

16 May 2020

Stimulus 2.0: Day - 4: Structural reforms

Sensex: 31098

Nifty: 9137

Steps to reboot investment

Given the enormity of pandemic damages and limited fiscal space, stimulus measures have focused primarily on softening the stress of the poorest and most vulnerable. A major dip in near-term growth fundamentals looks inevitable. The government is aiming to accelerate future growth through structural reform-led investment recovery. Such measures announced today relate mainly to land, natural and strategic resources. These steps aim to attract private, including foreign, capital and boost import-substituting domestic production.

Making land available. Non-availability of land is often cited as a major constraint in setting up industry in India. Yet, nearly 3,400 industrial parks have land-banks of 0.5 million hectares. Through GSP mapping, availability and utilisation of such land would be monitored and offered to entrepreneurs seeking to set up production facilities.

Competition among states. The Union government wants state governments to set up appropriate arrangements to attract investment. Such initiatives would be tracked, states would be ranked in terms of initiatives, and champion sectors identified.

Administrative reforms. Announcements today include administrative and regulatory reforms in different areas including auctioning and transfers of mineral-rights, liberalising air-space management, privatising power distribution, corporatising ordinance factories and sharing India-specific geospatial and remote-sensing data with the private sector.

Greater role of private sector. Several segments where the private sector did not have much of a foothold have been opened up. These include commercial coal mining, space technology and atomic energy. Participation of the private sector has been widened to mineral mining, airport development and power distribution. Viability gap funding for creation of social infrastructure has been increased from 20% to 30%. Ordinance factories would be corporatised and listed on stock exchanges.

Import substitution. In several areas the government has taken measures to promote greater domestic production and participation. These include compulsory procurement of certain notified platforms and weaponry from domestic sources, and measures to establish India as an MRO (maintenance, repair, overhaul) hub for civil and defence aircraft.

Greater scope for foreign investment. Transparency regarding land availability and competitive reforms among states would be major steps in attracting foreign investment. Further, the automatic limit for FDI in defence has been raised from 49% to 74%.

Rebooting longerterm with structural reforms to revive investment. Measures announced to has stimulus equivalent of ₹ 0.6 trillion. During the penultimate press meet on Day 5 (Sunday), the Finance Minister is likely provide some relief to the corporate sector and tax payers. Yet, given the enormity of the damage caused by the pandemic, the clear focus of the measures so far has been relief to the poorest and most vulnerable. It seems that accepting the inevitability of near-term economic damages, the government is trying to revive future growth through structural reform-led investment recovery.

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