# Comments on: New Fiscal Measures – Covid-19, June 2021

# New fiscal measures to provide relief but no major hit to fiscal deficit

- Govt of India has announced a slew of measures aggregating to Rs 6.3 Lakh Cr to alleviate the stress in the economy that has been hit by the second wave of Covid.

- While some of the announcements have already been taken into account in the fiscal arithmetic of FY22, the majority of the additional support has come in the form of loan guarantees to various categories of borrowers instead of a direct stimulus, consistent with the earlier approach taken in FY21.

- The key measures include the enhancement of the size of the existing ECLGS, fresh loan guarantees for the healthcare and stressed sectors such as microfinance.

- Acuité estimates the additional impact of the latest measures not to exceed 0.6% of GDP; therefore, it is unlikely to have any major bearing on the budgeted deficit.

## Steady traction in ECLGS, guarantee cover enhanced by 50%

- Size of the ECLGS programme which was launched in May 2020 and had undergone subsequent revisions to include a larger pool of borrowers, has been increased from Rs. 3.0 Lakh Cr to Rs 4.5 Lakh Cr.

- Around Rs 2.7 Lakh Cr has already been disbursed under this programme by banks and NBFCs as per govt. sources, reflecting the success of the programme.

- Substantial number of mid and smaller enterprises in Acuité's rated portfolio have availed additional funding from ECLGS over the last 6 months.

- Clearly, the scheme has helped MSMEs to maintain an adequate liquidity position and service existing debt despite the challenging business environment; simultaneously, it has mitigated the stress build up in the lenders' books.

# New guarantees to spur investments in healthcare, support stressed sectors

- Separate guarantee of Rs 1.1. Lakh Cr for the Covid affected sectors including Rs 50,000 Cr for the healthcare sector. This will facilitate fresh investments in medical infrastructure in Tier-II cities and even in smaller locations, where the gaps in critical healthcare facilities have been exposed by the pandemic.

- Guarantee coverage of 50%-75% for brownfield or greenfield project loans in healthcare sector up to Rs 100 Cr at a competitive interest rate of 7.95%

- This follows an on-tap liquidity window of Rs 50,000 Cr set up by RBI at repo rate for banks to provide fresh loans for healthcare sector. In our opinion, this will boost the credit offtake in the healthcare sector over the medium term.

- Balance guarantee amount of Rs. 60,000 Cr made applicable for smaller businesses in tourism sector, among others heavily disrupted by the pandemic.

- Additional scheme to strengthen public health infrastructure with outlay of Rs. 23,220 Cr with special emphasis on children and pediatric care.

# Timely relief for the MFI sector given the impact of Covid 2.0

- New credit guarantee scheme for MFI sector which has been particularly impacted by the second wave of Covid both due to the hit on the borrower incomes and collection process during the lockdown period.

- Guarantee to an extent of 75% upto an aggregate amount of Rs 7,500 Cr for bank or NBFC loans to the MFI sector which will be utilised for fresh on lending to the eligible borrowers.

- This will support the continuity of credit flow to microfinance borrowers who are mostly in the informal sector and mitigate the increased risk of delinquencies.

- Lenders have been cautious while taking fresh exposure particularly to smaller MFIs during the pandemic period, weakening their financial flexibility; the guarantee cover will improve near term access to funding and improve their liquidity position.