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INDIA

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Economy

Fiscal cost of new stimulus measures likely to be ~0.3% of GDP

On 28 Jun 2021, the Finance Minister announced a fresh round of stimulus measures to support the economy after the second wave of Covid-19. The measures consist of three pillars: 'economic relief', 'health' and 'impetus to growth and employment'. While the announced size of the package was ~Rs 6.3trn (or ~2.8% of nominal GDP in FY22), the actual fiscal outgo in FY22 is likely to be ~Rs 684bn (~0.3% of GDP). Our analysis of the measures shows that 'economic relief', 'health', and 'impetus to growth and employment' pillars account for 60%, 2% and 38% of the total announcements. However, in terms of fiscal outgo, they account for 0%, 22% and 78% respectively.

- **FM announces new round of stimulus:** Finance Minister Nirmala Sitharaman announced fresh stimulus measures on 28 Jun 2021 to combat the economic impact of the second wave of Covid-19. The announced size of the stimulus was Rs 6.3trn or ~2.8% of the estimated nominal GDP for FY22. The package was based on three pillars: economic relief from the pandemic, support to the health sector and impetus for growth and employment.
- **Announced size of the package ~Rs 6.3trn; actual fiscal outgo in FY22 estimated at Rs 684bn:** While the announced size of the package was ~Rs 6.3trn, the actual fiscal outgo in FY22 is likely to be much lower. This is because of three reasons: (i) some of the measures included in the package were announced earlier (e.g. extension of free food grains till Nov 2021, additional allocation for fertilizer subsidy) (ii) like the earlier stimulus packages, this package has also relied heavily on government-guaranteed loans which don't have any upfront fiscal cost and (iii) some of the measures are spread over five years, splitting the fiscal costs over a longer timeframe.
- **'Economic Relief' pillar mostly based on guarantees; actual fiscal outgo meagre Rs 1bn:** The 'economic relief' pillar constituted measures to (i) support sectors ravaged by the pandemic (such as health infrastructure, microfinance institutions, travel and tourism sector), (ii) incentivise new employment generation (by subsidising PF contribution), (iii) continuation of free food grain distribution to the poor, and (iv) additional allocation for fertilizer subsidy. The total announced size of this pillar is Rs 3.76trn or almost 60% of the total package. However, out of these measures, the last two viz. free food grains to the poor till Nov 2021 and additional allocation of fertiliser subsidy were announced earlier in the months leading up to yesterday's package. Hence, excluding these old measures, the quantum of fresh measures comes to Rs 2.67trn. Since this package mostly consists of guaranteed loans (which do not result in immediate fiscal outgo), its actual impact on the fisc in FY22 is estimated at just Rs 1bn.
- **'Health' pillar aims to augment pediatric healthcare infrastructure; fiscal outgo Rs 150bn:** The second pillar, 'health', had just one measures aimed at augmenting pediatric healthcare infrastructure, availability of ICU beds, oxygen supply and other critical healthcare needs. While the total outgo under this pillar is pegged at Rs 232bn, centre's share is estimated at Rs 150bn.
- **'Impetus for growth and employment' pillar most significant in terms of stimulus; outgo seen at Rs 533bn:** The third pillar, 'Impetus for growth and employment', is the most important pillar in terms of stimulus. It consists of financial assistance to DISCOMS, measures to boost to exports, and investment in broadband. In terms of announced size, this pillar accounts for Rs 2.37trn or 38% of the package. However, in terms of estimated fiscal outgo, it is the most significant pillar accounting for Rs 533bn or 78% of the estimated fiscal cost of this package.

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Table 1: Pillar-wise size and expected fiscal outgo

Pillar	Announced size (Rs bn)	Expected fiscal outgo, FY22 (Rs bn)
Economic Relief From Pandemic	3,762	1
Health	150	150
Impetus for Growth & Employment	2,377	533
Total	**6,289**	**684**

Source: Ministry of Finance, I-Sec Research

Table 2: Details of stimulus package announced on 28 Jun 2021

Announcement	Details	Duration	Total amount	Estimated fiscal cost in FY22
Pillar 1: Economic Relief From Pandemic				
Rs 1.1trn Loan Guarantee Scheme for COVID Affected Sectors	1. Allocation for health sector: Rs 500bn. Scheme aimed at scaling up medical infrastructure in underserved areas. Guarantee coverage (50% for expansion, 75% for new projects). 2. Allocation for other sectors: Rs 600bn. Interest rate capped at 7.95%.		Rs 1.1trn	0
Additional Rs 1.5trn for Emergency Credit Line Guarantee Scheme (ECLGS)	Increased allocation of ECLGS scheme to Rs 4.5trn from Rs 3trn announced earlier. Admissible guarantee limit and loan amount proposed to be increased above existing level of 20% of outstanding on each loan.		Rs 1.5trn	0
Credit Guarantee Scheme for MFIs	Guarantee cover for funding provided to MFIs/NBFC-MFIs till March 31, 2022 or till guarantees for an amount of Rs.75bn are issued, whichever is earlier.	Guarantee up to 75% of default amount for up to 3 years	Rs 75bn	0
Financial Support to Tourism Sector	Loans with 100 % guarantee up to the following limits: • Rs 1,000,000 for TTS • Rs 100,000 for licensed tourist guides.		-	0
Free Tourist Visa	First 500,000 Tourists Visas will be issued free of charge.	Till 31 Mar 2022 or till 500,000 visas are issued, whichever is earlier	Rs 1bn	Rs 1bn
Extension of Atmanirbhar Bharat Rozgar Yojana	Subsidy provided on PF contribution of new employees. Approved outlay Rs 228bn, utilisation Rs 9bn.	Scheme extended from Jun 2021 to Mar 2022	-	0
Additional Subsidy for DAP & P&K fertilizers (Announced earlier)	Additional amount of Rs 147bn: Rs 91bn for DAP and Rs 56bn for NPK*	FY22	Rs 147bn	Rs 147bn
Extension of Pradhan Mantri Gareeb Kalyan Anna Yojana (Announced earlier)	Free food grains of 5 kg to 800mn NFSA beneficiaries from May to November 2021*	May to Nov 2021	Rs 938bn	Rs 938bn
Public Health				
Scheme for short term emergency preparedness for paediatric care	Increased availability of ICU beds, oxygen supply, equipment, medicines.	-	Rs 232bn	Rs 150bn
Impetus for Growth & Employment				
Release of Climate Resilient Special Traits Varieties	Focus on new bio-fortified crop varieties having high nutrients like protein, iron, zinc, vitamin-A.	-	0	0
Revival of North Eastern Regional Agricultural Marketing Corporation	Revival package of Rs 0.77bn proposed for financial restructuring and infusion of funds to NERAMAC	-	Rs 0.77bn	Rs 0.77bn
Boost for Project Exports through National Export Insurance Account	Additional corpus of Rs 330bn to NEIA over 5 years	FY22 to FY26	Rs 330bn	Rs 66bn

Announcement	Details	Duration	Total amount	Estimated fiscal cost in FY22
Boost to Export Insurance Cover	Equity infusion of Rs 880bn in ECGC over 5 years	FY22 to FY26	Rs 880bn	Rs 176bn
Broadband through BharatNet PPP Model	Additional Rs 190bn being provided for BharatNet	-	Rs 190bn	Rs 92bn
Extension of Tenure of PLI Scheme for Large Scale Electronics Manufacturing	Tenure extended till FY26.	Till FY26	0	0
Reform Based Result Linked Power Distribution Scheme	Financial assistance to DISCOMS for infrastructure creation and up-gradation. Total allocation Rs 3trn, Central share Rs 976bn	-	Rs 976bn	Rs 195bn
PPP Projects and Asset Monetisation	Speedy clearance of projects	-	0	0
Total			**Rs 6.3trn**	**Rs 684bn**

Source: Ministry of Finance, I-Sec Research. * not included in new announcements.

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