

The Rs20trn Economic Package: Tranche 4 on structural reforms to push investments

The fourth tranche of the Government's relief package focused on some crucial sectors of the economy such as mining, defence, civil aviation and power. FM Sitharaman proposed a number of changes to structurally alter the business dynamics of mining and defence production in India, right from commercial mining of coal, raising FDI in defence from 49% to 74%, auctioning of six airports, and privatization of DISCOMs, beginning with Union Territories.

If carried out in a time-bound manner, the overall impact of the proposed reforms would be significant in the long-run, with wide-ranging implications for each of the sectors under consideration. Commercial mining, and the removal of distinction between captive and non-captive mining for all major minerals would serve to raise production. India as one of the world's top defence importers could do with increased local procurement, and viability gap funding for social infrastructure projects would allow a much wider array of activities to be taken up. Some of the proposals (See detailed list below) have been mooted earlier, with varying degrees of success, and accelerated implementation during the current crisis would help in the recovery.

Over the last four days, the total support announcement has added up to Rs11.4trn, with fiscal impact of Rs1.2trn, some of it spread over the next 4-5 year. On the fiscal front, there have been no changes in the tax policy or any announcements on the planned fiscal deficit. FY21BE (Budget Estimate) currently stands at 3.5% of GDP which already includes an escape clause of 0.5% of GDP. The fifth and final tranche of the program to be announced tomorrow would provide a better sense of the immediate fiscal implications of the Rs20trn support program.

- **Liberalisation of the Coal sector:** The Government today announced some crucial policy reforms to liberalise the coal sector with an aim to reduce imports and attract private sector participation. These include a) introduction of **commercial mining in the coal sector** on a revenue sharing basis with liberalised entry norms and no end-use restrictions, facilitated by the passage of the Minerals Law (Amendment) Bill in March 2020. Nearly 50 blocks would be offered immediately, including partially-explored blocks, with earlier-than-scheduled production to receive rebates in revenue-share, b) extension of rebates in revenue-share for **gasification or liquefaction of coal** to reduce economic impact, c) investment of Rs500bn for building **evacuation and transfer (conveyor belts) infrastructure**, d) auction of Coal Bed Methane extraction rights from Coal India, e) simplification of guidelines and format for preparation of mining plan for faster clearances—approval process already made online with approval period slashed from 90 days to 30 days, and f) concessions in commercial terms worth Rs50bn extended to Coal India customers.
- **Reforms in the Mining sector:** With an aim to enhance private investments in the mining sector and improve efficiency and production, the Government announced a seamless composite exploration-cum-mining-cum-production regime to provide an end-to-end solution. Open and transparent auction of 500 mining blocks and joint auction of bauxite and coal mineral blocks would be offered. The distinction between captive and non-captive mines would be removed to allow lease transfer and sale of surplus minerals. Additionally, a Mineral Index would be developed and stamp duty payable at the time of award of mining leases would be rationalised.
- **Reforms to increase defence production:** Several measures were announced today to improve defence manufacturing and increase local procurement, thereby reducing defence import bill. These include a) increase in Foreign Direct Investment (FDI) limit from 49% to 74%, b) time-bound defence procurement process and faster decision making by setting up dedicated contract management unit, realistic setting of requirements and overhauling trial and testing procedures and c) corporatisation of Ordnance Factory Board.

Policy reforms in the coal sector include commercial mining, investment in evacuation and transfer infrastructure and simplification of Mining plan.

FDI in defence raised from 49% to 74%—to boost local manufacturing.

- Aviation sector reforms—auctioning of airports and reducing flying cost:** The Government announced several measures to support the aviation sector—one of the worst-hit sectors by COVID-19. These include a) optimal utilisation of airspace to reduce flying cost—to bring benefits worth Rs10bn/year to the sector, b) auction of six airports for operation and maintenance on public-private partnership (PPP) basis in the 3rd round, and c) rationalisation of tax regime of Maintenance, Repair and Overhaul (MRO) system to reduce maintenance cost for airlines.
- Power sector reforms—privatisation of DISCOMs:** To improve performance of power distribution and supply and bring about operational and financial efficiency, the Government announced privatisation of power distribution companies in the Union Territories. Additionally, a Tariff Policy would be laid out to protect consumer rights against DISCOM inefficiencies and inadequate service and improve competition, transparency and sustainability of the sector.
- Boosting private investments in social infrastructure, space and atomic energy:** The Government's decision to provide Viability Gap Funding (VGF) for social infrastructure projects of up to 30% of the project cost with a total outlay of Rs81bn would enhance private investment in the sector. Measures were also announced to boost private participation in space activities by providing level-playing field and clear policy and regulatory environment as well as opening exploration/space travel to the private sector. Reforms were also announced to open up nuclear energy space to the private sector for cancer research and food preservation.

Aviation sector reforms: a) Six new airports to be auctioned, b) optimal utilisation of airspace and c) make India an MRO hub.

VGF of up to 30% for social infrastructure projects to boost private investment.

Figure 1: Details of measures announced in the fourth tranche of the Rs20trn economic package

S. no.	Measures	Total stimulus (Rs bn)	Fiscal cost (Rs bn)
1	Reforms in the coal sector--Commercial mining, diversified opportunities, liberalised regime	550.0	500.0
2	Enhancing private investments in the mining sector	0.0	0.0
3	Augmenting domestic defence production and procurement	0.0	0.0
4	Aviation reforms--airport auctions, efficient airspace management, MRO	140.0	0.0
5	Power sector reforms--Tariff Policy, DISCOM privatisation in UTs	0.0	0.0
6	Promoting private investment in social infrastructure	81.0	81.0
7	Boosting private participation in space activities	0.0	0.0
8	Opening nuclear energy to private sector for cancer research and food preservation	0.0	0.0
	Total	771.0	581.0
	% of GDP	0.4%	0.3%

Source: Government, NSE.

Figure 2: Details of measures announced in the third tranche of the Rs20trn economic package

S. no.	Measures	Total stimulus (Rs bn)	Fiscal cost (Rs bn)
1	Agriculture Infrastructure Fund for farm-gate infrastructure	1,000.0	0.0
2	Formalisation of Micro Food Enterprises (MFEs)	100.0	100.0
3	Pradhan Mantri Matsya Sampada Yojana (PMSSY) for fisheries	200.0	200.0
4	National Animal Disease Control Programme	0.0	0.0
5	Animal Husbandry Infrastructure Development Fund	150.0	0.0
6	Promotion of Herbal Cultivation	40.0	40.0
7	Beekeeping initiatives	5.0	5.0
8	Extension of Operation Greens to all fruits and vegetables	5.0	5.0
9	Amendments to Essential Commodities Act	0.0	0.0
10	Agriculture marketing reforms	0.0	0.0
11	Agriculture produce price and quality assurance	0.0	0.0
	Total	1,500.0	350.0
	% of GDP	0.8%	0.2%

Source: Government, NSE.

Figure 3: Details of measures announced in the second tranche of the Rs20trn economic package

S. no.	Measures	Total stimulus (Rs bn)	Fiscal cost (Rs bn)
1	Free food-grain distribution to migrants for two months	35.0	35.0
2	100% national portability of Public Distribution System by March 2021	0.0	0.0
3	Interest subvention of 2% for MUDRA-Shishu loans for 12 months	15.0	15.0
4	Special credit facility for street vendors	50.0	50.0
5	Affordable rental housing complexes for migrant workers/urban poor	0.0	0.0
6	Employment push using CAMPA funds	60.0	0.0
7	Additional emergency working capital funding for farmers through NABARD	300.0	0.0
8	Concessional credit through Kisan Credit Cards	2,000.0	0.0
9	Extension of Credit Linked Subsidy Scheme	700.0	0.0
	Total	3,160.0	100.0
	% of GDP	1.6%	0.05%

Source: Government, NSE.

Figure 4: Details of measures announced in the first tranche of the Rs20trn economic package

S. no.	Measures	Total stimulus (Rs bn)	Fiscal cost (Rs bn)
1	Emergency Credit Line to standard MSMEs	3,000.0	0.0
2	Subordinate debt for stressed MSMEs	200.0	40.0
3	Fund of Funds for equity infusion into MSMEs	500.0	100.0
4	Disallowing global tenders in Government procurement	2.0	0.0
5	Extended PF contribution	25.0	25.0
6	Reduction in statutory PF contribution	67.5	0.0
7	Special Liquidity Scheme for NBFCs/HFCs/MFIs	300.0	0.0
8	Partial Credit Guarantee Scheme 2.0 for NBFCs	450.0	0.0
9	Liquidity infusion by PFC/REC into DISCOMs	900.0	0.0
10	Relief to contractors	0.0	0.0
11	Extension of RERA timelines for real estate projects	0.0	0.0
12	TDS/TCS reduction	500.0	0.0
13	Immediate release of pending refunds to charitable trusts/non-corporate businesses & professions	0.0	0.0
14	Extension of due date of income-tax return and tax audit	0.0	0.0
15	Extension of date of assessments getting barred	0.0	0.0
16	Extension in payment date for Vivad se Vishwas Scheme	0.0	0.0
	Total	5,944.5	165.0
	% of GDP	3.0%	0.08%

Source: Government, NSE.

Figure 5: Details of earlier fiscal and monetary measures announced since February 2020

Measures	Announcement date	Amount (Rs trn)
Monetary measures		
Long-term repo operations (LTROs)	06-Feb-20	1.00
Targeted long-term repo operations (TLTROs)	27-Mar-20	1.00
100bps cut in Cash Reserve Ratio	27-Mar-20	1.37
Enhanced borrowing under Marginal Standing Facility (MSF)	27-Mar-20	1.37
Targeted long-term repo operations 2.0 (TLTRO 2.0)	17-Apr-20	0.50
Special Liquidity Facility for mutual funds (SLF-MF)	27-Apr-20	0.50
Total monetary measures		5.74
<i>% of GDP</i>		<i>2.9%</i>
Fiscal measures		
PM Kisan Yojana	26-Mar-20	0.16
PM Jan Dhan Yojana	26-Mar-20	0.31
Free gas cylinders	26-Mar-20	0.13
PF contribution	26-Mar-20	0.05
Cash transfers to other sections	26-Mar-20	0.03
MGNREGA wage hike	26-Mar-20	0.06
Food-grain distribution	26-Mar-20	0.40
Pulses distribution	26-Mar-20	0.05
District Mineral Fund	26-Mar-20	0.25
Construction Workers Fund	26-Mar-20	0.31
Total fiscal measures		1.75
<i>% of GDP</i>		<i>0.9%</i>
Total measures announced thus far		7.49
<i>% of GDP</i>		<i>3.7%</i>
Stimulus announced by the PM	12-May-20	20
<i>% of GDP</i>		<i>10%</i>
Balance stimulus		12.51
<i>% of GDP</i>		<i>6.1%</i>

Source: RBI, Government, Media, NSE.

Economic Policy & Research

Tirthankar Patnaik, PhD	tpatnaik@nse.co.in	+91-22-26598149
Purna Singhvi, CFA	psinghvi@nse.co.in	+91-22-26598316
Ashiana Salian	asalian@nse.co.in	+91-22-26598163
Runu Bhakta, PhD	rbhakta@nse.co.in	+91-22-26598163

Disclaimer

This report is intended solely for information purposes. This report is under no circumstances intended to be used or considered as financial or investment advice, a recommendation or an offer to sell, or a solicitation of any offer to buy any securities or other form of financial asset. The Report has been prepared on best effort basis, relying upon information obtained from various sources, but we do not guarantee the completeness, accuracy, timeliness or projections of future conditions provided herein from the use of the said information. In no event, NSE, or any of its officers, directors, employees, affiliates or other agents are responsible for any loss or damage arising out of this report. All investments are subject to risk, which should be considered prior to making any investment decisions. Consult your personal investment advisers before making an investment decision.