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COVID-19: India update on economic stimulus package

Key highlights of India economic stimulus

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Following the announcement of an economic stimulus package of INR 20 trillion (~USD 270 billion) by the Indian Prime Minister ('PM') and the clarion call to build a Self-reliant India, the Indian Finance Minister ('FM') held a series of Press Conferences over five days from 13 May to 17 May 2020 to announce the specific details of the stimulus package, at a time when the country is entering the fourth phase of a nationwide lockdown.

The first set of announcements centred around liquidity while the second set was dedicated to the relief of labour, migrant workers, small businesses, including working capital funding and affordable housing for the middle class and the urban poor. The third tranche relates to agriculture, animal husbandry, fisheries, and allied industries. The fourth round of announcements involved structural reforms for various sectors such as coal, minerals, defence, civil aviation, power distribution in Union Territories, space, and atomic energy. The fifth and the final tranche comprised measures in the areas of rural employment, health reforms, technology driven education, improving Ease of doing business in India through reforms to the Insolvency and Bankruptcy Code and corporate laws, decriminalization of various defaults in the corporate law, privatization of Public Sector Enterprises in various sectors and extending support to the States.

A perusal of the fine print of the FM's economic stimulus package which is nearly 10% of the country's GDP, reveals that the focus of the measures comprises improving liquidity with a view to unclog the economic system which had almost come to a standstill in the last couple of months. Only some of the announcements involve disbursements by the Government of India ('Government') with a consequential impact on the fiscal deficit. Many of the structural reforms announced will have a positive impact in the medium term. Further, many of the measures announced would require States to incur expenditure, for which the Government has enhanced the borrowing limit of the States. However, it is possible that several States may choose not to borrow and may cut spending. One may, therefore, need to wait and watch how the full impact of the reforms pans out.

We summarize below the key highlights of the economic measures announced by the FM. Some of the provisions announced will need to be introduced in the relevant laws by way of specific notifications or amendments to the law.

➢ Coal sector

- The Government will introduce competition, transparency, and private sector participation to reduce import of sustainable coal and increase self-reliance in coal production.

- For achieving the above objective, the Government will introduce a revenue sharing mechanism instead of the fixed rupee/tonne basis, which will allow any party to bid for coal blocks and sell in the open market. Further, the Government will liberalize the entry norms where 50 blocks will be offered immediately with no eligibility conditions and only upfront payment with a ceiling.

- Private sector participation will be allowed in partially explored blocks through an auction process. Production ahead of schedule will be incentivized through a rebate in the revenue share.

- The Government will incentivize coal gasification/ liquefication through a rebate in the revenue share to assist India to be a gas-based economy and lower the adverse impact on the environment.

- Infrastructure development of INR 500 billion (~USD 6.7 billion) including investment of INR 180 billion (~ USD 2.4 billion) for the purpose of mechanizing the transfer of coal from the mines to the railways for evacuation of the enhanced target of 1 billion tons of coal production by Coal India Limited ('CIL') by FY 2023-24 as well as coal production from private blocks.

Power

- To improve the operational and financial efficiency in power distribution and to provide better service to consumers, Power Departments/Utilities in Union Territories ('UT') will be privatized. This is expected to provide a model for emulation by other utilities across the country.

- Tariff Policy reform measures to be introduced to protect consumer rights against DISCOMs, promoting industry and sustainability of the power sector.

- In the atomic energy sector, research reactor in Public-Private Partnership ('PPP') mode to be established for production of medical isotopes. This step is aimed at promoting affordable treatment of diseases.

- To foster synergy between research facilities and tech-entrepreneurs, Technology Development cum Incubation Centres will be set up. This is expected to link the start-up ecosystem of India to the nuclear sector.

Privatization of Public Sector Enterprises

- It is proposed to set up a new coherent policy where all industry sectors are open to the private sector while Public Sector Enterprises ('PSEs') will continue to play an important role in defined areas.

- Under the new policy, the Government will identify certain strategic sectors where at least one PSE will continue to operate, while allowing the private sector to participate. To minimize administrative costs, the total number of enterprises in each strategic sector will be limited to four while the other enterprises will be privatized or merged or brought under holding companies. In sectors other than the strategic sectors, PSEs will be privatized.

Reforms to enhance Ease of Doing Business

- Indian public companies will be able to directly list their securities in permissible foreign jurisdictions and access a larger pool of capital.

- Listing of Non-Convertible Debentures ('NCDs') by private companies on Stock Exchanges will not result in such companies being considered as listed companies.

- Power to create additional or specialized benches of the National Company Law Appellate Tribunal ('NCLAT') will be introduced.

- Penalties for all defaults made by Small Companies, One-person Companies, Producer Companies and Start-Ups will be relaxed.

- Ease of doing business reforms relating to easy registration of property, speedy disposal of commercial disputes and simpler tax regime are the next measures to be taken by the Government on a mission mode.

Insolvency and Bankruptcy Code ('IBC')

- The minimum threshold for initiation of insolvency proceedings has been raised to INR 100 million (~USD 1.3 million).
- Fresh initiation of insolvency proceedings will be suspended for up to one year depending on the pandemic situation.
- The Government will form a special resolution framework for MSMEs where certain provisions of the IBC will not be applicable or modified for MSMEs.
- The definition of 'default' under the IBC will be modified to exclude COVID-19 related debts for triggering insolvency proceedings.

Decriminalization of defaults under the corporate law

- Violations involving minor technical and procedural defaults under the corporate law (the Companies Act, 2013) will be decriminalized. Further, 7 compoundable offences will be dropped and 5 will be dealt with under an alternative framework.
- Majority of the provisions relating to compoundable offences under the Corporate Law will be moved to an Internal Adjudication Mechanism ('IAM'). Further, the powers of the Regional Director for compounding will be enhanced. This step will de-clog the criminal courts and the National Company Law Tribunal ('NCLT').

Mineral sector

- The FM announced structural reforms in the mineral sector to boost growth and employment while ensuring the use of technology in extraction.
- A seamless composite exploration-cum-mining-cum-production regime will be introduced, and 500 mining blocks will be offered by way of a transparent auction. Further, a joint auction of bauxite and coal blocks was announced to help the aluminium industry in reducing electricity costs.
- The distinction between captive and non-captive mines will be removed to support the sale of surplus minerals which will improve efficiency and will allow the transfer of mining leases. It was further announced that stamp duty payable at the time of award of mining leases will be rationalized.
- The Ministry of Mines is in the process of developing a mineral index for different minerals.

Defence

- The Foreign Direct Investment ('FDI') limit in defence manufacturing under the automatic route will be increased from 49% to 74%.
- To further support the Government's 'Make in India' mission, a few measures were announced to achieve self-reliance in defence production. These measures include time-line based ban on imports of certain weapons, increased local participation in imported spares and procurement of domestic capital. This move will help in significantly reducing expenditure on defence imports.
- Time-bound decisions for defence procurement will be made by setting up a Project Management Unit (for contract management) and overhauling trial and testing procedures.

- It is aimed to improve autonomy, accountability, and efficiency in military supplies by corporatization of the Ordnance Factory Board.

Agriculture and allied activities

- Financing facility of INR 1 trillion (~USD 13.3 billion) will be provided for immediate funding of agriculture infrastructure projects at farm-gate and aggregation points.

- A central law will be formulated to provide adequate choices to farmers to sell their produce at an attractive price. It will also free the existing barrier of Inter-state trade and provide a framework for e-trading of agricultural produce. Further, facilitative legal framework will be created to enable farmers to engage with processors, aggregators, large retailers, exporters etc. in a fair and transparent manner.

- The Essential Commodities Act, 1955 which was enacted in the days of scarcity will now be amended. Amendments will include deregulation of certain food stuffs and imposing the existing stock limits only under certain exceptional circumstances.

- Additional refinance support of INR 300 billion (~USD 4 billion) will be extended by National Bank for Agriculture and Rural Development ('NABARD') for crop loan requirement.

- A new scheme to provide interest subvention of 2% per annum and additional interest subvention of 2% per annum on prompt payment/interest servicing to dairy cooperatives for FY 2020-21 has been announced.

- Concessional credit boost of INR 2 trillion (~USD 26 billion) will be provided to PM-KISAN beneficiaries.

- To support private investments in dairy processing and cattle feed infrastructure, an Animal Husbandry Infrastructure Development Fund of INR 150 billion (~ USD 2 billion) is proposed to be set up.

- The Government will launch a scheme for integrated, sustainable, inclusive development of marine and inland fisheries. The scheme will allocate INR 110 billion (~USD 1.47 billion) for activities in marine, inland fisheries, aquaculture, and INR 90 billion (~USD 1.2 billion) to fishing harbours, cold chain, markets etc.

Other announcements

Civil aviation

- It is proposed to transform India into a Global Hub for Aircraft Maintenance, Repair and Overhaul ('MRO').

- Restrictions on utilization of Indian Air Space will be relaxed resulting in optimal utilization of airspace, reduction in fuel use, savings in travel time and positive environmental impact. This will bring a total benefit of about INR 100 million (~USD 1.4 million) per year for the aviation sector.

- Airport Authority of India ('AAI') has identified 6 airports for operation and maintenance on Public-Private Partnership ('PPP') basis in the second round of bidding. This is in addition to bidding for 6 airports in the first round of which 3 airports were awarded on PPP basis.

- Additional investment by private players in 12 airports expected around INR 130 billion (~USD 1.86 billion).

- Another 6 airports will be put up out the third round of bidding.
- Convergence between defence sector and the civil MROs will be established to create economies of scale.
- Maintenance cost for airlines will reduce as major engine manufacturers in the world would set up engine repair facilities in India.

Health reforms

- Public expenditure on health will be increased and investments will be made in grass root health institutions. New wellness centres will be opened in rural as well as urban areas.
- To prepare for future pandemics, strengthening of network and surveillance will be undertaken by establishing Integrated Public Health Laboratories in all districts.

Technology-driven education

- A multi-mode access programme to digital/online education is to be launched immediately. The programme will consist of Digital Infrastructure for Knowledge Sharing for school education in states and Union Territories and e-content and QR coded energized textbooks for all grades i.e. one nation, one digital platform.

Further support to State Governments

- Currently, the ceiling on net borrowing for States is at 3% of the Gross State Domestic Product (GSDP) and75% of the net borrowing ceiling was authorized to the States in March 2020. Of the limit authorized, the States have borrowed funds only to the extent of 14%, whereas the balance 86% remains unutilized.
- The Government has decided to raise the borrowing limit of states from 3% to 5% of the GSDP for FY 2020-21 to accede to the request by the States. This will give the States access to extra resources of INR 4.28 trillion (~ USD 57 billion).
- Part of these borrowings will be linked to four specific reforms like One Nation One Ration card, Ease of Doing Business, Power Distribution and Urban local body revenues.
- Of the 2% increase (from 3% to 5%), 0.5% will be unconditional and 1% will be given in 4 tranches of 0.25% with each tranche linked to specified, measurable and feasible reform actions in States. The balance 0.5% will be granted only if the milestones in at least three of the four reform areas are achieved.

One Nation One Ration Card

- As a part of the PM's Technology Driven System Reforms, a 100% national portability of ration cards will be enabled by March 2021 to allow easy access to the Public Distribution System. Under this system, one ration card can be used by migrants in any Fair Price Shop across the country.

Small businesses

- The Reserve Bank of India ('RBI') has already announced a moratorium period for small loans up to than INR 50,000 (~USD 670) per person. The current portfolio of such small loans is INR 1,620 billion (~ USD 21.6 billion). It is now proposed to provide an interest subvention of 2% for 12 months for those who opt to pay promptly. This will bring relief of INR 15 billion (~ USD 200 million) to small businesses.

Housing for migrants and middle-income groups

- A scheme will be launched for migrant labour/urban through which Affordable Rental Housing Complexes ('ARHC') will be made available through Public Private Partnership mode, manufacturing units, industries and Government agencies will be incentivized to develop and operate ARHC.

- The Credit Linked Subsidy Scheme under which upfront interest subsidy is provided on approved home loans to middle-income groups has been extended till 31 March 2021. This is expected to provide a total benefit of INR 700 billion (~ USD 9 billion) for the housing sector. As a ripple effect, it will create jobs, stimulate demand for steel, cement, and other construction materials.

Benefits for labour sector

- There are almost 44 labour laws which are undergoing an overhaul and amendments to these laws including simplification and combining these into 4 labour codes are under discussion.

- Currently, minimum wages are applicable only to 30% of workers. It is proposed to universalize the right to minimum wages across the country and timely payment of wages for all workers including the unorganized sector.

- With a view to promote formalization of the labour sector, all workers will be issued appointment letters. The process of fixing minimum wages will be simplified leading to a fewer number of minimum wages and better compliance.

Rural employment guarantee scheme

- To address the issue of employment for migrant workers who have returned to their home state and considering that the monsoon season will kick in, the Government will allocate an additional amount of INR 400 billion (~USD 57.14 billion) over and above the funds allocated in the Finance Budget 2020-21.