Relief Package: Smoke and Mirrors

The recent COVID-19 outbreak has compelled governments and central banks around the world to unleash major reform packages. India has been a facing a lockdown for the last 2 months and an economic crisis of unprecedented proportions. As a result the government has released a reform package to aid growth by providing support to industries and businesses and provide support to the weaker sections of the economy. The reforms of the government are to be analysed keeping in mind that the government has already announced an extra borrowing of Rs.4.2 Lac crore over and above the Rs.7.8 Lac crore announced in the budget for FY21. Accordingly, the fiscal changes are to be analysed for the year FY21, as the Fiscal Responsibility and Budget Management Act gets side lined in the face of the COVID-19 crisis. The relief package in terms of ensuring smooth flow of credit and liquidity to the various sectors of the economy shall have the medium term effect of supporting growth to get it back on track. All of this comes after the announcement of the Pradhan Mantri Garib Kalyan Yojana (PMGKY), a package worth Rs.1.7 Lac crore.

Albeit with the current situation and almost two straight months of complete lockdown, it would be very hard to quantify the extent of the effect on growth. Nonetheless, preliminary data like the March IIP (-17% YoY) and Manufacturing PMI (27.4) and services PMI (5.4) show the immediate effect of the lockdown that the economy is facing on many fronts. On this basis, it was essential that the government take robust economic measures. The government had already overstepped the red line of the FRBM act, and now it is essential that the government comes on the front foot to spend, since it would have a significant multiplier effect in this situation as both the demand and supply side economics has been distorted by the lockdown. Post the clarion call of the Prime Minister of "*Atmanirbhar Bharat*" or a self-reliant India with an economic package of Rs.20 Lac Crore, the Finance Minister Smt. Nirmala Sitaraman, has announced the various relief measures in 5 separate tranches, and the economic package is called "Atmanirbhar Bharat Abhiyaan". Given the fiscal conditions of the government, this economic package is mostly in the form of credit lines and guarantees in various forms, which was expected. We look at them and try to assess their actual fiscal impact below.

Tranche-I

The first tranche of Reforms was announced by the Finance Minister Smt. Nirmala Sitharaman on the 13th of May 2020, which covered specifically the MSME's, the EPF contributions, liquidity Schemes for NBFCs/MFIs/HFCs, liquidity injection for DISCOMS and other measures to ensure the functions of the business units doesn't come to a complete standstill during and after the lockdown. The hardest hit sectors are the medium and small enterprises (MSMEs) and the real estate, construction business. The following measures have been taken to address various liquidity and credit issues faced by the MSMEs:

MSMEs Standard Borrowers: The central government has announced Rs.3 Lac crore Emergency Working Capital Facility for Businesses including MSMEs. To ensure that credit flow is not curtailed and remains accessible in these times the central government is going to provide additional working capital finance of 20% of the outstanding credit as on February 2020, in the form of a Term Loan at a concessional rate. These loans are to be provided to standard borrowers with units up to Rs 25 crore outstanding and a turnover of Rs 100 crore. These loans are such that the MSMEs will not have to provide any collateral or guarantee of their own, and these loans shall be 100% guaranteed by the government of India. This measure will provide a total liquidity of Rs 3 Lac Crore to 45 Lac MSME units.

Stressed MSMEs: MSMEs which are stressed or are NPAs, are to be provided with Rs.20,000 crore subordinate Debt. The government shall provide them with Rs.4000 crore to Credit Guarantee Trust for Micro and Small enterprises (CGTMSE). Banks are expected to provide the subordinate debt to promoters of such MSMEs equal to 15% of his existing stake in the unit subject to a maximum of Rs. 75 Lacs. This will give a big relief to genuine MSMEs whose units have stopped functioning due to lack of credit. Earlier too these issues had been addressed by the Finance Ministry when it was declared that no stressed asset of the MSMEs would be declared as an NPA till March 31, 2020. This was due to the genuine lack of these units to raise capital either through debt or equity, as they have no bargaining power due to their size.

Further, the central government shall set up a Fund-of-Funds with a corpus of Rs 10,000 crore that will provide equity capital for MSMEs. The Fund of Funds is estimated to mobilize equity of Rs 50,000 crores. More importantly, the government has observed that the MSMEs do not expand their business for fear of losing the MSME status. To encourage MSMEs to expand their existing business, the government has changed the extant definition of what constitutes a MSME, primarily by raising the investment limit. Additional criteria of turnover shall also be introduced and the distinction between manufacturing and services sector shall also be eliminated. E-market linkages for MSMEs will be promoted to act as a replacement for trade fairs and exhibitions. MSME receivables from the government and CPSEs will be released in 45 days. In addition to this, no global tenders shall be allowed in procurement of Goods and Services of value less than Rs.200 crores.

Apart from these the central government has taken to provide Rs 90,000 crore worth of liquidity to DISCOMs who are already in the red over problems with liquidity and hence power distribution remains an issue which the government has still not been able to solve even after the floating of schemes like Ujjwal Discom Assurance Yojana (UDAY). Along with this the government has also announced Rs 30,000 crore special liquidity facility for NBFC/HFC/MFI, where the investment shall be made in primary and secondary market transactions in investment grade debt paper of these type of institutions, and the government shall guarantee it 100%. Government shall provide Rs 45,000 crore partial credit guarantee scheme 2.0 for liabilities of lower rated NBFCs

HFCs and MFIs, wherein government shall also give 20% first loss sovereign guarantee to Public sector banks.

The government has also announced to extend support to the monthly EPFO contribution under the Pradhan Mantri Garib Kalyan Package (PMGKP).The government contributes 12% of salary each on behalf of employer as well as employee, this will be extended by another 3 months from June to August 2020. Total benefits accrued are Rs.2800 crore to 72.22 lakh employees. Statutory contribution in PF from both employer and employee is reduced from 12% to 10%, providing additional liquidity of Rs.2250 crore per month.

Real estate projects and all contractors will get relief in the form of extended deadlines for 6 months in all projects under RERA for real estate developers and all the CPWD, Railways and Ministry of Road and Transport will extend the completing of contractual obligations by 6 months. Apart from this, various tax related measures have been taken, and compliance deadlines have been extended to provide relief on that front. Reduction in rates of tax deducted at source and tax collected at source by 25% is estimated to provide liquidity to the tune of Rs.50,000 crore.

Table 1:

Tranche I	**Amount Announced (Rs. Cr)**	**Fiscal Impact (Rs. Cr)**
Emergency working capital facility for businesses including MSMEs	**3,00,000**	**0**
DISCOMS	**90,000**	**0**
Fund of fund for MSMEs	**50,000**	**10,000**
Reduction in TDS/TCS Rates	**50,000**	**0**
Partial credit guarantee scheme 2.0 for liabilities of NBFCs and MFIs	**45,000**	**0**
Special liquidity scheme for NBFCs, HFCs and MFIs	**30,000**	**0**
Subordinate debt for stressed MSMEs	**20,000**	**4,000**
Reduction in EPF rates	**6,750**	**0**
EPF support for businesses and workers	**2,800**	**2,800**
Total	**5,94,550**	**16,800**

Source: PIB, STCI PD Research

Tranche –II

The second tranche was offered specifically to target the economically weaker sections of the society, the migrant workers and the farmers, small businesses and street vendors who are amongst the hardest hit by the COVID-19 crisis. The priority for the government has been to solve the food security issues for the people below the poverty line, especially to migrants who are travelling without much economic means. The government has announced that it will provide free food grains supply to Migrants for the next 2 months and aims at providing them access to the PDS (Ration) from any Fair Price Shop in India by March 2021 under the one nation one ration card.

The issue of housing for the migrants by floating a scheme for Affordable Rental Housing Complexes for Migrant Workers and Urban Poor, and Rs 5,000 crore credit facility for street vendors, under which a bank credit of Rs 10,000 shall be extended for each business. This is the need of the hour as street vendors are literally off the streets in the lockdown. The government has also covered the so-called middle-income group to address their housing needs through extension of the Credit Linked Subsidy scheme (CLSS) under Pradhan Mantri Awas Yojana.The economic support for this scheme is Rs 70,000 crore. Notably, MGNREGS support shall be extended to returning migrants and that support will also be ensured in the months of monsoon which will help the migrants find employment nearer to home, which should be an improvement in their current situation. Similar steps have been taken to support the urban, semi-urban and rural workers.

Specifically for farmers, the government has floated Rs 30,000 crore Additional Emergency Working capital for farmers through NABARD , and will provide Rs 2 Lac crore as concessional credit boost to 2.5 crore farmers under the Kisan credit card (KCC) scheme. This would help the farmers to some extent, as they are facing huge uncertainty on all fronts, sowing, growing and logistics of farming, especially the severe constraints of logistics in the current scenario whereby crops are just being destroyed since they are not able to reach the marketplace. It would be presumptuous to conclude that this would alleviate all of their troubles but in terms of immediate working capital needs the issue of incremental credit would surely go a long way in tiding over the present situation. A silver lining is that the Indian Meteorological Department (IMD), has predicted a normal to above-normal monsoon in FY21. That should be a saving grace in these times of distress for the agricultural segment.

Table 2:

Tranche II	**Amount Announced (Rs. Cr)**	**Fiscal Impact (Rs. Cr)**
Additional credit through KCC	**2,00,000**	**0**
Housing Credit Linked Subsidy Scheme Middle Income Group (CLSS-MIG)	**70,000**	**0**
Additional emergency WCF through NABARD	**30,000**	**0**
Special credit facility for street vendors	**5,000**	**0**
Free food grain supply for migrant workers for 2 months	**3,500**	**3,500**
Interest subvention for MUDRA Shishu loans	**1,500**	**1,500**
Total	**3,10,000**	**5,000**

Source: PIB, STCI PD Research

Tranche- III

As a continuation of its support to the Agricultural segment in Tranche II, this tranche extends support to agriculture and allied activities, by providing support to the Agricultural logistics, capacity building, governance and overall agricultural reforms. These reforms would be mainly targeted at Agriculture, Fisheries and Food Processing sectors. Immediate creation of a fund which will provide financing facility of Rs 1 Lac crore will be provided for funding Agricultural infrastructure Projects at farm gate to avoid the occurrence of the present situation in the future as far as possible. A Rs 10,000 crore scheme to help the formalization of Micro Food enterprises to enable them to attain the Food Safety and Standards Association of India (FSSAI) food standards. Fisheries segment shall receive a total support of Rs 20,000 crore with Rs.11,000 crore dedicated to activities in Marine and Inland Fisheries while Rs.9,000 crore will be marked towards developing the infrastructure, like fishing harbors, cold chains, markets and other infrastructure necessities. Many measures have also been taken to improve the functioning and governance in the Animal husbandry segment like setting up of the National Animal Disease control program. Similarly, animal husbandry infrastructure development fund of Rs 15,000 crore shall be set up with the aim to support in private investment in Dairy processing, value addition and cattle feed infrastructure.

The "Operation Greens" run by the Ministry of Food Processing industries (MOFPI) will be extended to all vegetables and fruits. The scheme would provide 50% subsidy on storage, 50% subsidy on transportation from surplus to deficient markets and 50% subsidy on storage including cold storage. This is a major initiative and if executed in a proper manner shall lead to better price realization for farmers, reduced wastage and would also to some extent lower retail inflation for the end consumers. Other reforms include changing the Essential Commodities Act, wherein cereals, edible oils, oilseeds, pulses, onions, and potato shall be deregulated. Stock limit shall be imposed only in exceptional circumstances. The other two reforms also provide more options to farmers with regards to marketing their produce, and a way of mitigating risk for farmers through all the stake holders in the food chain. All of these measures though, appear robust on paper should be executed with much diligence to have a real impact on the livelihoods of the stakeholders addressed in these schemes.

Table 3:

Tranche III	Amount Announced (Rs. Cr)	Fiscal Impact (Rs. Cr)
Agricultural Infrastructure Fund	**1,00,000**	**0**
Pradhan Mantri Matsya Sampada Yojana	**20,000**	**20,000**

Animal Husbandry Infrastructure Development Fund	**15,000**	**0**
Micro Food Enterprises (MFEs)	**10,000**	**10,000**
Promotion of Herbal Cultivation	**4,000**	**4,000**
TOP to TOTAL	**500**	**500**
Beekeeping Initiative	**500**	**500**
Total	**1,50,000**	**35,000**

Source: PIB, STCI PD Research

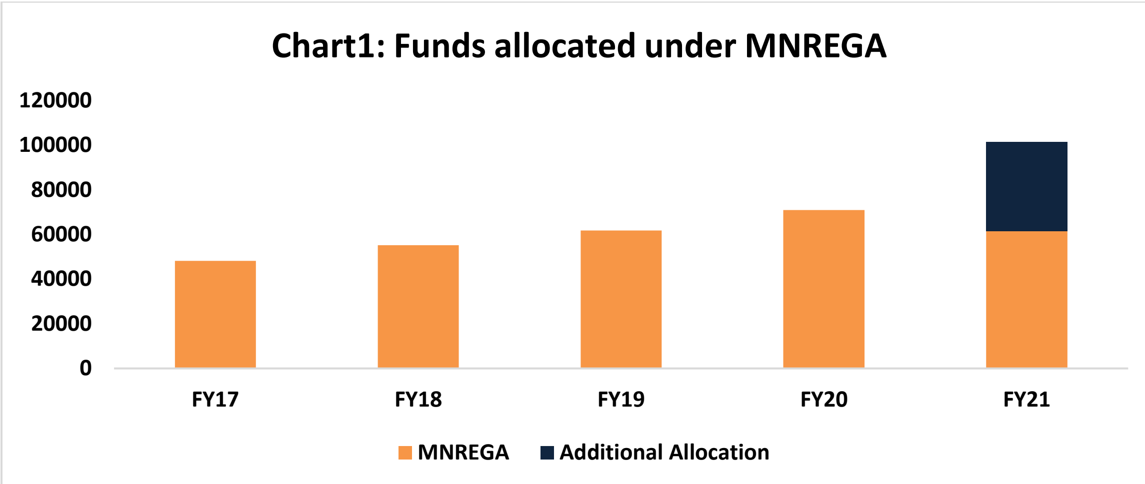
Tranche-IV

As the core of this massive relief package is to make India self-reliant in every aspect necessary, the fourth tranche was thus focused on reforms in key eight sectors which may not really put burden on the Government monetarily but help India in achieving the ultimate goal of self-reliance going forward.

As currently coal is dominantly used in both primary energy and electricity generation, reforms in the sector including opening of new mines, expanding the capacity of existing mines and creating new evacuation infrastructure will help reduce the substitutable coal imports. For the mineral sector, the Government plans to increase the private investment by auctioning 500 mining blocks. Also, distinction between captive and non-captive mines to be removed for better efficiency in mining and production by allowing transfer of leases and selling surplus minerals. The Government also plans to ramp up domestic defense production in order to cut down the huge import bill. Now, FDI limit in the defense manufacturing will be raised to 74% from 49% under the automatic route. Aviation is one of the most severely hit sectors due to the ongoing pandemic and so to give the sector some incentive, restrictions on utilization of Indian airspace would be eased which would make civilian flying much more efficient. Further, more advanced airports would be opened through Public Private Partnership. For social infrastructure projects, viability gap funding would be revamped with an estimated outlay of Rs 8,100 crore. Other reforms include- improvements in the tariff policy for supporting consumer rights, promoting and sustaining the industry; privatization of power distribution in Union Territories for providing better service to consumers and achieving operational and financial efficiency in distribution; improving private participation in space activities and reforms in atomic energy sector.

Tranche V

Due to the pandemic, a lot of migrant workers have lost their jobs and are now moving to their villages as they do not have any source of earning left in the cities. Keeping this in mind the Government of India in the Tranche V of the Relief Package, allocated Rs 40,000 Cr under the Mahatma Gandhi National Rural Employment Guarantee Scheme (MNREGS) over and above the budgeted amount of Rs 61,500 Cr. The total allocation is expected to generate 300 Cr person days. There are approximately 12 Cr active workers under MNREGS and till now about 17 Cr person days have been generated in FY21. The total allocation for MNREGS now stands at Rs 1.02 Lakh Cr which is ~70% higher than the average allocation in the last four years.



Source: PIB, STCI PD Research

Apart from a substantial increase in the MNREGS, measures announced in Tranche V will not result in cash outflow for the Government. The measures include reforms in public health investment, technology driven education, measures to further ease the process of doing business and further support to State Governments.

The States like Central Government have witnessed a sharp decline in revenue because of the ongoing pandemic. To support the States, the Central Government till now has transferred a total amount of about Rs 74,000 crore accounting to devolution of taxes from Centre, revenue deficit grants, advance release of SDRF and transfer from Health Ministry for anti-COVID activities. For further monetary support, RBI increased WMA limits of States by 60% and increased the number of days for continuous overdraft for states to 21 days from 14 days and days states that can be in overdraft in a quarter to 50 days from 32 days.

As fiscal deficit for both Centre and States are expected to be substantially higher in FY21 than the budgeted estimates amid the ongoing crisis, market borrowings would be used to finance a major part of the increased deficit. The Central Government has already announced a considerable increase in the borrowing number by Rs 4.2 Lac crore for FY21 and so with this in consideration, the Government has increased the borrowing limit for States from 3% of GSDP to 5% of GSDP. This will allow States to borrow up to Rs 4.28 Lac crore by issuing State Development Loans. However, out of 2% rise in the limit 1.5% is linked to specific reform actions. Only 0.50%, i.e., approximately Rs 1.07 Lakh Cr is the unconditional additional amount that the States can borrow.

Table 4:

Tranche IV & V	Amount Announced (Rs. Cr)	Fiscal Impact (Rs. Cr)
Additional MGNREGS allocation	**40,000**	**40,000**
Viability Gap Funding	**8,100**	**8,100**
Total	**48,100**	**48,100**

Source: PIB, STCI PD Research

Fiscal Impact:

Though the announced package is worth Rs 20 Lac crore, the fiscal impact of the package is much less as most of the credit lines would not have a direct and immediate fiscal impact, and the package largely constitutes these emergency credit lines and guarantees either full or in part depending on the credit rating of the borrowing institution. Obviously, the government's intention is to kill two birds with a single stone, to make credit available and make banks on lend to MSMEs and other targeted units to increase credit growth. This is a double edged sword as there will be an estimated credit boost of roughly 18-20% in the MSME sector but will be more of refinancing than the push to Greenfield projects having relatively a lesser impact as far the credit multiplier goes.

More so, in this entire package the intention of the government as well as the RBI is to urge banks to lend to these MSME and other units, where banks have a very low appetite for credit risk at the moment and, this should continue for the next couple of quarters at least. The total fiscal impact according to our estimates should not be more than 4.4% of GDP in totality, and if one looks at the government's spending, the total impact on fiscal side would add up to around 1-1.1% of GDP which translates approximately to around Rs 2.3 Lac crore. As stated above, the additional borrowings for this year have been already increased by Rs 4.2 Lac crore, which should be adequate for this additional spending by the government. This does not include the Extra Budgetary resources or the State Finances which should comprise the total debt of the economy.

Table 5:

Total Fiscal-Monetary Support by the Government & RBI	Amount Announced (Rs. Cr)	% of GDP	Fiscal Impact (Rs. Cr)	% of GDP
Pradhan Mantri Garib Kalyan Package	1,70,000	0.8%	1,00,000	0.5%
Loss in Revenue Due to Tax Concessions	7,800	0.0%	7,800	0.0%
Allocation for Health Sector	15,000	0.1%	15,000	0.1%
Total	**1,92,800**	**0.9%**	**1,22,800**	**0.6%**

Tranche 1	**5,94,550**	**2.9%**	**16,800**	**0.1%**
Tranche 2	**3,10,000**	**1.5%**	**5,000**	**0.0%**
Tranche 3	**1,50,000**	**0.7%**	**35,000**	**0.2%**
Tranche 4 & 5	**48,100**	**0.2%**	**48,100**	**0.2%**
Total	**11,02,650**	**5.4%**	**1,04,900**	**0.5%**
Total Government Support Through Packages	**12,95,450**	**6.4%**	**2,27,700**	**1.1%**
RBI Support Measures	**8,01,603**			
Grand Total	**20,97,053**	**10.3%**	**2,27,700**	**1.1%**

Source: PIB, STCI PD Research

The moot question that remains is whether the residual amount of Rs 1.9 Lac crore be enough to cover for the very daunting threat of revenue shortfalls in FY21. Most of the revenue lost can be directly attributed to the imminent impact of the lockdown, and assuming a 1% contraction in the nominal GDP in FY21, we estimate the fiscal deficit to fall within the range of 7.7-7.9% of GDP in FY21. Assuming that the government finances about 62% of the fiscal deficit through market borrowings, the amount adds up to Rs.9.7 Lac crore in FY21. The fiscal gap remaining should be financed by other sources like bank dividends, and other sources of non-debt capital resources, which would not be adequate in the near future. As a result, the RBI and the government will have to work out the monetization of deficit, through OMO support, and bonds placed privately to RBI. In addition the government may also work around issuing perpetual bonds, like COVID-19 bonds, which would specially be issued to fund the economic activity and spending against the pandemic.

Outlook:

The rise of the pandemic has changed the fiscal equations at least for the near term. A wider fiscal gap of 7-8% with any reasonable estimate looks normal in these times. The question is whether, even a 7-8% fiscal gap will enable the government to overcome the present crisis? The answer is known to none. While the long-term policy measures taken by the government will support various industries like MSMEs and the Agriculture segment, the current shock to the economy will be far less mitigated with the government spending being cautious. Preliminary estimates show that apart from Agriculture no other segment of the economy has performed well in Q1FY21. Prospects for Agriculture are further enhanced by the prediction of a normal to above normal monsoon. Beyond that, most of the services, manufacturing and other aspects of the economy are suffering due to the lockdown and government spending seems to be the only automatic stabilizer available at the moment to give a much needed support to growth.

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