

## General Studies-3; Topic: Indian economy – growth and development; mobilization of resources,

### Government's Mega Plan to Revive Economy

#### 1) Introduction

- The government is infusing Rs 2.11 lakh crore capital in PSU banks and Rs 7 lakh crore worth highway projects, including Bharatmala to boost economy and help revive private sector investment.
- It would be funded through budgetary provisions, sale of recapitalisation bonds and banks diluting the government's equity share.
- This will provide a mega turnaround point for Indian economy which was tackling issues out of the GST and demonetisation
- The move is vital for the slowing economy in the face of the "twin-balance sheet problem" afflicting corporate India and public sector banks.

#### 2) Implications

- As for the Bharatmala, the infrastructure- related industries like cement, steel, would get a boost
- It would also generate jobs at informal levels of the economy and generate demand at the bottom of the pyramid.
- The focus on roads that connect economic centres will help ensure investments are focused on economic returns
- The infrastructure will create more wealth for the nation.
- The decision to invest in PSU bank recapitalisation would result in increased lending, especially to the MSMEs.
- Bank recapitalisation is likely to kickstart the credit cycle and facilitates private investments.
- Capital requirement for public sector banks to meet Basel III requirements will be met by the government's relief package.
- The move is likely to be fiscal-deficit neutral. The spending would be "below the line" as per IMF norms and not add to the fiscal deficit.
- Banks will now have enough money to take care of their stressed loans
- Share sale of state-owned banks to be attractive after recapitalisation.

#### 3) Bharatmala Project

- Bharatmala is the second-largest roads project after the 50,000-km National Highways Development Project and aims to improve connectivity in border and other areas.
- The roads that would be built under Bharatmala will include state highways, national highways, and some state roads across the country
- This will include economic corridor development aimed at faster movement of cargo.
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- The economic corridors would ensure that time taken for transporting goods from manufacturing sectors is reduced.
- Improved road connectivity in northeast and other Border States will facilitate international trade.
- The Bharatmala project will also benefit the freight and logistics industry.
- It is also expected to give a huge impetus to the development of rural roads.
- It will bring down the logistics cost and make 'Make-in-India' more competitive and attractive to investors.
- This ambitious project will create new industrial corridors and urban centres.

#### 4) Concerns / Challenges

- Indiscriminate lending earlier by banks led to a high level of NPAs
- NPAs have increased from Rs 2.75 lakh crore in March 2015 to Rs 7.33 lakh crore as on June 2017.
- Last few quarters have seen GDP growth slip due to major structural reforms such as demonetisation and goods and services tax (GST)
- Many PSBs are facing pressure on account of credit costs and have limited room to lend due to paucity of capital.
- There are concerns whether the banks would be willing to lend to the same corporate houses that have failed to service their old debt over the past 5 years.

#### 5) Way Forward

- RBI must pro-actively seek to boost investment and consumer demand through easing of the repo rate.
- Recapitalization must be accompanied by reforms to enable PSBs play a key role in the financial system and give a strong push to MSME sector.
- Strong banks are the need of the hour
- The strengthening of public sector banks to manage these funds is in the larger interests of the economy
- The government's push for the infrastructure sector is good but it will have to ensure lower interest rates and land availability for those projects