

## Sentiment booster: On govt response to slowdown

This article is related to General Studies-  
Paper -III (Indian Economy)

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**"In rolling back some measures, the government shows it listens to feedback."**

For an economy that is downbeat in growth and in sentiment, the comprehensive package of measures announced by Finance Minister Nirmala Sitharaman on Friday may just be the right boost. They address growth slowdown concerns; free up funds for investment and spending by banks, housing finance companies and MSMEs; and importantly, undo some controversial proposals, in the budget and outside it, which were affecting sentiment in the markets and the corporate sector. And, importantly, these have all been done without any significant financial burden on the government. Some of the measures promote the ease of doing business and even the ease of living for ordinary citizens. The auto sector's biggest demand — that of reduction in GST rate — may not have been conceded, but Ms. Sitharaman has given the sector enough to cheer about. The accelerated depreciation of 15% (in addition to the existing 15%) for all vehicles acquired till March 31, 2020 and the deferment of the proposed increase in registration fee for new vehicles to June 2020 are positive measures that will boost sentiment and, it is to be hoped, translate into demand. As the festive season sets in, banks will have more space to increase their lending consequent to the upfront funding of ₹70,000 crore (announced in the budget) that they will get from the government towards recapitalisation. This, together with the strong push for repo rate linked loan products, is likely to benefit consumers borrowing to buy new homes, vehicles and durables.

The roll-back of the capital gains tax imposed in the budget on foreign portfolio investors, the withdrawal of angel tax on start-ups and the promise that non-compliance with corporate social responsibility (CSR) norms will be decriminalised show a government that is willing to listen to feedback from the ground. Much of the mayhem in the markets could have been avoided though if only the Finance Minister had acted earlier on the negative feedback to the FPI tax proposal. Some of the smaller steps can go a long way. Expediting delayed payments by government departments and public sector units is alone expected to release a massive ₹60,000 crore into the economy. The assurance that all pending GST refunds to MSMEs will be paid within 30 days and going forward such refunds will be made within 60 days is a great relief for the sector. This will ease the cash flows of MSMEs who often work with stretched finances. The most significant takeaway though from Ms. Sitharaman's announcements is the fact that the government is no longer scared of the suit-boot ki sarkar jibe. She declared upfront that the government respects "wealth creators" and the measures are aimed at helping them. Will these measures put GDP growth back on the rails? Will they restore the jobs lost in the last few months? The answers to these are in the hands of the wealth creators now. The government did what it could; it is now up to India Inc to take the ball and run.

## Symptom of recession in India

### Why in discussion?

- Recently, Union Finance Minister Nirmala Sitharaman said that Indian economy is better than the whole world. Nirmala said that Indian economy is far better than countries like America and China.
- She said that due to the US-China trade war and currency devaluation, there has been a very volatile situation in global trade.

### What did she say?

- Violation of Corporate Social Responsibility (CSR) rules will be seen as a civil case, it will not be classified as a criminal case.
- The Finance Minister said about the tax reforms related to ending harassment of taxpayers, now all tax notices will be issued through the centralized system. The Finance Minister said that from Vijayadashami the Income Tax Department will start faceless scrutiny.
- Taxpayers will not be harassed. Government is sensitive about tax. She says that GST returns and refunds will be made easier in the coming days.
- Government banks will get a capital of Rs 70,000 crore immediately. So that banks will be able to issue cash of up to five lakh crore rupees in the market.
- All pending GST refunds of Small and Medium Enterprises (MSME) so far will be paid within 30 days; Future refund cases will be settled within 60 days. The same definition of MSME will be created.
- Banks have decided to pass on the benefit of reduction in repo rate to the customers; Introduced repo rate or external standards based loan products. Banks will make loans for home and vehicle cheaper.
- Government will soon bring the scrap policy of old vehicles. Vehicles purchased by BSIV

Technology will remain in operation for the entire period of registration until March 2020.

- Sitharaman announced that the government will also provide additional cash assistance of Rs 20,000 crore to the housing finance companies through the National Housing Bank, taking the total support amount to Rs 30,000 crore.
- To make the loan process easier, the government has decided to simplify the Aadhaar rules and make necessary changes in the money laundering law.
- The government withdrew the exorbitant tax surcharge imposed on them while meeting the demand of foreign portfolio investors (FPIs). Finance Minister Nirmala Sitharaman made this announcement. In this case the pre-budget situation has been restored.
- Government abolishes angel tax.

### What is the economic slowdown?

- When there is a continuous decline in the production of goods and services at the international level and the GDP is in a downward growth for at least three months, this situation is called world economic slowdown.

### US-China trade war impacts global economy

- The slowdown in Chinese imports has resulted in losses to some countries (especially South Asian countries), which depend on China for various finished goods and 'supply value chains', including various components.
- This will be a setback especially for those countries in Africa and South American region who export raw materials to China.
- It has been estimated that there has already been a loss of at least 0.1% of GDP in this trade war. Consumers in the United States are suffering the brunt of the increased tariffs on Chinese goods, leading to an inflationary situation in the country.

## Corporate Social Responsibility (CSR)

- As we know companies use natural resources to create a product, promote pollution and fill their pockets; But various people living in the society have to bear the loss of this severe pollution; Because of the productive activities of these companies, they have to use polluted air and water. But these affected people are not given any direct compensation on behalf of the companies.
- It is for this reason that it has been made mandatory for companies all over the world, including India, to spend some part of their income for the welfare of those who have been facing inconvenience. This is called Corporate Social Responsibility (CSR).
- Who comes under the purview of Corporate Social Responsibility in India?
- The rules of Corporate Social Responsibility (CSR) in India are applicable from April 1, 2014. According to this, companies whose annual net worth is Rs 500 crores or annual income of 1000 crores or annual profit of 5 crores, then they are required to spend on CSR.
- This expense should be at least 2% of the average profit for three years. As per the CSR rules, the provisions of CSR do not only apply to Indian companies, but also to the branch of a foreign company in India and the project office of a foreign company.

### Expected Questions (Prelims Exams)

#### 1. Consider the following statements -

1. Angel Tax was started in 2012 to prevent Money Laundering.
2. Angel investors are affluent individuals who invest in small start-ups which have shortage of capital.
3. Usually the shares of start-up companies are issued at higher prices in comparison to fixed-price shares, the tax imposed on this additional income is known as Angel Tax.

Which of the above statements is/are correct?

- (a) Only 1      (b) Only 2  
(c) Only 3      (d) All of the above

### Expected Questions (Mains Exams)

#### Q. Discuss the policy measures under taken by the Government of India for Protecting Indian economy from recession.

(250Words)

**Note:** Answer of Prelims Expected Question given on 23 Aug. is 1 (c)