17 May 2020

Sensex: 31098

Nifty: 9137

Stimulus 2.0: Day - 5: Show me the money

Indirect help for corporates

Stimulus 2.0 did not offer much to the corporate sector, at least directly. Despite the stated ₹21 trillion package, near- and longer-term fiscal commitments are pegged at ₹1.7 trillion and ₹1.5 trillion, respectively, with another up to ₹0.5 trillion in contingent outgo. The policies laudably focused on sustenance of the poorest but did little to boost demand. Structural reforms, if implemented, can boost longer-term growth. Meanwhile, financials would bear a large part of the burden.

More rural jobs, emphasis on social infra. The Finance Minister declared an additional allocation of ₹400 bn for rural employment. Measures were also announced to improve healthcare facilities – including diagnostic testing and epidemic preparedness – and recast e-learning programmes. Private-sector participation has been sought for both.

Regulatory relief for entrepreneurs. Filing of fresh cases under the IBC has been suspended for a year and pandemic-linked defaults cannot be referred to the IBC. The default threshold for initiating IBC proceedings was raised. Inadequacy in compliance by companies for technical/procedural reasons would be de-criminalised and compounding of offence addressed through internal adjudication. Direct foreign listing of Indian companies was allowed. Companies with listed NCDs would no longer be treated as listed companies.

Re-casting of the public sector. All public-sector monopolies would end. There would be at least one, but no more than four, PSUs in all sectors identified as strategic. More than four PSUs in a strategic sectors and those outside would be merged or privatised.

More funding for states. Market-borrowing limits for states was raised from 3% to 5% of Gross State Domestic Product (GSDP). The enhancement of the limit is largely contingent on states introducing reforms relating to portability of ration cards though digitisation, power distribution, ease of doing business and urban local bodies.

Direct fiscal cost: ₹3.2 trillion, 1.6% of GDP. While the finance minister has put the overall Stimulus (1.0 plus 2.0) at ₹21 trillion, the near-term fiscal impact is just ₹1.7 trillion (including free food-grain, additional DBT, healthcare spending, fund outlay for MSMEs – subordinated debt and equity contribution, EFT support, interest-rate subversion for Mudra loans, subsidies under CLSS-MIG, viability gap funding and additional NREGA allocation). Another ₹1.5 trillion would go into creating infrastructure for agriculture and allied activities in the longer run.

Contingent liability of ₹3.4 trillion; no more than ₹0.5 trillion outgo. This includes 100% guarantee on ₹3 trillion MSME loan and ₹300 bn investment in NBFC/HFC/ MFI/MF and 20% guarantee on ₹450 bn investment in NBFC/HFC/MFI. Even in a very unfavourable situation, the actual fiscal outgo would not be more than 15% of the liability – ₹500 bn. The rest of the stimulus measures are either liquidity enhancing measures by the RBI and banks or measures to improve near-term cash-flow of companies/tax payers.

A good crisis cannot be wasted. A crisis provides the rare opportunity for structural reform in India and the government wants to utilise it fully. We reiterate that much of the burden of adjustments would be on financials. Changes relating to IBC would add to this.

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