Stimulus 3.0: Another attempt to spur aggregate demand

In the third major fiscal response to COVID-19 pandemic, the Government announced additional measures to stimulate consumption as well as investment demand in the economy, but with several conditions. Consumption-related measures included a) cash payment to Government employees in lieu of Leave Travel Concession (LTC) to be utilised for purchase of goods attracting >=12% GST, and b) interest-free advance of Rs10,000 to be spent by March 31st, 2021, recoverable in maximum 10 instalments. On the investment front, the Government announced a) a Rs120bn special interest-free 50-year loan to states, to be spent on new/ongoing capital projects and/or payment of dues by March 31st, 2021, and b) an additional capital expenditure of Rs250bn towards roads, defence, water supply, urban development and domestically produced capital equipment.

While the LTC Cash Voucher Scheme may see limited takers given the condition of mandatorily spending 3X the fare amount paid before March 31st, 2020, which normally works out to be a fairly significant amount, the interest-free EMI scheme may help spur demand to some extent. The additional capex spending, while modest given fiscal constraints, is a welcome step, and should support job creation. These measures are expected to cost ~Rs467bn to the Centre (0.25% of GDP), with overall demand boost, including states and PSBs/PSUs, estimated at Rs730bn (Rs360bn through consumer spending and Rs370bn through capex).

With the Centre maintaining its borrowing plan at Rs12trn in FY21, funding of this additional fiscal stimulus remains a challenge, particularly in the wake of an expected revenue shortfall of ~Rs5.2trn (2.4% of estimated GDP in FY21 budget). **We estimate the Centre's** gross fiscal deficit at 7.7% of GDP in FY21, implying a slippage of ~420bps from the budget estimate (3.5%)**—**nearly 130bps of which is owing to an expected contraction of 7.7% in nominal GDP this fiscal vs. a growth of 10.6% assumed in budget estimates.

Measures announced included:

a) LTC Cash Voucher Scheme (Rs280bn)

b) Interest-free advance of Rs10,000 (Rs80bn)

c) Interest-free 50-year loan to states for capital expenditure (Rs120bn)

d) Enhanced Centre's capex budget (Rs250bn)

- LTC Cash Voucher Scheme may see limited traction: Under the LTC Cash Voucher Scheme, the Government would provide cash payment in lieu of one LTC during the four-year block period of 2018-21 entailing a) full payment on leave encashment of 10 days (pay + DA), and c) air/rail fare payment based on three flat-rate slabs as per pay scale/entitlement which would be tax free. The scheme would be applicable for all Central and State Government employees, employees of public sector banks (PSBs) and public sector undertakings (PSUs) as well as the private sector. Employees opting for this scheme would be required to spend 1X the leave encashment and 3X the fare the amount paid on goods attracting a GST of 12% or more though digital mode before March 31st, 2021. This scheme is expected to cost ~Rs57bn to the Centre, with an estimated consumption demand boost of Rs280bn (including Centre, States and PSBs/PSUs). *Prima facie,* this scheme is unlikely to find many takers given the condition of mandatorily spending 3X the fare amount which normally works out to be fairly significant.
- Special Festival Advance Scheme should spur discretionary consumption: As a one-time measure to revive demand, the Government would provide an interest-free advance of Rs10,000 under the Special Festival Advance Scheme (SFAS) in the form of a pre-loaded RuPay card, to be spent by March 31st, 2021. This would be recovered from the employees in maximum 10 instalments. This would entail a cost of Rs40bn for the Centre and another Rs80bn for the States (if all states choose to participate). Unlike the LTC Cash Voucher Scheme, the SFAS is expected to garner a lot more traction particularly given a nominal amount, and should spur discretionary consumption demand ahead of the festive season.
- **Thrust to the Centre's and States' capital expenditu**re: With an aim to encourage states to spend on infrastructure and asset creation, the Central Government would issue a special interest-free 50-year loan to states amounting to Rs120bn

consisting of: a) Rs160bn to eight North East States, b) Rs90bn to Uttarakhand and Himachal Pradesh, c) Rs75bn to remaining states as per the 15th Finance Commission devolution, and d) Rs20bn to states fulfilling at least three out of the four reforms conditions laid down in the Atmanirbhar Bharat Scheme (refer our note titled *"The Rs20trn Economic Package: Tranche 5 on NREGA, States Finances, Ease of Doing Business"* for details). These funds, that are over and above all other additional borrowing ceiling given to states, would have to be utilised by states for new or ongoing capital project requirements and/or settling dues on such projects by March 31st, 2021, with a bullet repayment after 50 years. The Centre also earmarked an additional budget of Rs250bn for capital expenditure on roads, defence, water supply, urban development and domestically produced capital equipment. The additional capex spending, while modest given fiscal constraints, is a welcome step, and should support job creation.

- Expect gross fiscal deficit at 7.7% of GDP: The measures announced yesterday are expected to cost ~Rs467bn to the Centre (0.25% of GDP), with overall demand boost, including states and PSBs/PSUs, estimated at Rs730bn (Rs360bn through consumer spending and Rs370bn through capex). With the Centre maintaining its borrowing plan at Rs12trn in FY21, funding of this additional fiscal stimulus remains a challenge, particularly in the wake of an expected revenue shortfall of ~Rs5.2trn (2.4% of estimated GDP in FY21 Budget). We estimate the Centre's gross fiscal deficit at 7.7% of GDP in FY21, implying a slippage of ~420bps from the budget estimate (3.5%)—nearly 130bps of which is owing to an expected contraction of 7.7% in nominal GDP this fiscal vs. a growth of 10.6% assumed in budget estimates.

Cost for the Centre expected at Rs467bn (0.25% of GDP).

Our estimate of FY21 fiscal deficit of 7.7% of GDP is based on an expected revenue shortfall of 2.4% of GDP, higher spending of 0.6% of GDP and contraction in FY21 nominal GDP of 7.7%.

Figure 1: Details of measures announced

Measures	Total stimulus		Estimated cost	
	Rsbn	% of GDP*	Rsbn	% of GDP*
Consumption-related measures				
LTC Cash Voucher Scheme	280	0.15	112	0.06
Central Govt. employees	190	0.10	57	0.03
Employees of PSBs/PSUs			19	0.01
State Govt. employees**	90	0.05	36	0.02
Special Festival Advance Scheme	80	0.04	80	0.04
Central Govt. employees	40	0.02	40	0.02
State Govt. employees	40	0.02	40	0.02
Total consumption measures	360	0.19	192	0.10
Capital expenditure measures				
Special assistance to states	120	0.06	120	0.06
Eight North East states	16	0.01	16	0.01
Uttarakhand and Himachal Pradesh	9	0.00	9	0.00
Remaining states	75	0.04	75	0.04
Reform-linked loans	20	0.01	20	0.01
Enhanced budget provision for capital expenditure	250	0.13	250	0.13
Total capex measures	370	0.20	370	0.20
Centre's direct fiscal support & demand boost	600	0.32	467	0.25
Total support & demand boost	730	0.39	562	0.30

Source: Ministry of Finance, NSE. *Based on our FY21 nominal GDP growth estimate of -7.7%. **An estimated figure based on the ratio of demand boost and cost incurred by the Centre.

Figure 2: Fiscal math: Expect FY21 fiscal deficit at 7.7% of GDP

Items	FY20A*		FY21BE		FY21E	
	Rs bn	% YoY	Rs bn	% YoY over FY20A	Rs bn	% YoY over FY20A
Net tax revenues	13,559	2.9	16,359	20.7	13,037	(3.8)
Gross tax revenues	20,099	(3.4)	24,230	20.6	19,075	(5.1)
Of which:						
Direct Tax	10,372	(7.8)	13,060	25.9	9,320	(10.1)
Corporation tax	5,569	(16.1)	6,810	22.3	4,901	(12.0)
Income tax	4,803	4.0	6,250	30.1	4,419	(8.0)
Indirect Tax	9,727	1.8	11,170	14.8	9,755	0.3
Goods and service tax	6,014	2.9	6,905	14.8	5,052	(16.0)
Custom Duties	1,092	(7.3)	1,380	26.4	764	(30.0)
Excise Duties	2,396	3.7	2,670	11.4	3,714	55.0
Service tax	60	(12.5)	10	(83.1)	54	(10.0)
Others	164	8.0	205	24.9	171	3.9
States Share	(6,507)	(15)	(7,842)	20.5	(6,009)	(7.7)
Transferred to NCCD	(33)	84.4	(29)	(11.7)	(29)	(11.7)
Non-Tax Revenue	3,262	38.3	3,850	18.0	3,090	(5.3)
Dividends and profits	1,861	64.1	1,554	(16.5)	1,303	(30.0)
Other non-tax revenues	1,401	14.5	2,296	63.9	1,787	27.6
Total revenue receipts	16,821	8.3	20,209	20.1	16,127	(4.1)
Non-Debt Capital Receipts	686	(39.1)	2,250	227.8	950	38.4
Recovery of Loans	183	2.0	150	(18.3)	150	(18.3)
Misc. Receipts (include divestment)	503	(46.9)	2,100	317.5	800	59.0
Total Receipts	17,507	5.1	22,459	28.3	17,076	-2.5
Revenue Expenditure	23,496	17.0	26,301	11.9	27,663	17.7
Interest Payments	6,110	4.9	7,082	15.9	7,082	15.9
Major subsidies	2,232	13.3	2,278	2.1	2,194	(1.7)
Food	1,087	6.7	1,156	6.3	1,156	6.3
Fertilizer	811	14.9	713	(12.1)	771	(5.0)
Petroleum	334	36.0	409	22.5	267	(20.0)
Other revenue expenditure	15,154	23.4	16,941	11.8	18,045	19.1
Capital Expenditure	3,367	9.7	4,121	22.4	3,878	15.2
Total Expenditure	26,864	16.0	30,422	13.2	31,541	17.4
Fiscal Deficit	9,356	44.1	7,963	-14.9	14,465	54.6
GDP (current price)	203,398	7.2	224,894	10.6	187,688	(7.7)
Fiscal Deficit/GDP	4.6		3.5		7.7	

Source: Budget documents, CGG, NSE

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