

the **R E C K O N E R**
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REGULATIONS GOVERNING INVESTMENTS

GOVERNMENT AND RBI ANNOUNCES NEW FISCAL STIMULUS PACKAGE TO BOOST UP INDIAN ECONOMY

Looking into the present economic scenario prevailing all over the world and in India, the Government has unveiled a Rs. 30,700 crores (appx US\$ 7 billion) fiscal stimulus package to boost up the Indian economy. Faced with slowing economy that's refusing to respond to monetary measures such as interest cuts, the Government took the fiscal route to stimulate growth.

The package mainly comprises additional spending and cut of the excise duty rates, aimed to boost the consumption. It announced an across-the-board 4% cut in excise duty rates – which even if it had come as part of the annual budget, would have been considered a big deal.

Following are some measures and their probable impact on Indian economy:

Sr. No.	Measures	Impact
1	Rs. 20,000 crores increase in planned expenditures.	This will stimulate investments and demand in industries.
2	Government owned banks to announce separate packages for home loans up to Rs. 5 lakhs and loans between Rs. 5 lakhs and Rs. 20 lakhs.	This will make home loans cheaper and that will boost real estate industry, which will engender demand for cement and steel.
3	Higher spend (to push up fiscal deficit).	It is desirable in times of slimming down.
4	Export incentives of over Rs. 2,000 crores which includes special incentive for textiles, handloom, handicraft, gems and jewellery, leather and marine food.	This will create cheaper credit and more increased availability of debt to exporters.
5	Indian Infrastructure Finance Company Limited (IIFCL) to raise tax-free bonds of Rs. 10,000 crores.	This will enable the IIFCL to raise funds at a lower interest tare. The funds raised will be used for refinancing long-term loans for infrastructure projects in ports, highways and power under public-

Sr. No.	Measures	Impact
		private partnership (PPP). It will boost demand for steel, cement and other items.
6	4% cut to excise duty rates. The excise duty cut applies to all manufactured goods except petroleum and those where the current rate is less than 4%.	If concerned manufacturer pass on the 4% cut, ex-factory prices will come down by 4% and retail consumers will be benefited by this reduction in price, hence more buying, increase in demand will lead to higher production.
7	For medium, small and micro enterprises (MSMEs) increase in guarantee cover on loans to lending institutions from Rs. 50 lakhs to Rs. 1 crore with guarantee cover of 50%.	It will increase in availability of more funds to medium, small and micro enterprises (MSMEs) by lending institutions.

The Reserve Bank of India (RBI) has also taken the steps to boost growth and shore up investor confidence amid signs of economic slowdown. The RBI cut the repo rate – the rate at which RBI lends to banks – by 100 basis points to 6.5% from 7.5% and reverse repo rate – the rate at which banks parks excess funds with RBI – by 100 basis points to 5% from 6 %, effective from December 8, 2008. The 6.5 per cent repo rate is the lowest rate in 2-1/2 years while the 5 per cent reverse repo rate is its lowest in more than three years.

This will help the real estate companies to tide over the current credit crunch and weak demand. The RBI has also allowed the restructuring of commercial real estate loans up to June 30, 2009. The loans granted by banks to housing finance companies with a ticket value of up to Rs. 20 lakhs to home buyers will be classified under priority sector. This means a home buyer will get a loan upto Rs. 20 lakhs at a lower rate even from housing finance companies thus getting a wider choice of lenders.

IMPACT OF RATE CUTS ON AUTO SECTOR:

The 4% reduction in excise duty rates will stimulate the auto industry. However, it will take 2 to 3 months before we see a rebound in demand in the auto sector industries.

IMPACT OF PACKAGE ON REAL ESTATE SECTOR:

The package announced by the government will boost the demand for housing in non-metros and bring back growth in the real estate sectors. The package will help economically weaker sections but will have limited impact in metros and super metros.

The package is expected to generate good growth momentum to the realty sectors.

IMPACT OF RATE CUTS BY RBI ON BANKING SECTOR:

The cutting down of repo rate and reverse repo rate by RBI, will reduce the deposit rates and lending rates of banking sectors. Overnight call rate will also come down. The housing loans will become less costly to the prospective home buyers.

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