

## **Making sense of the Rs. 20 lakh crore economic package**

In a situation of crisis, government and government agencies are the savior of last resort to support the distressed industry. To combat the Great Depression in USA, the then President Franklin Roosevelt announced New Deal that provided unemployment relief to workers, boosted public spending and reformed financial system of the country.

Today, we are in such a situation, where worldwide, industry is knocking at the doors of the government to support them navigate through the COVID crisis. The condition in India is no different. Micro, small and medium enterprises (MSMEs) that are financially distressed from the COVID lockdown could not get loans from banks as the latter are risk averse to lend to these enterprises. Reserve Bank of India pumped in record amount of liquidity in the banking system in the hope that bankers will lend to the distressed MSMEs. Since March 2020, Reserve Bank of India infused around Rs. 6 lakh crore of liquidity into the banking system, including the Rs. 50,000 crore special liquidity window for mutual funds on April 27. But banks simply parked the additional cash infusion with the RBI as they did not want to take the risk of lending to MSMEs.

Finally, on May 12, 2020, Hon'ble Prime Minister of India announced a Rs. 20 lakh crore economic package, including the measures taken by RBI and the government since March 25, to support the economy. This package aims to transform India into a self-reliant economy and it is aptly called Aatma Nirbhar Bharat Abhiyaan. The Prime Minister informed that the details of this Rs. 20 lakh crore package will be announced by the Finance Minister in the following days.

A day later, Hon'ble Finance Minister of India announced the first set of 15 relief measures, six of which are intended for MSMEs, to support the revival of economic activity. While the Minister did not mention the actual size of these 15 measures, media reports suggest that these measures could be worth Rs. 5 lakh crore to Rs. 6 lakh crore.

However, majority of these measures will not lead to immediate cash outgo for the government. This is because, a substantial part of the relief measure, viz. the Rs. 3 lakh crore emergency credit facility to MSMEs, is in the form of a credit guarantee. This means, banks will lend Rs. 3 lakh crore emergency credit (in the form of working capital loan or term loan) to MSMEs. The central government will provide 100% guarantee to these loans. This means, the government will have to pay only if the MSMEs default on these loans. Thus, there is no immediate cash outgo for the government.

The above mentioned emergency credit facility is available for only those MSME borrowers whose accounts are not classified as stressed or NPAs by banks. This is the

first of the three major liquidity support measures announced by the Finance Minister on May 13.

### **Second Liquidity Measure**

The Finance Minister announced a separate measure for MSME borrowers who have struggled to repay their loans in the past; In other words, whose accounts are classified as stressed or NPAs by banks. Under the RBI guidelines, banks can restructure the stressed MSME loans by requiring the promoters of these enterprises to infuse additional equity. In this situation of economic crisis, promoters will not be in a position to infuse the mandatory equity. Therefore, the government identified 2 lakh such MSME promoters and announced to support them with subordinate debt of Rs. 20,000 crore. Subordinate debt are a form of capital, which lies somewhere between equity and pure debt. Thus, this fund infusion by government will enable bankers to restructure the stressed loans of these 2 lakh MSMEs, according to the RBI guidelines.

### **Third Liquidity Measure**

Separately, the Finance Minister announced equity infusion into those MSMEs that are financially healthy and that wants to grow their business. These enterprises want to borrow loans from banks to expand their business. The Finance Minister announced infusion of fresh equity into such growth oriented MSMEs by setting up a Fund of Fund. Under this measure, the government will set up a fund of Rs. 10,000 crore, which will invest in those funds that provide equity support to MSMEs. There are many Alternative Investment Funds registered with SEBI that provide equity capital to micro, small and medium enterprises. These funds may be eligible for capital infusion from the Fund of Fund that may be set up by the government.

Apart from these three measures, the Finance Minister announced several other relief measures for NBFCs, micro finance institutions, power distribution companies, government contractors, real estate companies and low wage earners.

It is widely expected that in the coming two days, the Finance Minister will announce more stimulus measures to support migrant labourers, farmers and industry. The government will also announce long term reform measures in land, labour and legal systems to attract foreign investment and make the country self-reliant.

**Notifications**

## **Press Information Bureau, Government of India**

Relief measures to businesses

<https://pib.gov.in/PressReleasePage.aspx?PRID=1623601>

Daily Bulletin on COVID-19

<https://pib.gov.in/PressReleasePage.aspx?PRID=1623622>

## **RBI**

Extension of interest equalization scheme for exporters

<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11887&Mode=0>

## **DGFT**

Amendment in import policy of silver

<https://dgft.gov.in/sites/default/files/Notification-5-English.pdf>

Procedure for availing Transport and Marketing Assistance for agro commodities

[https://dgft.gov.in/sites/default/files/PN%20eng\\_0.pdf](https://dgft.gov.in/sites/default/files/PN%20eng_0.pdf)

Import of additional quota of Urad

<https://dgft.gov.in/sites/default/files/Trade%20Notice%2010.pdf>

## **CBIC**

Provisional hike in customs duty on palm oil

<https://www.cbic.gov.in/resources//htdocs-cbec/customs/cs-act/notifications/notfns-2020/cs-tarr2020/cs22-2020.pdf;jsessionid=0359CA4467707E6BDC5D66191F773500>