

# A REFORMATIVE AND FISCAL PACKAGE

Relevant for: Indian Economy | Topic: Issues relating to Planning & Economic Reforms

Union Finance Minister Nirmala Sitharaman.

The moment you start looking at the [recently announced 20 lakh crore fiscal stimulus package](#) as an economist or an industrialist or a consumer or a farmer alone, you become like the six blind men describing the elephant. Each view may be right, yet it lacks the full perspective. We need to assess and evaluate the stimulus package on a larger national and international platform.

With this package, the government is trying to balance the stimulus demands from different sectors and also trying to contain the fiscal burden on the exchequer. Measures announced until now have been a mix of liquidity measures, funding support and reform announcements. The signal is clear, the intent emphatic: provide immediate support for the most distressed sections like micro, small and medium enterprises, and migrant workers, on the one hand, while using the crisis to push long-term reforms on the other. These include freeing up the agriculture supply chain, reducing the hegemony of agricultural produce market committees by encouraging direct online transactions between farmers and buyers, and opening up sectors like coal to the private sector.

## Tranche 1: [Business including MSMEs \(May 13, 2020\)](#)

Let's take real estate to start with. The pandemic period has been defined as a 'force majeure'. Real estate developers do not have to pay penalties for delays in project deliveries for the period during which the construction activity has been halted because of the pandemic. The extension of registration and completion dates for projects under the Real Estate Regulatory Authority and the extension of credit-linked subsidy schemes for Middle Income Group housing can push real estate developers towards more projects under the Pradhan Mantri Awas Yojana.

## Tranche 2: [Poor, including migrants and farmers \(May 14, 2020\)](#)

Add to this the Reserve Bank of India's recent rate cuts, including the latest repo rate cut to 4%, and other key measures like long-term repo operation 2.0, open market operations have boosted liquidity in the banking system in excess of 5 lakh crore. This is in addition to the six-month moratorium on loan repayments, covering all banks and shadow lenders starting March 1, 2020. By far the most sweeping steps by the central bank in the time of crisis, these remedies will boost liquidity and ease stress in the banking sector, which was affected by an ongoing crisis in non-banking financial companies (NBFCs) even before the contagion spread. Measures for NBFCs such as providing a 30,000 crore liquidity facility, a 45,000 crore partial credit guarantee and a 50,000 crore refinancing facility for NABARD, SIDBI and NHB will also help in ameliorating some stress on the NBFCs.

## Tranche 3: [Agriculture \(May 15, 2020\)](#)

In his address to the nation on May 12, the Prime Minister mentioned infrastructure as one of the five pillars to take the nation out of the current crisis. While governments will be more focused this year on dealing with the pandemic and mitigating its impact on society, it is only a question of when spending on infrastructure will pick up. The sooner, the better. I believe the States as well as the Centre will pick up the mantle of unfinished infrastructure projects. This will aid economic growth and provide employment to a significant portion of the workforce.

The injection of 90,000 crore liquidity for DISCOMs, reforms in tariff policy, privatisation of distribution in Union Territories, etc. will help stem the haemorrhaging of some players in this sector. Policy measures announced for the defence sector, which are meant to push indigenous production and participation of the private sector in India's space programmes, have been encouraging so far. How this will be implemented needs to be seen, however, especially since some key defence procurement programmes have been delayed for many years. A level-playing field between defence public sector units and private companies is also necessary to develop the defence sector in India.

#### **Tranche 4: [New horizons of growth \(May 16, 2020\)](#)**

Most significantly, this crisis has brought to surface the need for investment in healthcare infrastructure. India currently spends around 1-2% of GDP on health which is lower than even peer countries like Brazil. The allocation of 15,000 crore and viability gap funding for social infrastructure projects are small steps in addressing this gap. L&T, for instance, is well placed to construct ready-to-use hospitals in the shortest span of time.

#### **Tranche 5: [Government reforms and enablers \(May 17, 2020\)](#)**

This stimulus is as much a reformative package as a fiscal one. However, a majority of the stimulus measures announced are meant for the rural sector and distressed segments with a focus on supply side measures in providing credit facilities. I endorse RBI Governor's Shaktikanta Das words: "It is when the horizon is the darkest and human reason is beaten down to the ground that faith shines brightest and comes to our rescue." It is time we gear up to grab the opportunities this pandemic has laid open.

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