



## **Why the pace of economic recovery will remain uncertain**

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The cut in the corporate tax rate is expected to enhance domestic corporate savings and lead to higher investment in the economy. However, any increase in investment will occur only in the long run, as private consumption is faltering, and so Indian companies are unlikely to boost investment immediately. Besides, the concomitant increase in the fiscal deficit will limit the potential for future rate cuts by the RBI. The need of the hour is the efficient transmission of policy rates, which will work to the economy's advantage. The

government has set the ball rolling along the right path, and the long term effect of the measures announced will likely benefit the economy. However, in the short run (i.e. for a year or two more), corporate investment will probably continue to remain muted.

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