

# Government extends stimulus package to bolster economic recovery in the aftermath of the second wave



- The finance minister announced a slew of measures today to provide relief to pandemic-impacted segments, enhance health infrastructure, revive tourism, boost exports, and provide an overall fillip to economic growth and employment in the economy.
- The economic relief package included new credit guarantee schemes for the impacted segments, including the health sector, tourism industry, and small borrowers.
- A new Rs 1.1 lakh crore loan guarantee scheme was launched for COVID-affected sectors, with Rs 50,000 crore earmarked for non-metros medical infrastructure and Rs 60,000 crore for other impacted sectors, including the travel and tourism industry.
- The government launched a new credit guarantee scheme of Rs 7,500 crore to facilitate loans through microfinanciers for lending to small borrowers.
- The Emergency Credit Line Guarantee scheme's size was increased to Rs 4.5 lakh crore from Rs 3 lakh crore earlier.
- The finance minister announced Rs 23,220 crores in FY22 for health infrastructure, with a special focus on children and paediatric care.
- To boost exports, the government has proposed to infuse equity in Export Credit Guarantee Corporation and provide additional corpus to National Export Insurance Account.
- Other measures such as an extension of the Production Linked Incentive schemes for electronics manufacturing, improving digital connectivity, streamlining the process for Public-Private Partnerships projects and asset monetisation, etc. were also announced to provide impetus to growth.
- To support job creation and income levels, measures such as an extension of the Atmanirbhar Bharat Rozgar Yojana and the revival of the North-Eastern Regional Agricultural Marketing Corporation were announced.
- The financial implications of measures announced today are estimated to be ~2.8% of FY22 GDP, though part of this will be spread over five years.
- We had expected the government to time the stimulus with the unlocking process for a better multiplier effect, though it came slightly ahead of the expected timeline. We expect additional measures focused on the demand-side to be announced around festival season, assuming there is no third COVID wave.

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## Government announces an economic package to boost economic recovery in the aftermath of the second wave

The finance minister announced a slew of measures today to provide relief to the pandemic-impacted segments, enhance medical/health infrastructure, revive tourism, boost exports, and provide an overall fillip to economic growth and employment in the economy. The timing of the economic package is aligned with the reopening of the economy - after the second COVID wave has abated. We had expected the government to time the stimulus with the unlocking process for a better multiplier effect, though it has come slightly ahead of our expected timeline. We expect additional measures focused on the demand side to be announced around the festival season, assuming there is no third COVID wave. The financial implications of measures announced today are estimated to be ~Rs 6.28 lakh crores (almost 2.8% of FY22 GDP, taking GDP estimate as per the budget), though part of this will be spread over five years. The fiscal cost of the package is also likely to be much lower given a higher reliance on credit guarantees.

India's COVID situation has improved drastically since its peak in early May, with daily cases falling by more than 85% from ~4 lakh cases to less than 50,000 cases at present (7 daily moving average basis). Active cases and fatality rates have also fallen. These factors, coupled with the record pace of vaccinations administered in June, are helping the economy's unlocking process and recovery. There are signs of a V-shaped recovery after a temporary hit in April-May'2021 as localized restrictions have eased across states. Consequently, mobility levels have improved from ~50% below their baseline levels (average of retail & recreation, grocery & pharmacy, transit stations, workplace) during mid-May to ~20% below baseline levels towards the last week of

June with grocery & pharmacy mobility increasing above its baseline level. Electricity consumption improved from -1.3% YoY in H2 May to ~5.4% in H2 June. Against this improving backdrop, the new measures announced by the finance minister today align with our expectations of timing the stimulus with the reopening of the economy and is also likely to accelerate the pace of recovery. However, the risk of a third COVID wave persists as new variants (for example, Delta+) are still emerging and vaccination levels remain low, which could pose downside risks to economic recovery if it were to materialize.

## Economic relief in the form of credit guarantees to COVID-impacted sectors

The finance minister announced a set of measures which were in the form of credit guarantees to facilitate the flow of funds to segments that have been relatively more impacted due to the pandemic. A new Rs 1.1 lakh crore loan guarantee scheme for COVID-impacted sectors has been launched, with Rs 50,000 crore worth of loan guarantees earmarked for non-metro medical infrastructure and Rs 60,000 crore for other affected sectors. The guarantee coverage was stipulated at 75% for new projects and 50% for expansion of existing projects, which will be provided by the National Credit Guarantee Trustee Company Limited (NCGTC) for loans up to Rs 100 crores for a duration of three years with the interest rate capped at 7.95%. The remaining amount of Rs 60,000 crores was accorded to other sectors (that would be announced as per evolving needs of various sectors) at a slightly higher interest rate of 8.25% per annum, although this is still sharply below the normal rate of interest of around 10-11% without a guarantee.

**Financial Implications of Economic Package announced today**

Schemes	Period	Amount announced (Rs Cr)	Remarks
Loan Guarantee Scheme for COVID Affected Sectors	FY2022	1,10,000	
Emergency Credit Line Guarantee Scheme (ECLGS)	FY2022	1,50,000	Expansion
Credit Guarantee Scheme for Micro Finance Institutions	FY2022	7,500	
Scheme for tourist guides/stakeholders	FY2022	-	Covered under loan guarantee
Free One Month Tourist Visa to 5 Lakh Tourists	FY2022	100	
Extension of Atma Nirbhar Bharat Rozgar Yojana	FY2022	-	
Additional Subsidy for DAP & P&K fertilizers	FY2022	14,775	
Free food grains under PMGKY from May to	FY2022	93,869	
New Scheme for Public Health	FY2022	15,000	Scheme outlay-Rs 23,220 Cr; Central Share-Rs 15,000 Cr
Release of climate resilient special traits varieties	FY2022	-	
Revival of North Eastern Regional Agricultural Marketing Corporation (NERAMAC)	FY2022	77	
Boost for Project Exports through NEIA	FY2022 to FY2026	33,000	
Boost to Export Insurance Cover	FY2022 to FY2026	88,000	
Broadband to each village through BharatNet PPP Model	FY2022 to FY2023	19,041	
Extension of Tenure of PLI Scheme for Large Scale Electronic Manufacturing			Time extension
Reform Based Result Linked Power Distribution Scheme(Budget Announcement)	FY2022 to FY2026	97,631	Scheme outlay-Rs 3,03,058 Cr; Central Share-Rs 97,631 Cr
New Streamlined Process for PPP Projects and Asset Monetization			
<b>Total</b>		<b>6,28,993</b>	

Source: PIB

The finance minister also scaled up the Emergency Credit Line Guarantee Scheme (ECLGS) by an additional Rs 1.5 lakh crore taking the total limit to Rs 4.5 lakh crore from its earlier size of Rs 3 lakh crore. The scheme that saw success initially through credit deployment to medium-sized enterprises (bank credit to medium-sized enterprises has increased by more than 43% since the inception of ECLGS in May 2020) also started to drive credit in sectors such as tourism, hotels & restaurants after they were brought under the umbrella of ECLGS more recently in March 2021. The banking sector's lending to tourism, hotels & restaurants increased by 1.6% month-on-month (MoM) in April 2021 that was twice its pre-COVID 5-year average of 0.8% MoM in the month of April. According to the Ministry of Finance, Rs 4,000 crores of credit has been given to these contact-intensive sectors under the ECLGS so far. We expect the increased limit to help boost credit to relatively stressed sectors, especially given that ~90% (Rs 2.69 lakh crore) of the existing limit of the Rs 3 lakh crore limit has been exhausted already.

To further provide relief to affected segments, the government launched a new credit guarantee scheme to facilitate loans through Micro Finance Institutions (MFIs) for lending up to Rs 1.25 lakh for approximately 25 lakh small borrowers. The focus is on new lending, not repayment of old loans, with 80% of assistance to be used by MFIs for incremental lending for a maximum loan tenure of three years and interest at least 2% below the maximum rate prescribed by the Reserve Bank of India (RBI). Banks' interest rate has been capped at Marginal Cost of funds Lending Rate (MCLR) plus 2%. Under the scheme, all borrowers, including defaulters up to 89 days, would be eligible. The scheme will be available till March 31, 2022, or until guarantees for Rs 7,500 crore are issued, whichever is earlier. Guarantee up to 75% of default amount for up to three years will be provided under the scheme through National Credit Guarantee Trustee Company Limited (NCGTC), with no guarantee fee to be charged.

#### **Economic relief measures to revive the tourism sector and provide support to vulnerable sections of society**

The government also announced separate schemes to revive the ailing tourism sector. Under the new loan guarantee scheme for COVID-affected sectors, working capital/personal loans will be provided to people in the tourism sector to discharge liabilities and restart businesses impacted due to COVID-19. A 100% guarantee on loans would be provided up to Rs 10 lakhs for travel and tourism stakeholders (per agency) and Rs 1 lakh for regional guides, with a waiver of foreclosure/prepayment charges, no processing charges, and no additional collateral

requirement. To further provide a fillip to the tourism industry, free tourist visas for the first five lakh tourists will be provided until March 31, 2022 (or until five lakh visas are issued, whichever is earlier) once the process of visa issuance is restarted.

The Atmanirbhar Bharat Rozgar Yojana that was launched on October 1, 2020, was also extended from June 30, 2021, to March 31, 2022, to incentivize employers for the creation of new employment opportunities. So far, a benefit of Rs 902 crores has been given to 21.42 lakh beneficiaries of 79,577 establishments until June 18, 2021. Additionally, the scheme for providing a fixed quantity of food grains to almost 80 crore people has been extended from June till November'21. This was announced by the prime minister earlier in June'21. This is likely to cost the government around Rs 93,869 crores, which, together with the relief provided last year, amounts to a total of Rs 2,27,841 crore in FY2021 and FY2022.

#### **Measures to enhance public health**

The finance minister announced an additional measure for the health sector, earmarking Rs 23,220 crores in FY22, with a special focus on children and pediatric care. The scheme builds on the Rs 15,000 crore Emergency Health Systems Project extended in FY21 that led to a sharp increase in dedicated COVID dedicated hospitals, COVID health centres, oxygen supported beds, and ICU beds, etc. The fresh financial support will also focus on the funding of short-term medical human resource augmentation, equipment and ambulances, and oxygen plants.

#### **Measures to provide an impetus for growth & employment**

The finance minister accorded the last set of measures towards providing impetus to growth and employment, with most of them having a medium-term execution period. The list of these measures is as follows.

##### **1. Fighting Malnutrition and Improving Farmers' Income**

To increase farmers' income, the government has now moved the focus from developing high-yielding crops to developing climate-resilient and high-nutrition crops based on ICAR research. Around 21 varieties of crops such as rice, peas, millets, etc. that are tolerant to diseases, insects, pests, drought, salinity, and flooding, early maturing and amenable to mechanical harvesting will be developed.

##### **2. Revival of North-eastern Regional Agricultural Marketing Corporation (NERAMAC)**

The government has proposed a revival package of Rs. 77.45 crores for financial restructuring and infusion of funds to NERAMAC, targeted towards enhancing procurement, marketing, and technology development in the Northeast. It has also prepared a business plan to offer 10-15% higher prices to farmers through bypassing middlemen/agents and has further proposed to set up a North-Eastern Centre for Organic Cultivation to facilitate equity finance to entrepreneurs.

### **3. Boost of Project Exports through National Export Insurance Account (NEIA)**

In order to provide support to exporters, the centre has proposed to provide an additional corpus to the NEIA over five years to an underwrite additional Rs 33,000 crores of project exports.

### **4. Boost to Export Insurance Cover**

The centre has proposed to infuse equity in Export Credit Guarantee Corporation over five years to boost export insurance cover by Rs 88,000 crores.

### **5. Broadband to each village through BharatNet PPP Model**

To achieve broadband connectivity to all inhabited villages, the government has announced an additional Rs 19,041 crores for BharatNet.

### **6. Extension of Tenure of PLI Scheme for Large-Scale Electronic Manufacturing**

The government will extend the Production-Linked Incentive (PLI) scheme for large-scale electronic manufacturing by a year to 2025-26. The scheme, which was launched in 2020-21, provides incentives of 4-6% on incremental sales of goods under targeted segments that are manufactured in India. Participating companies will get an option of choosing any five years for meeting their production targets under the scheme, and investments made in 2020-21 will continue to be counted as eligible investments.

### **7. Reform-Based Result-Linked Power Distribution Scheme (Budget Announcement)**

The finance minister provided further details on the Rs 3.0 lakh crore power distribution scheme that was announced in Union Budget 2021. The scheme is to provide financial assistance to power distributors for infrastructure creation, up-gradation of systems, capacity building, and process improvement. State-specific interventions are being designed rather than a one-size-fits-all approach. The central

government's contribution is estimated to be Rs 97,631 crore. States have already been allowed additional borrowing for four years up to 0.5% of Gross State Domestic Product (GSDP) annually (Rs 1,05,864 crore for 2021-22) subject to carrying out specified power sector reforms.

### **8. New Streamlined Process for PPP Projects and Asset Monetization**

Recognizing the current process for approval of Public-Private Partnership (PPP) as long and cumbersome, the centre has announced the formulation of a new policy for appraisal and approval of PPP proposals and monetization of core infrastructure assets. This will help speedy clearance of projects.

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