

Fiscally Prudent Proposals to Stimulate Demand in the Economy

Background

Consumer spending

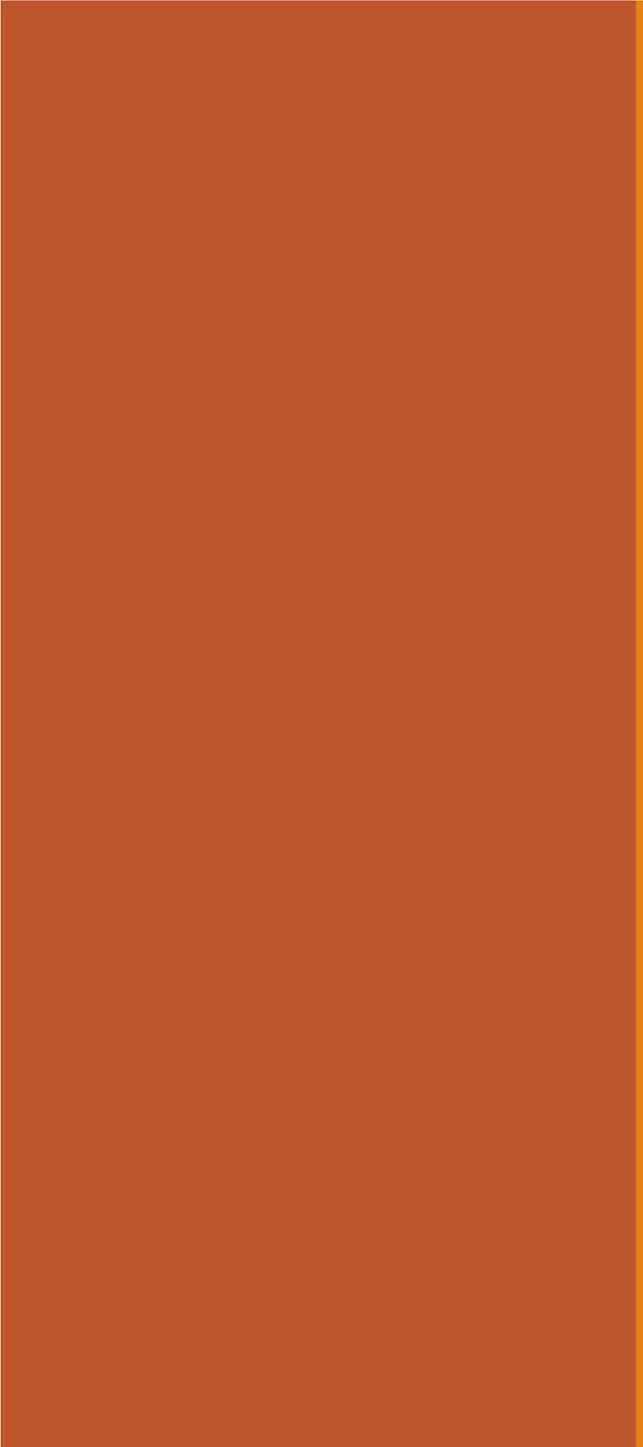
Capital expenditure

Background (1/2)

- Covid 19 pandemic has adversely affected economy
- Needs of the poor and the weaker sections have been addressed in the Atma Nirbhar Bharat package and its extensions
- Supply constraints have eased, but consumer demand is still affected

Background (2/2)

- Proposals presented today are designed to stimulate demand in a fiscally prudent way
 - Some proposals are for advancing or front-loading of expenditure with offsetting changes later
 - Others are directly linked to increase in GDP



Background ✓

Consumer spending

Capital expenditure

1 Consumer demand:

1/a. LTC Cash Voucher Scheme (1/3)

- Government employees and many organised sector employees have escaped the economic effects of the pandemic. Their salaries have been protected and savings have increased
- **They need to be incentivised to contribute to the revival of demand for the benefit of the less fortunate**

Leave Travel Concession (LTC) Cash Voucher scheme

- Central Govt employees get LTC in a block of 4 years (one to anywhere in India & one hometown or two for home town)
- Air or rail fare, as per pay scale/entitlement, is reimbursed and in addition, Leave encashment of 10 days (pay + DA) is paid.
- Due to Covid-19, employee are not in a position to avail of LTC in the current block of 2018-21

LTC Cash Voucher Scheme (2/3)

- In lieu of one LTC during 2018-21, cash payment will be made:
 - Full payment on Leave encashment and
 - Payment of fare in 3 flat-rate slabs depending on class of entitlement
 - Fare payment **will be tax free**
- An employee, opting for this scheme, will be required to
 - Buy goods / services worth **3 times the fare and 1 time the leave encashment**
 - Do so **before 31st March 2021**
- Money must be spent on
 - goods attracting GST of **12% or more** from a GST registered vendor
 - through **digital** mode
 - **GST invoice** will be required to be produced.

LTC Cash Voucher Scheme (3/3)

Financial Boost to the Economy

- If Central Government employees opt for it, cost will be around Rs. 5,675 crore. Employees of PSBs and PSUs will also be allowed this facility and the estimated cost for them will be Rs. 1,900 crore.
- The **tax concession will be allowed for State Government/Private sector too**, for employees who currently are entitled to LTC, subject to following the guidelines of the Central Government scheme
- Demand infusion in the economy by Central Government and Central PSE/PSB employees is estimated to be Rs. 19,000 crore approx. Demand infusion by State Government employees will be Rs. 9,000 crore.
- Additional consumer demand generated will be Rs. 28,000 crore.

Consumer demand:

1/b. Special Festival Advance Scheme (1/2)

- Festival advance along with other similar advances were abolished on the recommendations of 7th Pay Commission. It is proposed to restore the Festival Advance to Government employees for festivals up to 31.3.2021
- Interest-free advance of Rs. 10,000/- to be recoverable in maximum 10 instalments
- Rs. 4,000 crore expected to be disbursed
 - **If given by all State Governments**, another Rs. 8000 crores is likely to be disbursed; assuming 50% adoption by states estimate is Rs. 4000 crores
 - No permanent increase in government expenditure—advance will be recovered
- Additional consumer demand generated will be Rs. 8,000 crore.

Special Festival Advance Scheme (2/2)

- Employees will get pre-loaded Rupay Card of the advance value.
- **Government will bear Bank charges in this regard**
- Ensures digital mode of payment, resulting in tax revenue and encouraging honest businesses

Background



Consumer spending



Capital expenditure

2. Capital Expenditure

- Capital expenditure
 - Capital expenditure has a high multiplier effect
 - It raises not only current GDP but also future GDP, making debt more sustainable

- New thrust to capital expenditure of States and Centre

Capital Expenditure: Special Assistance for states(1/2)

- ❑ Special **interest free 50-year** loans to States for capital expenditure for **Rs. 12,000 crores**
- ❑ Part 1: Rs. 2,500 crore for North East (Rs. 1,600 crore), Uttarakhand and Himachal (Rs. 900 crore)
- ❑ Part 2: Rs. 7,500 crore for other states, in proportion to share in Finance Commission devolution
 - 50% initially
 - Balance after use of first instalment
 - Unutilised funds will be re-allocated
- ❑ Part 3: Rs. 2,000 crore for states which meet at least 3 out of 4 reforms given in Atma Nirbhar fiscal deficit package

Capital Expenditure: Special Assistance for states (2/2)

- To be used for **new or ongoing capital projects** needing funds and / or settling contractors'/ suppliers' bills on such projects
- To be **spent by 31.3.2021**
- This funding will be **over and above all other additional borrowing ceilings** given to states
- Bullet repayment after 50 years, **no servicing required till then**

3. Capital Expenditure of Centre: Enhanced budget provision

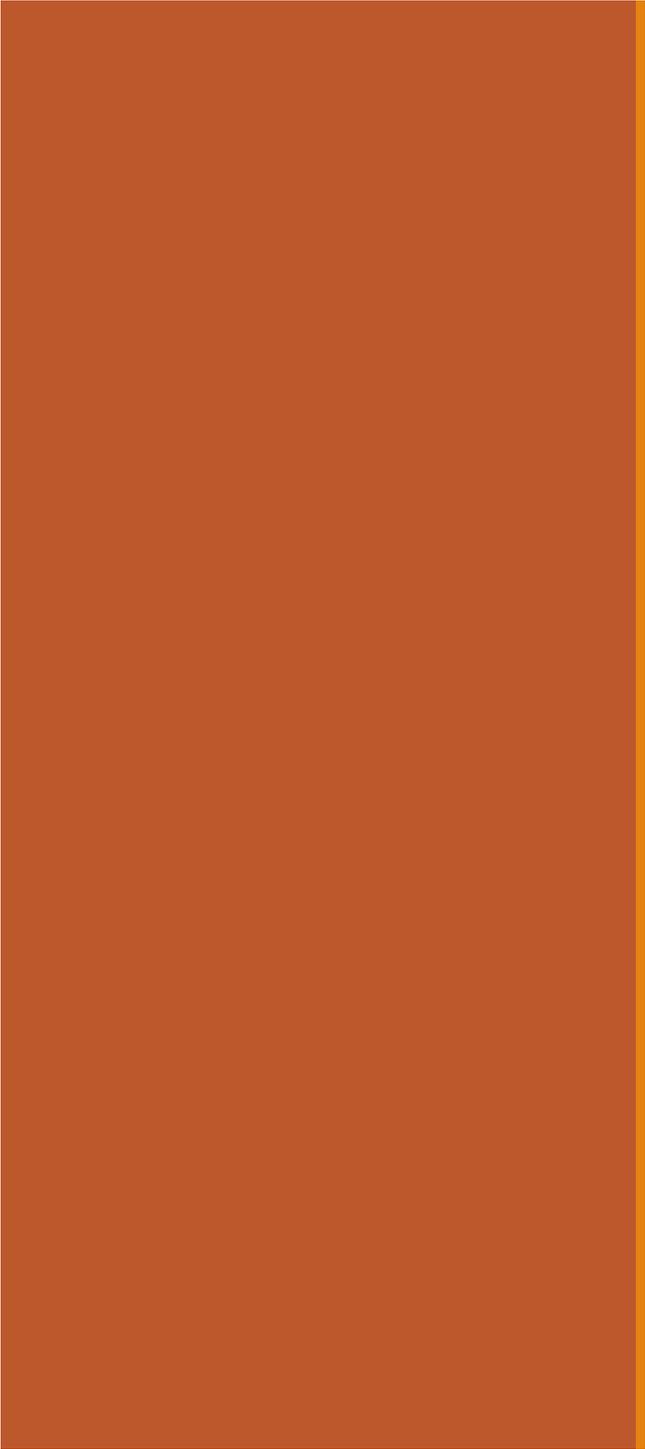
- Rs. 25,000 crores additional budget will be provided capital expenditure on **roads, defence infrastructure, water supply, urban development, defence infrastructure** and domestically produced capital equipment
- Allocations will be made in forthcoming Revised Estimate discussions of Ministry of Finance with concerned ministries

Summary of Demand Boost (1/2)

- Rs. 36,000 crore additional consumer demand (Rs. 28,000 crore through LTC voucher scheme + Rs. 8,000 crores through festival advance scheme)
- Rs. 37,000 crore additional Central and State capital expenditure
- **Total boost to demand estimated at Rs. 73,000 crore, all to be spent by 31.3.2021**

Summary of Demand Boost (2/2)

- Very rough estimate is that potential private sector spending through LTC tax benefit will be at least equal to the Government-employee led demand of Rs. 28,000 crores
- Total additional demand estimated to exceed Rs. 1 lakh crore
- Measures by Government to stimulate demand
 - must not burden the common citizen with future inflation
 - must not put government debt on an unsustainable path
- Today's solution should not cause tomorrow's problem



Thank you