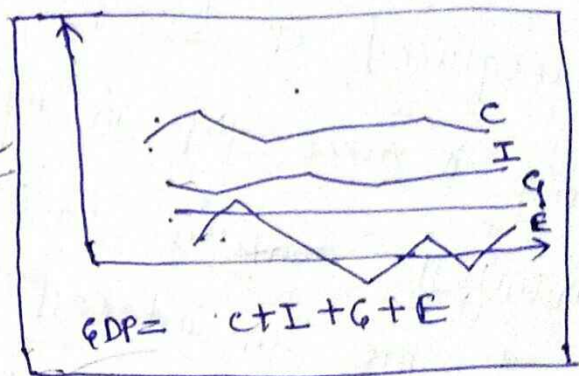


Government Expenditure

Reserve Bank of India (RBI) as reported that the economy of India is going to contract for the first time in last four decades, Government expenditure can be a way out.

Indian economy for a long is driven largely by consumption (C) followed by investment (I), Government expenditure (G) and export (E), as shown in the figure:-

But reports suggest that except government expenditure other elements are unlikely to boost growth in current scenario.



- (i) Investment - Following NBFC and IL&FS crisis Indian economy is going through liquidity crunch. As investors sentiments are down due to moody ratings investment will grow at slowest pace.
- (ii) Export - According to IMF, world economy will contract 3% or more in current FY. Trade wars, Brexit and Corona has restructured value chain and exports will take time to gain numbers.

(iii) consumption - SBI last month informed that people started saving in cash form due to uncertainty, this along with job losses, salary cut and delayed agriculture procurement cum payment will effect consumption in negative way.

Thus Government expenditure can provide the relief. US and Germany followed this path during world war. China is also raising Government expenditure upto \$600 bn, India also has ripe conditions such as.

- :- Already defined road map in the form of National Infrastructure Pipeline (NIP)
- :- Existence of development banks like IFCL, IRFC & NIIF.
- :- Expenditure will create long lasting solution. I&P suggested that 1% of GDP in infrastructure boosts 2% trade and 1.3mn jobs.

But concerns like already worsening fiscal management, low tax collection will push government towards borrowing. This will cloud out private players and increase yield in bond market which will have severe consequences. Borrowing will also make people risk aversion to consume and they will start saving for future and demand will collapse.

Thus Government should issue long term infrastructure bond and engage in PPP to boost expenditure.