15 billion. While the fiscal measures would boost up the ailing economy, the monetary measures announced by RBI would definitely lead to lower deposit and lending rates enabling cheaper funds to developers. While the repo rate has been down by 100bp to 5.5%, the reverse repo is down to 4%. The CRR (Cash Reserve Ratio) has also been reduced to 5% infusing Rs 20,000 crore in the system. The cut in repo and reverse repo is with immediate effect while the CRR cut would be effective from Jan 17, 2009. The RBI has already cut CRR by 4.5% since Aug 2008.

Comparing the financial package with other world economies' financial stimuli, it would be a baby step by India. While USA and China has come out with massive stimulus plans of $ 700 billion and $ 586 billion respectively where they would spend the major amounts on housing, roads, railways and airports, tax deductions for businesses that invest in new equipments and subsidies for farmers to boost up the economy. It would definitely reap fruits in the days to come. In India it may provide the temporary revival and can act as an electoral package as election is on the card.

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