

GOVERNMENT STIMULUS

28 June 2021

Stimulus to boost growth

FM today announced stimulus package for sectors most impacted by second wave: MSMEs, health, farm, tourism and MFIs. MSMEs will get a big boost by way of increase in ECLGS by Rs 1.5tn. Exports too will benefit. The total cash payout is limited to less than 1% of GDP. Economic activity continues to rebound as visible in our economic tracker (now 11% below Feb'20 from 19% in May'21). We expect GDP to rebound by 9.7% in FY22 led by gradual opening up of restrictions from Q2FY22.

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Focus on employment and growth: Centre has extended PLI scheme for Large Scale Electronic Manufacturing by 1 year to FY26. For exports, government has provided Rs 880bn for export insurance cover with Rs 330bn for project exports through National Export Insurance Account (NEIA) (over 5 years). To improve digital infrastructure, Rs 190bn is provided for broadband to each village through BharatNet PPP Model (over 2 years). For power sector, Reform Based Result Linked Power Distribution Scheme has been revamped with state governments allowed additional borrowing of 0.5% of GDP. Centre's share is Rs 976bn (5 years). Centre has also extended Atmanirbhar Bharat Rozgar Yojana from 30 Jun 2021 to 31 Mar 2022.

Credit relief to MSME, health and tourism: Centre has extended the ongoing Emergency Credit Line Guarantee Scheme (ECLGS) by Rs 1.5tn to Rs 4.5tn. Existing disbursal is Rs 2.69tn. In addition, Rs 1.1tn loan guarantee scheme has been announced to support the contact intensive sectors: Rs 500bn for health and Rs 600bn for others, including tourism. Further to support tourism sector, 100% credit guarantee will be given for loans to registered travel agencies (loan up to Rs 1mn) and tourist guides (Rs 0.1mn). A new credit guarantee scheme to facilitate loans through MFIs has also been announced, guaranteeing 75% of the loan amount (loan upto Rs 0.13mn). This scheme will cost Rs 75bn to the government.

Boost for health, farm sector: Government has announced a new health scheme to the tune of Rs 150bn per year focusing on short term emergency preparedness. The scheme is expected to provide higher availability of ICU beds and oxygen supply at central, state and even sub-district level. Pradhan Mantri Gareeb Kalyan Anna Yojana (PMGKAY) has been extended till Nov'21. Additional outlay for this scheme is Rs 939bn. Further, fertilizer subsidy has also been extended with an additional amount of Rs 148bn in FY22.

We retain our 9.7% growth for FY22: Today's fiscal stimulus will be most beneficial for MSMEs, health, tourism and rural economy. These sectors have been impacted by second wave the most. Our activity tracker continues to show rapid improvement in economic activity. Normal monsoon will also boost rural growth.

Key highlights

- Government announces stimulus of Rs 4.5tn to mitigate the impact of second wave.
- ECLGS scheme extended to Rs 4.5tn, loan guarantee scheme of Rs 1.1tn for contact intensive sectors.
- We maintain our GDP growth forecast of 9.7% FY22 led by opening up of economy.



Fig 1 – DETAIL BREAKDOWN OF STIMULUS

Measure	Amount (Rs bn)
Expansion of Emergency Credit Line Guarantee Scheme (ECLGS)	1,500
Loan guarantee scheme for Covid affected sectors (including tourist guides/stakeholders)	1,100
Free foodgrains under PMGKY from May'21 to Nov'21	939
Reform based result linked power distribution scheme	195
Boost to export insurance cover	176
New scheme for public health	150
Additional subsidy for DAP and P&K fertilisers	148
Broadband to each village through BharatNet PPP model	95
Credit Guarantee Scheme for MFIs	75
Boost for Project exports through NEIA	66
Free one month tourist visa to 5lakh tourists	1
Revival of North Eastern Regional Agricultural Marketing Corporation (NERAMAC)	1
Total	4,446

Source: PIB, Bank of Baroda Research

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