

GOVERNMENT STIMULUS MEASURES

13 May 2020

Aatmanirbhar package for MSMEs, NBFCs and Power

Honourable PM announced a big bang Rs 20tn Aatmanirbhar Bharat Abhiyan package to stimulate the economy and give impetus to local manufacturing. As part of this, the FM today announced Rs 6tn package for MSMEs, NBFCs and Power sector. NBFCs are the biggest beneficiary with additional allocation of Rs 3.7tn. With this, the overall stimulus by fiscal and monetary measures stands at 6.4% of GDP. We believe these measures largely take care of the economic loss to the economy because of the pandemic.

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Booster for MSMEs: In a major relief to MSMEs, government announced Rs 3.7tn package for MSME sector. Out of this, Rs 3tn is in the form of collateral-free automatic loan with 100% credit guarantee which is 20% of outstanding credit of Rs 15tn to MSMEs. This will ensure availability of liquidity at external linked rate to MSMEs. Apart from this, government will be providing Rs 200bn as subordinate debt to stressed MSMEs for equity infusion. Another Rs 500bn has been earmarked as equity investment in MSMEs through fund of funds. Notably, definition of MSMEs also been revised which will enable a wider set of enterprises to avail of these benefits. MSMEs will be given priority in government tenders upto Rs 2bn and all dues will be cleared in 45 days.

NBFCs and Power sector too gain: In order to provide liquidity to NBFCs/HFCs/MFIs, a special liquidity scheme of Rs 300bn with 100% guarantee by Government has been launched. In addition to this, the existing Partial Credit Guarantee scheme has been extended by Rs 450bn to cover investment in NBFC paper through primary issuances as well. Government will bear 20% of first loss. For the distressed power sector, the Government has launched Rs 900bn liquidity injection scheme against DISCOM receivables. Loans to be given by REC/PFC against state guarantees.

Stimulus at 10% of GDP: RBI in its Mar'20 policy and subsequent announcements has announced liquidity measures of Rs 5.25tn (2.6% of GDP). In addition, government had announced a Rs 1.7tn stimulus package (0.9% of GDP). In addition to this, RBI had also announced moratorium on loans. Today's announcements are cumulatively worth ~Rs 6tn (3% of GDP). This takes the total stimulus announced so far to Rs 12.9tn (6.4% of GDP). We believe the next set of measures will be announced for migrant workers, rural/farm sector and industries impacted the most by the pandemic.

KEY HIGHLIGHTS

- MSMEs get a boost of Rs3tn collateral free loan guaranteed by Govt.
- NBFCs and power sector too gain.
- Overall stimulus announced till date stands at 6.4% of GDP.



Detailed announcements

- In order to support credit needs of MSMEs, a new emergency credit line has been introduced wherein collateral-free loan upto Rs 3tn. This can be availed by MSMEs having Rs 1bn in annual turnover or Rs 0.25bn as loan outstanding. This is likely to benefit 4.5mn MSMEs. The loan period will be for 4-years and a 12 month moratorium on principal payment with interest to be capped, has been announced. A complete credit guarantee cover will be provided to banks and NBFCs on both principal and interest.
- Government will provide Rs 200bn as subordinate debt to over 0.2mn stressed MSMEs as well as provide Rs 40bn to CGTMSE which will be used towards partial credit guarantee support to banks. Additionally, Funds of Funds to be set up to provide liquidity infusion to MSMEs to the tune of Rs 500bn. This will help in expansion and scaling up of potential MSMEs.
- One of the major reform has been the change in the definition of MSMEs with a revised investment limit including annual turnover as an additional criteria and removal of distinction between manufacturing and services MSMEs. To protect business from unfair competition, global tenders upto Rs 2bn has also been disallowed from government procurement. To ease the liquidity issue, MSMEs receivables from government/CPSEs will be released in 45 days.
- In order to provide liquidity support to NBFCs/HFC/MFIs and mutual funds , a special liquidity scheme worth Rs 300bn has been introduced, under which investment grade debt securities of NBFCs/HFCs/MFIs will be bought. Securities will be fully guaranteed by the government. Additionally, partial credit guarantee scheme will be expanded to include borrowings. This will include AA rated as well as unrated paper for investment. This will lead to liquidity of Rs 450bn and government of India will borne the first 20% of loss.
- As revenues of Power Distribution Companies (DISCOMs) have plummeted, PFC/REC will infuse liquidity of Rs 900bn to DISCOMs against receivables. Loans will be given against State guarantees only for discharging liabilities of Discoms to generating companies.
- Under Pradhan Mantri Garib Kalyan Package, payment of 12% of employer and 12% employee contributions was made into EPF accounts of eligible establishments. This was to expire in May'20 but now has been extended upto Aug'20. This will provide liquidity relief of Rs 250bn.
- In addition statutory PF contribution of both employer and employee has been reduced to 10% each from existing 12% each for all establishments covered by EPFO for next 3 months. CPSEs and State PSUs will however

continue to contribute 12% as employer contribution. This will provide liquidity of Rs 675bn to employers and employees over 3 months.

- In order to provide more funds at the disposal of the taxpayers, the TDS rates (for non-salaried specified payments made to residents) and TCS rates (for the specified receipts) shall be reduced by 25% of the existing rates.
- This will be applicable for all payments for contract, professional fees, interest, rent, dividend, commission, brokerage, etc. The reduction will be applicable for the remaining part of FY20 and will extend upto 31 Mar 2021. These measures will release liquidity upto Rs 500bn
- All central agencies (like Railways, Ministry of Road Transport & Highways, Central Public Works Dept, etc) will provide extensions upto 6 months to their contractors and may also partially release bank guarantees, to the extent contracts are partially completed, to ease cash flows.
- Ministry of Housing and Urban Affairs will advise States/UTs and their Regulatory Authorities to treat COVID-19 as an event of Force Majeure under RERA.
- This will allow them to extend the registration and completion date suo moto by 6 months for all registered projects expiring on or after 25 Mar 2020. This may further be extended for another period of upto 3 months, if needed.
- Due date of all income tax return for FY 2019-20 will be extended from 31 Jul 2020 and 31 Oct 2020 to 30 Nov 2020 and Tax audit from 30 Sep 2020 to 31 Oct 2020.

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