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"Fiscal Stimulus and Economic Recovery in India: Post-Pandemic Responses and Long-Term Impacts"

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Keywords

Covid-19 pandemic, Economic recovery, Fiscal stimulus, Keynesian economics, Long-term growth.

Abstract

Fiscal stimulus in India is not only a knee-jerk solution during emergency moments; it is a dynamic and a strategic tool to promoting inclusive growth and consequent sustainable economic recovery. Fiscal stimulus, when used efficiently, can turn the crisis of the economy into opportunities and build even stronger sectors of the economy and the opportunity to develop in the long term. The pandemic induced one of the worst economic shocks in the world today. As a result, most governments such as the Indian government began employing Keynesian fiscal involvements and ceased neoliberal retrenchment that they followed over decades. These initiatives were aimed at enhancing spending by the government to stimulate aggregate demand to stabilize the economy. Fiscal stimulus in India was an expansionary process with a careful beginning to encourage the performance of the private sector by alleviating taxes, an upsurge in spending of the government and selective fiscal expenditure. This study aims to analyse the role of India’s fiscal stimulus packages in facilitating economic recovery during the COVID-19 pandemic, and examine their long-term implications for inclusive growth, sectoral resilience, and fiscal sustainability. The study is built up on the second-hand data, which is in the form of the Union Budget (20202023), and Reserve Bank of India bulletins, Economic surveys, IMF fiscal monitors and CMIE and NSSO reports. The results have shown that the stimulus approach in India that has been based on capital expenditure and a sector specific -based approach has been successful. influenced positively on GDP growth, employment and production in industries attractively. Capital spending had a better fiscal multiplier impact than revenue spending had. More public debt and fiscal deficit however pose long-term problems to fiscal discipline. When fiscal stimulus is applied wisely, then it can be a potent instrument of true and equitable economic growth in new economies such as that of India.

Introduction

The rise in India as one of the fastest-developing big economies has been a list of highs and lows. of ground-breaking policy actions to overcome the national and international upheavals. These include the fiscal stimulus which have been of critical importance as these are counter-cyclical measures acting as a tool of stabilization in times of downturns in the economy. Slumps and also as a long-term strategic tool of resiliency and inclusive growth. In 2008-2009, the global financial crisis and the following Great Recession showed that the approach is efficient. Stimulus-based recovery, above all by the American Recovery and Reinvestment Act (ARRA) United States. Recently, the COVID-19 pandemic (2020-21) has led governments around the world into introducing massive Its stimulus packages featured direct payments to the citizens, and an increase in unemployment benefits, and spending on companies' bailout to ease the shrinking of the economy.

The pandemic in India signalled a great departure in the fiscal policy. The Indian government traditionally depended on structural reforms and welfare-based spending, but switched to a deux-con-due form of economy more forceful fiscal policy. This culminated in the launch of the ₹20 lakh crore Atmanirbhar Bharat Abhiyan, a stimulus initiative aimed at providing immediate relief while fostering self-reliance across key sectors. The plan was complex that had the capital expenditure plus selective support to micro, small, and medium Elite ending, manufacturing incentives and green and digital technology investment (MSMEs).

The general aim of the stimulus in finance is the revival of the economic activity in cases when the consumption and investment by the privates is in recession. This has been boosting the expenditure on the side of the government, facilitating tax easing as well as boosting the economy on households and businesses. The objective of the government is stabilizing the demand, lower unemployment and avoid deflationary spirals. Interventions in the sector i.e. subsidy of renewable energy, more healthcare facilities etc. the financing of research and development as well as its position that fiscal policy also does not clash with overall developmental priorities. These are fiscal policies which are supported by monetary easing by the Reserve Bank of India (RBI). All of them helped the Indian economy to revive. The FY 2024-25 lead to a growth rebound in GDP, inflation was showing signs of moderation, and the private sector investment was showing signs of recovery. Although a growing amount of public debt is something to worry about, the policy flexibility and strong domestic demand in India have attracted the attention of the whole world. Its focus on its changing economic model. Essentially the fiscal stimulus initiated by India goes beyond the relief it represents a purposive readjustment of strategy of economic policy that would consolidate on long-term economic stability, social justice and economic globalisation.

Objectives

1. To analyse India's fiscal stimulus programs in relation to economic recovery.
2. To investigate the long-term effects of India's fiscal stimulus plans

Review of literature

Below academic studies provide a range of opinions on the nature, structure, efficiency, and long-term effects of India's fiscal response. Fiscal stimulus is a commonly used counter-cyclical tool during economic downturns. The COVID-19 pandemic induced an unprecedented economic crisis in India, leading the government to implement fiscal stimulus measures to protect lives, livelihoods, and revive growth.

Narender Thakur, Manik Kumar, and Vaishali (1 February 2021) they examine the topic of fiscal package stimulation as the sole means of preserving the lives and livelihoods of vulnerable workers during the COVID-19 epidemic. In order to support poor workers and address health, food, and unemployment issues all of which are critical for India's economic recovery after COVID-19 the study suggests a fiscal stimulus package of Rs. 10 lakh crores initially, with the possibility of increasing it to Rs. 24 lakh crores.

According to **Pinaki Chakraborty's** study (January 1, 2023-India Studies in Business and Economics), India needs a targeted fiscal recovery following the COVID-19 pandemic, with a focus on reducing debt and deficits. However, the report does not specifically examine fiscal stimulus plans or their long-term effects on economic recovery.

Himadri Shekhar Chakrabarty, Partha Ray, and Parthapratim Pal (January 1, 2021) investigate if the COVID-19 epidemic has held India's economic boost hostage due to macroeconomic issues. The success of India's fiscal stimulus plans in response to the COVID-19 pandemic is examined in this study, with particular attention paid to how they affected economic recovery and how they addressed scepticism about their usefulness in the face of macroeconomic challenges. Long-term impacts are also taken into account.

The article "Post Covid-19: recovering and sustaining India's growth" was written by **Ashima Goyal** on August 6, 2020. In order to avoid bankruptcy and alleviate financial strain, the study underlines the importance of targeted, short fiscal stimulus as a necessary component for India's economic recovery following the COVID. Potential economic cycles that are driven by improved domestic demand and supply-side changes are among the long-term consequences that may be experienced.

On January 1, 2021, **S. Z. Chinoy and T. Jain**, who are studying Fiscal Policy and Growth in a Post-COVID-19 World, examine India's fiscal stimulus during the COVID-19 pandemic, evaluating its contribution to economic recovery and striking a balance between deficit reduction and fiscal support. In the post-COVID context, it emphasizes the significance of execution and its implications for debt sustainability.

Prasanth C. wrote a paper titled "A Fiscal Perspective of Policy Responses to COVID-19: Evidences from Emerging Economy India" on January 3, 2023. In order to protect spending in the face of falling income, the article examines India's fiscal stimulus during COVID-19. Long-term economic recovery and debt management measures were impacted by the growing deficits and public debt caused by higher fiscal spending, it is noted.

In order to protect vulnerable workers and alleviate concerns about hunger, unemployment, and health, the aforementioned papers all outline the initial ideas for a stimulus package worth ₹10–24 lakh crore. It was believed that stimulus was necessary for recovery in order to avoid insolvency, increase domestic demand, and encourage supply-side reforms. Scholars did draw attention to macroeconomic problems, though, including growing debt, wider deficits, and long-term sustainability issues. Targeting and execution were critical to effectiveness, and there was disagreement about whether the reaction adequately addressed the crisis's urgency. The majority suggest a short-term, targeted, and reform-related budgetary course that strikes a balance between fiscal restraint and growth.

Methodology

To examine the impact of fiscal stimulus on economic recovery in post-COVID India, the study adopts a descriptive and analytical approach based on secondary data. The researcher collects data from a wide range of credible sources to ensure robustness and reliability of the analysis. This includes, Union Budget Documents (2020–2023), RBI Bulletins, IMF Fiscal Monitor, CMIE and NSSO datasets, Keynesian fiscal stimulus ideas are employed, Scholarly publications from journals and economic magazines aid in conceptual framing, theoretical insights, and empirical review of existing literature.

Details of the study

India's fiscal stimulus programs in relation to economic recovery.

India had one of the most difficult economic situations in its recent history when the COVID-19 pandemic broke out. Lockdowns, supply chain interruptions, and declining demand rocked the country's economic underpinnings. The Indian government responded by launching a well-thought-out fiscal plan that changed as the pandemic progressed. India took a measured approach, striking a balance between short-term relief and long-term structural changes to promote recovery and future growth, rather than jumping into massive spending all at once.

With a focus on the most disadvantaged communities, the ₹1.7 lakh crore PM Garib Kalyan Package was the first major initiative. By offering financial transfers, free food grains, and medical assistance, this package established safety nets that stopped a more serious humanitarian crisis. In addition to meeting immediate needs, these actions set the stage for a larger, more comprehensive policy endeavour. India's self-reliance initiative, the Aatma Nirbhar Bharat Abhiyan, was introduced in May 2020 with the goal of reviving important industries and enhancing economic resilience. This effort, which had a total stimulus value of ₹20 lakh crore, or around 10% of the country's GDP, focused on infrastructure development, social welfare, industrial recovery, and regulatory reforms. Micro, Small, and Medium-Sized Enterprises (MSMEs) were given special attention because they are essential to India's employment and production ecology. Through the establishment of a "Fund of Funds," the government provided ₹3 lakh crore in collateral-free loans and an additional ₹50,000 crore in equity infusion. The increased eligibility allowed more companies to take advantage as a result of redefined MSMEs.

Revised definitions of MSME allowed more businesses to make use of increased eligibility. Infrastructure was one of the major pillars of the recovery plan of India. In conjunction with more government spending on the roads, railroads and affordable housing, the National Infrastructure Pipeline was increased to cover over 7,400 projects. These developments paved the way to sustainable growth, raised demand and generated employment. Sector specific support was also crucial.

The government had supplied 90,000 crore liquidity to the power sector in a move aimed at relieving the financial burden the distribution companies (DISCOMs) were. The real estate sector underwent the process of regulation in a bid to reduce risks and uncertainties on the hands of builders and buyers. The official labeling of COVID-19 as a force majeure and extensions of RERA deadlines event. India continued financing social welfare programs along with structural enhancement. The government released free food provision and issues as per PM Garib Kalyan Yojana along with payments through the national payslips scheme. Both employers and employees were introduced to Employees Provident Fund (EPF), and programs to help street sellers were initiated and migrants workers. The move to a broader welfare platform was achieved as the One Nation, One Ration Card scheme was launched. enabled access of food subsidies among states by migrants.

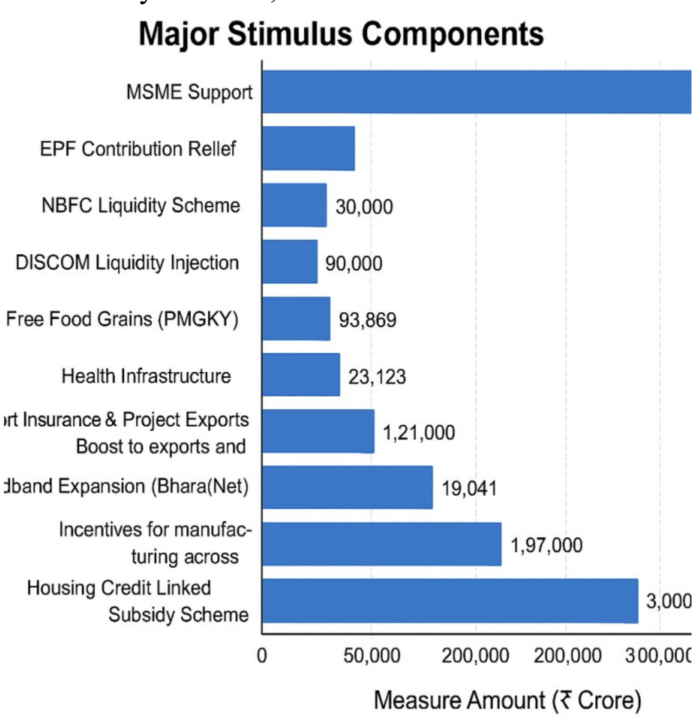
India launched Production Linked Incentive (PLI) programs worth ₹1.97 lakh crore across 13 key industries to encourage long-term industrial growth. The goal is to increase domestic manufacturing and establish India as a major export center worldwide. Additional tax initiatives that eased the burden on businesses included deadline extensions, quicker refunds, and a 25% reduction in TDS/TCS rates.

India's fiscal reaction was adaptable and incremental, in contrast to other nations who implemented front-loaded stimulus plans. This strategy took into account both the nation's financial limitations and the wish to fund long-term development as opposed to only temporary fixes. India developed a recovery plan specific to its own socioeconomic environment by progressively moving away from social programs and toward capital investment and industrial policy reforms.

Major Stimulus Components, amount and purpose of it is listed below.

Sector	Measure Amount (₹ Crore)	Purpose
MSME Support	3,00,000	Collateral-free loans to small businesses
EPF Contribution Relief	9,250	Liquidity support for employers and employees
NBFC Liquidity Scheme	30,000	Support to financial institutions
DISCOM Liquidity Injection	90,000	Help power distribution companies
Free Food Grains (PMGKY)	93,869	Support for vulnerable populations
Health Infrastructure	23,123	COVID-19 emergency response and preparedness
Export Insurance & Project Exports	1,21,000	Boost to exports and insurance coverage
Broadband Expansion (BharatNet)	19,041	Digital infrastructure in rural areas
PLI Schemes	1,97,000	Incentives for manufacturing across sectors
Housing Credit Linked Subsidy Scheme	70,000	Support for middle-income housing

Source: Invest India, Economic Survey 2021-22,



The aforementioned table and figure illustrate a multifaceted approach centered on short-term assistance, long-term infrastructure improvement, and economic recovery. With ₹3,00,000 crore, MSME Support was the single largest component, recognizing small businesses as important sources of growth and employment. Financial intermediaries who provide loans to underserved sectors were the focus of the NBFC Liquidity Scheme, which was worth ₹30,000 crore.

For generating social protection and jobs the goals of PMGKY Food Support (₹93,869 crore) and EPF Contribution Relief (₹9,250 crore) were to safeguard disadvantaged groups and stabilize incomes. Serving middle-class populations, the Housing Subsidy Scheme (₹70,000 crore) promoted urban and real estate growth. Inefficiencies in the power sector were addressed by DISCOM Liquidity Injection (₹90,000 crore). Export Insurance and Project Exports (₹1,21,000 crore) increased the competitiveness of international trade. The ₹23,123 crore health infrastructure addressed pandemic preparedness and emergency needs. Digital inclusion in rural regions was enhanced by the BharatNet (₹19,041 crore) broadband expansion. The ₹1,97,000 crore Production Linked Incentive (PLI) Schemes were created to improve India's manufacturing sector and lessen reliance on imports.

India's strategy was more cautious than those of other large economies. More than 20% of the US economy was stimulated, mostly through direct payments and unemployment insurance. Around 15–16% of packages were released by nations like the UK and Japan, with a focus on healthcare spending and wage subsidies. With an emphasis on tax incentives and emergency relief, Germany and Brazil each contributed between 10% and 12% of their GDP.

Development of Indias deep long-term economic reform and instant crisis management were held balanced in developing the Indias affinity stimulus plan. The package had a foresight attitude and the MSME sector was the main beneficiary of the package. Other areas that got considerable funding were digital infrastructure and health, exports and funding and manufacturing. The idea entailed support in case of survival, recovery, and support to the individuals as well as building of institutions. modernization of infrastructure towards long-term development and not a single-time relief package.

The long-term impacts of India’s fiscal stimulus packages.

The fiscal stimulus packages in India: long term effects. With the turbulence record in the world and the challenges concerning the national development, the fiscal stimulus has increased in stature as a device through Indias economic policy. These might be led to long term development of infrastructure, employment, investment, and human development. Fiscal stimulus by using a selective government spending and conscious policy agendas. Such a plan is visible in the Union Budget 2025-2026, which offers a pathway to the aspiration of India growth trajectory.

Infrastructure as a Growth Accelerator

A powerful infrastructure development remains one of the essential parts of the fiscal stimulus package of Indias. All the modes of transport such as roads, railroads, ports and digital connection have been enhanced immensely due to influx of capital. investment. Due to such flagship projects as PM Gati Shakti, Bharatmala, etc., the logistical infrastructure of India is shifting. Sagarmala which is increasing accessibility and efficiency of economic activity. Besides enhancing efficiency in the industries, better connectivity opens the doors to regional integration and industrial development.

In the budget for 2025–2026, the central government established the Urban Challenge Fund, which will invest ₹1 lakh crore to transform cities into vibrant economic centers, and provided interest-free loans to states for capital expenditures totaling ₹1.5 lakh crore. In a daring move toward modernization, the Second Asset Monetization Plan also seeks to provide ₹10 lakh crore for new infrastructure projects.

Generating Employment and Promoting Social Inclusion

In addition to creating tangible goods, infrastructure projects can generate income. In industries including manufacturing, services, and construction, public works projects both directly and indirectly create jobs. In rural areas, where programs like MGNREGS and PM Awas Yojana (Grameen) offer fulfilling employment and raise living standards, this employment generation is very important.

With agriculture being a vital industry for about half of India's population, the recently launched Rural Prosperity & Resilience Programme seeks to improve rural employment and skill development in this area. These initiatives guarantee that growth is not limited to metropolitan areas but rather is inclusive.

Private Investment and the Multiplier Effect

The ability of fiscal stimulus to have a multiplier effect on GDP is among its most potent features. It is particularly important when private sector investment is slow since every rupee invested by the government has the potential to produce more than one rupee in economic growth.

India is a more desirable location for private investment when fiscal stimulus is implemented since it increases demand, lowers borrowing costs, and improves infrastructure. This is further supported by the 2025–2026 budget, which increases the credit guarantees for MSMEs from ₹5 crore to ₹10 crore, offers personalized credit cards for microbusinesses, and supports five lakh women and SC/ST first-time business owners.

Innovation and Human Capital

It requires investments in innovation, healthcare and education. progressive economy. The fact that India has 500 crores allotted can confirm itself about Indias commitment towards nurturing young minds and talents which will be needed in the future. A Center of Excellence in AI in Education and 50,000 Atal Tinkering Labs in the government schools. Moreover, the peculiar combination of traditions and innovations is presented in the Gyan Bharatam Mission that characterizes Indias development. has dedicated more than one crore manuscripts.

Health and Welfare for All

A fair development strategy requires welfare and health services to the people. Vaccines against cervical cancer under Ayushman Bharat and waivers of 36 lifesaving medicine are well incorporated In the 2025-2026 budget, health access and affordability should be improved. Gig workers will be granted access to identity cards and healthcare benefits as they are often excluded in the official documentation. Welfare sectors, ensuring more social security.

Maintaining Sustainability and Stabilizing the Economy

The Economy Fiscal stimulus is also found to provide counter during recessions cyclical support, reduces volatility and stabilises demand. These assurances kept and maintained steady economic growth. The long-running process of the proposed area requires good governance, economic discipline and overall implementation stimulus programs. Success of tax generates more tax, as the economy grows, enabling the government to make steady finances and saving on tax. its debt. Nevertheless, to prevent inflation and the excessive print of money, stimulus measures should be selected carefully.

India possesses an impressive plan of sustainable and participatory development with its planned fiscal stimulus. Combination of Investment, innovation and inclusion in the 2025 2026 Union Budget is a careful consideration that requires attention places India in the position of having short term recovery and long-term change. These are some measures through which India can achieve its next stage of development in case transparency, effectiveness, and equilibrium in fiscal affairs occur. A continuous relationship with the management is maintained.

Conclusion

India has used fiscal stimulus as a potent instrument for economic stabilization, particularly in times of international crisis. In as much as it saves livelihoods and creates demand, it also creates issues of inflation and debt accrual fiscal sustainability. Open, time-bound, and focused implementation is important. But this has increased the indebtedness of the government due to increased spending. There is a poignancy of balance of fiscal stimulus and long-term budgetary sustainability. Fiscal stimulus is hardly done effectively and in time. Delays can reduce its impact. There are concerns that the increased government borrowing will crowd out the private investments. Policymakers can develop sound decisions to assist economic recovery when they possess a strong attitude. There is generally awareness on its concept, purpose, and the example in the real world. One should also remember that the output of fiscal stimulus depends on the situation, the level of co-ordination of the monetary policy, and the specific policies adopted by each.

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