

Economic package reflects a prudent act to support the needy with limited resource

Union Finance Minister has made the second set of announcements under the Rs. 20 lakh crore Aatmanirbhar economic package on May 14, 2020. The second set of announcements contain short term liquidity measures, coupled with long term reform measures, such as digital loan delivery to street vendors, introducing portability of ration cards and incentivizing prompt repayment by small borrowers through interest subvention scheme.

Overall, the package is well thought out and the government largely relied on food transfers and additional credit facility through the banking system to provide relief to the distressed people. The government announced nine measures in the second announcement and of which four are related to credit facilities for street vendors, farmers and middle class home buyers. The government will implement these measures through scheduled commercial banks, NABARD and housing finance companies.

It is difficult to estimate the share of these nine measures in the overall Rs. 20 lakh crore economic package announced by the Prime Minister on May 12. This is because, out of these nine measures, the Finance Minister provided expenditure detail for only three schemes. These are, Rs. 3,500 crore towards distribution of food grains for migrant labourers, Rs. 6,000 crore for creating jobs in plantation and afforestation programmes and Rs. 1,500 crore towards interest subvention for small borrowers.

Distribution of 5 kg food grains and 1 kg chana to 8 crore migrant workers for two months will cost Rs. 3,500 crore. It is expected that the government owned Food Corporation of India (FCI) will bear this expense currently and the government may reimburse this cost to the FCI in future. Already, the government owes huge amount of funds to FCI for running the Public Distribution System (PDS), the largest food distribution system in the world.

The government will spend another Rs. 6,000 crore to provide jobs for urban, semi-urban and rural poor in afforestation and plantation works.

Thirdly, the government will spend another Rs. 1,500 crore towards 2% interest subvention to small borrowers (loans less than Rs. 50,000) under the MUDRA scheme. Other than these three schemes, expenditure detail for other measures is not known and it is hoped that the Finance Minister will disclose it after announcing all the measures of the entire economic package.

There was very little in direct cash transfers to migrant labourers or poor people considering the strained financial condition of the central government. The other way of thinking about this package is that the government does not want to use all its cash for immediate relief as it prefers to conserve cash for future exigencies considering that the lockdown is expected to be prolonged in many parts of the country.

These measures reflect the tight financial condition of the government. In fact, the central government is yet to pay the GST compensation dues of state governments in recent months because of dwindling revenue from GST.

In this circumstance, economists and public policy experts are suggesting the government to consider unconventional ways of raising funds. Some experts are advising the government to raise funds by pledging its holdings in public sector undertakings, while others are suggesting raising money through COVID bonds. Yet some others feel that the government should not hesitate to knock at Reserve Bank of India for funding its deficits. It may be recalled that the government stopped monetizing its deficit from RBI since the turn of this century under the Fiscal Responsibility and Budgetary Management (FRBM) Act.

It is hoped that the central government will consider some of these suggestions depending on the evolving COVID situation in the weeks to come.

Notifications

Press Information Bureau, Government of India

Finance Minister announces measures to support poor

<https://pib.gov.in/PressReleasePage.aspx?PRID=1623862>

Prime Minister speaks to his counterpart in Denmark

<https://pib.gov.in/PressReleasePage.aspx?PRID=1623876>

India calls upon G20 nations to ensure access to essential medicines

<https://pib.gov.in/PressReleasePage.aspx?PRID=1623888>

Health Minister participates in 32nd Commonwealth Meeting

<https://pib.gov.in/PressReleasePage.aspx?PRID=1623845>

Daily Bulletin on COVID-19

<https://pib.gov.in/PressReleasePage.aspx?PRID=1623858>

CBIC

Extension of validity of Export Performance Certificates

<https://www.cbic.gov.in/resources//htdocs-cbec/customs/cs-act/notifications/notfns-2020/cs-tarr2020/cs23-2020.pdf>

RBI

Extension of interest equalization scheme

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

