

## GOVERNMENT STIMULUS MEASURES

17 May 2020

### PSE privatisation, state borrowing raised by 2% of GDP

The FM today announced a 2% increase in states borrowing by Rs 4.28tn to Rs 10.69tn. Centre's gross borrowing is at Rs 12tn. While such large issuance calendar will put upward pressure on yields, it will take care of revenue loss from lockdown. The Rs 21tn stimulus announced by FM with focus on MSMEs, farm sector, agri and coal infra and power sector will provide liquidity. The reforms to usher in private sector participation in mining, power distribution and privatisation of PSEs will kickstart the investment cycle.

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**States borrowing limit at 5% from 3%:** The FM today announced a Rs 400bn increase in government's MNREGA public works program to Rs 1tn. Given the dip in revenue collection of states, the states borrowing limits have been increased from 3% to 5% (of GSDP). Aggregate net borrowing by states now can be higher by Rs 4.28tn from Rs 6.41tn contingent on reform linkage in One Nation One Ration Card (ONOR), Ease of Doing Business, Power Distribution and Urban Local Body Revenues.

**New public sector enterprise policy:** Government will soon announce a new policy whereby in list strategic sectors where PSEs are required. In such sectors, at least one PSE will remain, but private sector will be allowed. In other sectors, PSEs will be privatised. Number of PSEs in strategic sectors will be between one and four.

**Changes in IBC and Ease of Doing Business:** Government today announced several changes to IBC such as 1) increasing threshold for initiating insolvency proceedings to Rs 10mn from Rs 0.1mn, 2) exclusion of COVID related debt from "default" under IBC, 3) suspension of fresh insolvency proceedings for 1 year, 4) decriminalisation of Companies Act and 5) allowing Indian companies to list their securities directly in foreign jurisdictions.

**Total stimulus at Rs 21tn:** The total stimulus stands at Rs 21tn (10.5% of GDP). This includes: 1) RBI measures of Rs 8tn (4% of GDP), 2) first economic package including PMGK of Rs 1.92tn, 3) Part-1 of FM announcements for MSMEs, NBFCs and DISCOMs of Rs 5.9tn (3% of GDP), 4) Part-2 of FM announcement of Rs 3.1tn (1.6% of GDP) for migrant workers and farmers, 5) Part-3 focusing on agri infra of Rs 1.5tn (0.8% of GDP), and 6) Part-4 and 5 focusing on reforms of Rs 481bn (0.2% of GDP). We thus expect centre's fiscal deficit to rise to 6% of GDP in FY21.

#### KEY HIGHLIGHTS

- Government announces last tranche of economic measures with focus on MNREGA and state finances.
- Measures also to support corporates and businesses and improve Ease of Doing Business.
- Stimulus measures announced by the government will be positive for growth.



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