



MACRO ECONOMICS

Stimulus: fiscal and monetary

How a government and a central bank push a slowing economy, how a bailout differs, and what India did in 2020

Policy rate as on 7 October 2026; Budget figures for 2026-27; past episodes as dated

For training and education only. Not investment advice.

A stimulus is a deliberate push to spending when an economy slows sharply.

The Government pushes through its budget. RBI pushes through the price and quantity of money. A bailout is narrower: a rescue of one firm or sector.

Three kinds of support



Fiscal stimulus

The Government spends more, cuts taxes or sends money to households and firms. It is usually paid for by borrowing, so the fiscal deficit widens.



Monetary stimulus

RBI's Monetary Policy Committee cuts the repo rate. RBI also adds cash to the banking system and may ease rules on loans. Borrowing costs fall and credit is easier to get.



Bailout

Public money, a guarantee or an arranged rescue for a firm whose failure could harm many others, such as a bank. The aim is to stop the damage spreading.

Source for the committee's role: RBI, Resolution of the Monetary Policy Committee, 27 Mar 2020.

Why ₹100 can become more than ₹100

THE MULTIPLIER

The Government spends an extra ₹100 crore on roads. Assume that everyone who receives extra income spends 60% of it on goods made in India and saves the rest.

All figures are assumed.

- 1 Round 1: workers and suppliers receive ₹100 crore and spend 60% of it: ₹60 crore.
- 2 Round 2: shopkeepers receive ₹60 crore and spend ₹36 crore. Round 3: ₹21.60 crore, and so on.
- 3 Total spending = $100 \div (1 - 0.6) = ₹250$ crore. The multiplier is $250 \div 100 = 2.5$.
- 4 If people spend 40% instead, the total is $100 \div (1 - 0.4) = ₹166.67$ crore: a multiplier of about 1.67.

₹1 of stimulus can raise total spending by more than ₹1. How much depends on people's choices.

Illustration with assumed figures. Real-world multipliers are estimates and vary widely.

India in 2020: what was done

When	Who	What
Mar 2020	Government	₹1.70 lakh crore relief package: free food grains, and cash payments to women, poor senior citizens and farmers.
27 Mar 2020	RBI	Repo cut 0.75 point to 4.40%. CRR cut from 4% to 3% for a year, releasing about ₹1.37 lakh crore. Lenders could allow a 3-month EMI pause.
12-17 May 2020	Government	Package announced at ₹20 lakh crore, about 10% of GDP. States' borrowing limit 3% to 5% for 2020-21 only; mostly reform-linked.
22 May 2020	RBI	Repo rate cut to 4.00%. The pause on loan instalments extended to 31 August 2020.
2020-21	Government	Central fiscal deficit 9.2% of GDP, against 4.6% in 2019-20.

Sources: RBI MPC resolutions and policy statements, 27 Mar and 22 May 2020; PIB (Ministry of Finance), 17 May 2020; Budget at a Glance 2026-27.

A headline is not a budget cost

Packages mix spending with loans, guarantees and RBI measures. Three items from 2020:



Guaranteed loans

Up to ₹3 lakh crore of extra bank credit for firms, fully Government-guaranteed.



Fund of funds

₹50,000 crore of equity for small firms via a fund of funds; Government corpus ₹10,000 crore.



Subordinate debt

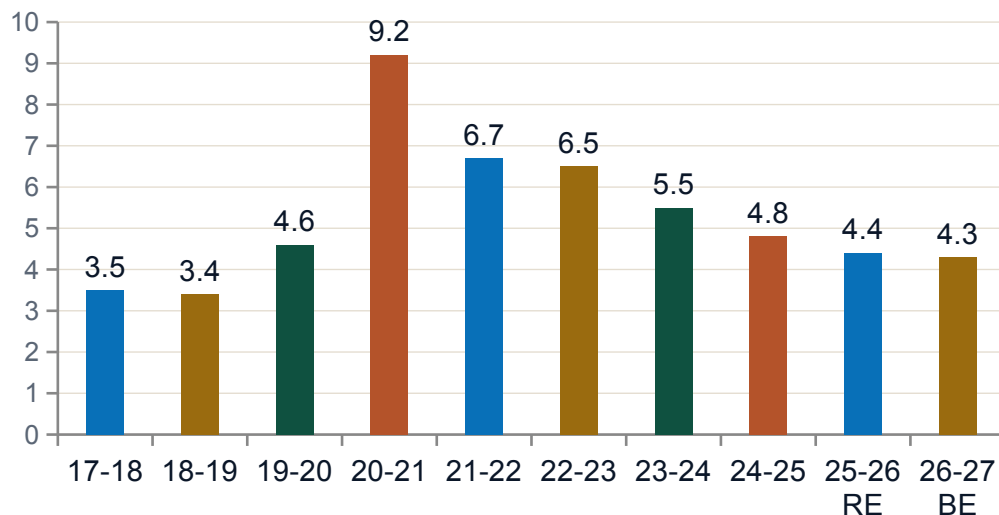
₹20,000 crore of loans for stressed small firms; ₹4,000 crore Government support to a guarantee trust.

The Economic Survey 2020-21 put all the measures together at ₹29.87 lakh crore, about 15% of GDP.

Source: Economic Survey 2020-21, Volume 2, Chapter 8, Box 1 (Ministry of Finance, Jan 2021).

The budget cost: the fiscal deficit

Fiscal deficit, % of GDP, 2017-18 to 2026-27



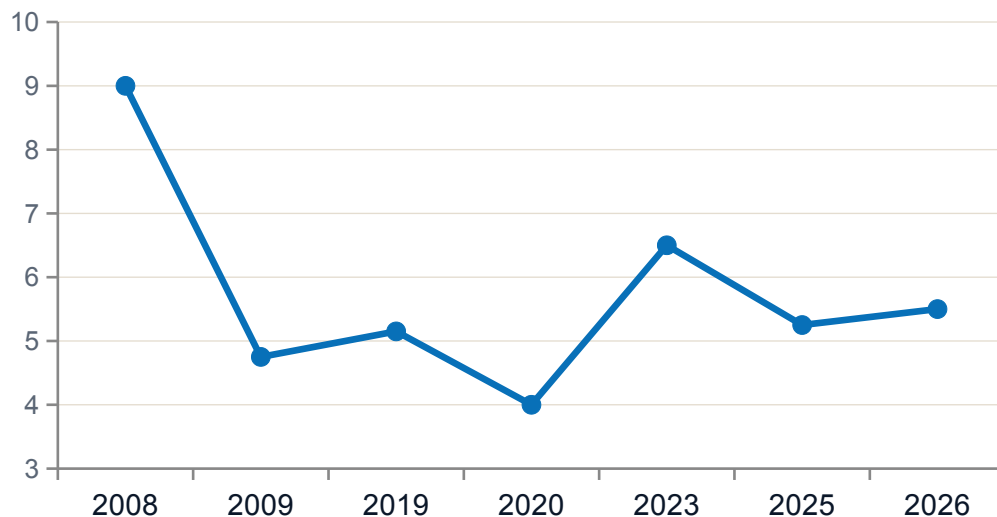
Read the chart

- The deficit doubled from 4.6% of GDP in 2019-20 to 9.2% in 2020-21.
- It has been brought down each year since: 4.4% in 2025-26 (revised estimate).
- Debt stays higher for longer: 52.3% of GDP in 2019-20, 61.4% in 2020-21, 55.6% budgeted for 2026-27.

Source: Budget at a Glance 2026-27, Deficit Trends and Trends in Debt (debt as defined in the FRBM Act), Ministry of Finance, 1 Feb 2026.

Monetary stimulus, and its exit

Repo rate, %, selected dates (uneven spacing)



Read the chart

- 2008-09: cut from 9.00% to 4.75% in under nine months. CRR cut from 9% to 5%.
- 2020: cut from 5.15% to 4.00% within two months. CRR cut to 3%.
- The exit: CRR back to 4% by May 2021; repo raised from May 2022 to 6.50% by Feb 2023.
- On 7 Oct 2026 the repo rate was raised to 5.50%.

Sources: RBI Handbook of Statistics 2025-26, Table 40 (policy rates and CRR); RBI Monetary Policy Statement, 7 Oct 2026.

Two rescues, side by side

	United States, 2008	India, 2020
The trouble	The 2008 financial crisis, which the US Treasury calls the worst since the Great Depression.	Yes Bank could not raise capital, faced deposit withdrawals and had serious governance problems, RBI said.
The rescue	A law of 3 Oct 2008 authorised \$700 billion for the Troubled Asset Relief Program (TARP).	A moratorium from 5 Mar 2020; a reconstruction scheme notified on 13 Mar 2020.
The money	Investments in banks, an insurer and carmakers, plus housing and credit programmes. \$443.5 billion paid out.	Notified scheme: investor bank to hold 26% to 49% after buying new shares, and not below 26% for three years.
The outcome	Lifetime cost to the US Treasury: about \$31.1 billion. All programmes had closed by 30 Sep 2023.	A new board took office. RBI had said depositors' interest would be 'fully protected'.

Sources: US Treasury, 'About TARP'; RBI press releases of 5 and 20 Mar 2020; Yes Bank Limited Reconstruction Scheme, 2020 (G.S.R. 174(E), 13 Mar 2020).

Where things stand

As on the dates shown. RBI's stance is 'calibrated tightening', and the budget plans a smaller deficit.

REPO RATE

5.50%

Raised 0.25 point on 7 Oct 2026. Stance: 'calibrated tightening'.

FISCAL DEFICIT

4.3%

Of GDP, budget estimate for 2026-27. 4.4% in 2025-26 (revised).

CENTRAL DEBT

55.6%

Of GDP, budgeted for 2026-27. It was 61.4% in 2020-21.

CPI INFLATION

5.54%

September 2026, provisional. Target 4%, band 2% to 6%.

Sources: RBI MPC resolution, 7 Oct 2026; Budget at a Glance 2026-27; MoSPI CPI release, 12 Oct 2026; inflation target notification, 25 Mar 2026.

Four things people get wrong



'The headline is what the budget spends.'

India's 2020 headline counted loans, guarantees and RBI measures. The budget's own cost shows in the fiscal deficit.



'Stimulus is free money.'

Fiscal stimulus is usually paid for by borrowing, which later budgets service. Monetary stimulus is usually withdrawn later.



'A rate cut lowers my EMI the next day.'

Floating rates reset on dates fixed in the loan; fixed rates hold for the fixed period.



'A bailout rescues the owners.'

Rescues often aim at depositors and the wider system. In India's 2020 case a new board took over and a new investor came in.

Check yourself

Q1

Sort these into fiscal, monetary or bailout: a repo rate cut; free food grains; a scheme to recapitalise a failing bank; a cut in CRR.

Q2

The Government spends ₹100 crore and people spend 50% of any extra income. Using the simple multiplier, how much total spending results?

Q3

A client says India spent ₹20 lakh crore in 2020. What is a more precise way to describe the package?

Sources and disclaimer

SOURCES FOR THE FIGURES IN THIS DECK

- RBI 2020 measures: MPC resolutions and Statements on Developmental and Regulatory Policies, 27 Mar and 22 May 2020. Policy rate history: RBI Handbook of Statistics 2025-26, Table 40.
- 2020 packages: PIB (Ministry of Finance) release of 17 May 2020; Economic Survey 2020-21, Volume 2, Chapter 8 (Jan 2021).
- Fiscal deficit and debt, 2017-18 to 2026-27: Budget at a Glance 2026-27, Ministry of Finance, 1 Feb 2026.
- TARP: US Treasury, 'About TARP' (as of 30 Sep 2023). Yes Bank: RBI releases of 5 and 20 Mar 2020; Reconstruction Scheme 2020 (G.S.R. 174(E), 13 Mar 2020).
- Repo rate and stance: RBI Monetary Policy Statement, 7 Oct 2026. CPI: MoSPI press release for September 2026, 12 Oct 2026.

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