

RELIEF MEASURES AIMED AT BROADBASING BANK LENDING FURTHER TO AMELIORATE STRESS

Issue No. 24, FY22

Date: 28 June 2021

The announcement pertaining to Economic Relief for Pandemic by the Government today broadly emphasises four sectors – health, tourism, MFIs and agriculture. The other measures announced fine tune the scope of already existing arrangement.

Following the accommodation by RBI, health sector has been given further impetus, by way of guarantee cover of Rs 50,000 crore (50% for expansion & 75% for new projects) for expansion and new projects related to health/infrastructure in cities other than 8 metropolitan cities. For Aspirational Districts (124 in number) guarantee cover has been kept uniform at 75%. Maximum eligible loan amount will be Rs. 100 crore for a duration of three years. A similar guarantee scheme for an amount of Rs 60,000 crore for other sectors has also been announced. Assuming equal distribution of the new announcement of Rs 1.10 lakh crore, with 50% and 75% guarantee cover and a risk weight of 100%, Banks may have a capital relief of around Rs 7,500 crore which can further generate credit of around Rs 70,000 crore.

To further the flow of credit to weaker section of the society, guarantee will be provided to SCBs for loans to new or existing NBFC-MFIs or MFIs for on lending upto Rs 1.25 lakh to approximately 25 lakh small borrowers. Interest Rate on such loans from banks will be capped at MCLR plus 2%.

Agriculture, the only sector that has cushioned the shock for COVID-19 has been also given vital support by way of better seeds and fertilizer subsidy announced earlier. Seed varieties tolerant to diseases, insects' pests, drought, salinity, and flooding, early maturing and, amenable to mechanical harvesting will be made available. Targeted crops include rice, peas, millet, maize, soybean, quinoa, buckwheat, winged bean, pigeon pea & sorghum. Furthermore, impetus has been given to agriculture sector in the North East by reviving North Eastern Regional Agricultural Marketing Corporation with a package of Rs 77.45 crore.

The RBI had earlier announced special window for contact intensive sectors such as tourism. Today's announcements complement the RBI announcement and propose working capital/personal loans to people in tourism sector to discharge liabilities and restart businesses impacted due to COVID-19. Loans will be provided with 100% guarantee and will cover 10,700 Regional Level Tourist Guides recognised by Ministry of Tourism and Tourist Guides recognised by the State Governments. The outlay is a part of the total Rs 1.10 lakh crore loan guarantee scheme announced today. Further 5 lakh foreign tourists visas will be issued free of charge.

In terms of existing arrangement, the limit of admissible guarantee and loan amount under ECLGS is increased above existing level of 20% of outstanding on each loan and overall cap will be raised to Rs. 4.5 lakh crore. Atmanirbhar Bharat Rozgar Yojana has now been extended till 31-Mar-2022. In an attempt to boost exports, additional corpus of Rs 33,000 crore will be provided to NEIA over 5 years to support project exports and the equity base of ECGC will be expanded to Rs 88,000 crore over 5 years. The internal approval mechanism of PPP Projects and Asset Monetisation will be streamlined for speedy approvals.

The fiscal impact of announcements made today and earlier is not linear as substantial portion of the package is contingent liabilities. Ignoring these, the immediate impact will be slightly more than Rs 1.23 lakh crore which will be around 0.6% of the GDP.

MEASURES TO PROVIDE ECONOMIC RELIEF FROM PANDEMIC

- ◆ Union Finance Minister today announced a stimulus package of Rs 6.29 lakh crore with focus on health infrastructure, tourism, employment, fertilizer subsidy, foodgrains to poor, exports, etc. While some of the measures are entirely new Government has extended some of the earlier announced schemes. Overall this is a timely relief provided by the Government to the sectors/segments that impacted most in the country primarily in the second wave of Covid-19.

HEALTH INFRASTRUCTURE & PUBLIC HEALTH

- ◆ In the first week of May'21, RBI decided to open an on-tap liquidity window of Rs 50,000 crore with tenors of up to three years at the repo rate till March 31, 2022 to boost provision of immediate liquidity for ramping up COVID-related healthcare infrastructure and services in the country.

Measures to Provide Economic Relief from Pandemic		
Measure	Period	Rs crore
Loan Guarantee Scheme for COVID Affected Sectors	FY22	110000
Emergency Credit Line Guarantee Scheme (ECLGS)	FY22	150000
Credit Guarantee Scheme for Micro Finance Institutions	FY22	7500
Free One Month Tourist Visa to 5 Lakh Tourists	FY22	100
Additional Subsidy for DAP & P&K fertilizers	FY22	14775
Free food grains under PMGKY from May to Nov'21	FY22	93869
New Scheme for Public Health	FY22	15000
Revival of North Eastern Regional Agricultural Marketing Corporation (NERAMAC)	FY22	77
Boost for Project Exports through NEIA	FY22 to FY26	33000
Boost to Export Insurance Cover	FY22 to FY26	88000
Broadband to each village through BharatNet PPP Model	FY22 to FY23	19041
Reform Based Result Linked Power Distribution Scheme (Budget Announcement)	FY22 to FY26	97631
Total		628993

Source: SBI Research

- ◆ Under the scheme, banks can provide fresh lending support to a wide range of entities including vaccine manufacturers; importers/suppliers of vaccine and priority medical devices; hospitals/dispensaries; pathology labs and diagnostic centres; manufacturers and suppliers of oxygen and ventilators; importers of vaccines and COVID-related drugs; COVID-related logistics firms and also patients for treatment.
- ◆ Today, to further boost the medical infrastructure in underserved areas, Government has announced a package of Rs 50,000 crore in the form of guarantee cover, out of total announcement of Rs 1.10 lakh crore to Covid-19 affected sectors. Guarantee cover for expansion and new projects related to health/medical infrastructure in cities other than 8 metropolitan cities has been kept at 50% for expansion and 75% for new projects. However, for Aspirational Districts (districts that are affected by poor socio-economic indicators and aspirational in the context that improvement in these districts can lead to the overall improvement in human development in India), guarantee cover is kept at 75% for both new and expansion projects. Presently, as per MSME website, 124 districts are recognised as aspirational districts. Maximum loan size under the scheme is kept at Rs 100 crore with interest rate cap of 7.95% and guarantee duration of 3 years.
- ◆ Assuming equal distribution of the new announcement of Rs 1.10 lakh crore, with 50% and 75% guarantee cover and a risk weight of 100%, Banks can have a capital relief of around Rs 7,500 crore which can further generate credit of around Rs 70,000 crore. Further, Government will provide Rs 23,220 crore for augmentation of public health to fight another wave of Covid-19 with special focus on children and paediatric care.

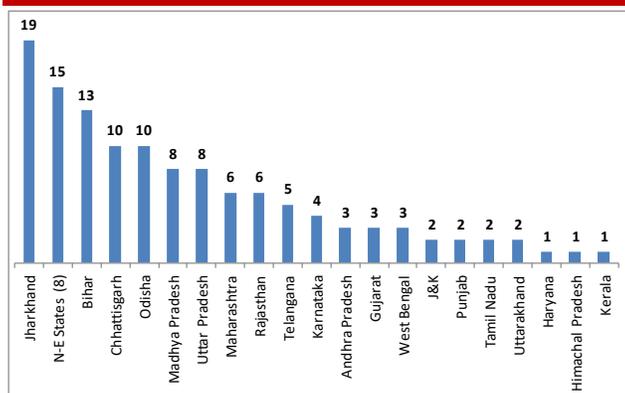
EXTENSION OF CREDIT GUARANTEE SCHEME

- ◆ ECLGS scheme which was introduced for the MSME sector in May last year has been successful in alleviating stress among the MSMEs with already 4 tranches announced so far. A sum of Rs 2.69 lakh crore, 90% of the overall limit of Rs 3 lakh crore has already been disbursed to 1.1 crore MSME units in the first three tranches. Of the total 6.3 crore MSME units in the country if we assume 1/3rd are eligible for loans under the scheme, still a substantial number of MSMEs can still benefit from the scheme. Accordingly, today's announcement of additional Rs 1.5 lakh crore for this scheme will continue to provide the necessary support to the MSME sector.

TOURISM

- ◆ As per the data of world travel and tourism council, total contribution of Travel & Tourism to GDP for India went down from 6.9% in 2019 to 4.7% in 2020 and the degrowth in travel and tourism GDP was 36.3% as the COVID-19 pandemic halted many travel plans.
- ◆ Meanwhile the number of jobs went down from 4.01 crore to 3.18 crore, indicating a 20.8% decline in employment. Thus, the sector was in dire need for support as it was one of the hardest hit in the pandemic. Keeping this in mind Government has extended 100% credit guarantee of Rs 10 lakh for 904 Travel and Tourism Stakeholders recognized by Ministry of Tourism (per agency), as well as Rs 1 lakh per guide for 10,700 tourist guides licenced at Regional or State level.

State-wise Number of Aspirational Districts



Source: SBI Research

- ◆ The outlay is a part of the total Rs 1.10 lakh crore loan guarantee scheme announced today, and no separate provision was announced. However, if we take maximum amount and maximum number of beneficiaries the outlay will be approximately Rs 197.4 crore.
- ◆ Meanwhile, the major spending in Indian tourism sector comes from domestic travellers (82% in 2019 and 89% in 2020). To boost the international travel, on the demand of industry, Free Tourist Visa to 5 Lakh Tourists will be issued till 31st March 2022 or till 5,00,000 visas are issued, whichever is earlier. The overall expenditure is expected to be Rs 100 crore on free visas.

EXPORT INSURANCE

- ◆ Exports have been hit badly since the onset of Covid-19 pandemic in India. Exports declined by 7.3% to \$290.6 billion in FY21. With a view to provide relief to exporters, Government announced Rs 33,000 crore boost for Project Exports through National Export Insurance Account (NEIA) and Rs 88,000 crore boost to Export Insurance Cover.
- ◆ NEIA, under the aegis of EXIM Bank, has been designed to provide adequate hedge to Indian exporters engaged in supply of goods for infrastructure projects outside India on long term (upto 12 years basis). Since NEIA stipulates sourcing of all goods domestically, it provides a fillip to local enterprises, opening untapped overseas markets in different geographies to them. Increase of corpus under NEIA should go a long way in enhancing manufacturing prowess of local enterprises as well as enhanced trade relations with many emerging sovereigns.
- ◆ ECGC, with its gamut of tailor made products, covering both Pre as well Post shipment risks of Indian exporters has been instrumental in enhancing the competitiveness and reach of businesses having overseas trade.

- ◆ With India emerging as a strategic manufacturing base in the South East Asia, with many global powerhouses shifting their base here from neighbouring countries, the capital infusion to ECGC should come handy in entering uncharted territories, boosting Indian Corporate's flight to new highs.

EMPLOYMENT

- ◆ Government has launched a subsidy support scheme (Atmanirbhar Bharat Rojgar Yojana) to incentivise the creation of new employment opportunities during the Covid-19 recovery phase under Atmanirbhar Bharat 3.0. Today, the Government extended the scheme till Mar'22 as positive response received till now.
- ◆ Government has also approved Rs 22,810 crore for an estimated 58.5 lakh beneficiaries under the Atmanirbhar Bharat Rozgar Yojana. So far Rs 902 crore has been given to 21.42 lakh beneficiaries of 79,577 establishments till 18 Jun'21. Now the scheme has been extended for 9 more months, thus we believe another 25-30 lakh beneficiaries can benefit from the scheme.

CREDIT GUARANTEE SCHEME FOR MFIS

- ◆ As the COVID-19 pandemic unfolds, there rightly has been a lot of concern about the impact on microfinance institutions (MFIs) and their clients. As per MFIN, around 85 percent of MFIs are taking some leniency measure, with nearly two-thirds either issuing moratorium or restructuring loans for clients in response to the pandemic. These measures can offer vital breathing room to borrowers who may have lost part of their incomes. This can also put aside asset quality pressures for the industry in the near term that might have got accentuated with the increase in covid infections in rural areas, followed by localised restrictions/lockdowns.
- ◆ To meet the near-term liquidity stress faced by MFIs, RBI has earlier announced to infuse liquidity for small MFIs by classifying and recognising Small Finance Bank's (SFBs) lending to smaller NBFC-MFIs as priority sector lending. As SFBs understand the market well, it should lead to tangible liquidity flow. By allowing lenders the flexibility to restructure micro-finance loans on a case-to-case basis will definitely help the sector to ease the stress.

- ◆ As liquidity is the key and we hope along with the RBI announcements, today's Government support of Rs 1.25 lakh crore and Guarantee upto 75% of the loans, through SCBs will help approximately 25 lakh small borrowers.

ADDITIONAL MEASURES

- ◆ Government has announced a new policy for appraisal and approval of PPP proposals and monetization of core infrastructure assets, including through InvITs with an aim to ensure speedy clearance of projects to facilitate private sector's efficiencies in financing construction and management of infrastructure.
- ◆ Government will provide an additional amount of Rs 14,775 crore for DAP & P&K fertilizers. This includes Rs 9,125 crore additional subsidy for DAP and Rs 5,650 crore additional subsidy for NPK based complex fertilizer.
- ◆ Out of 2.5 lakh Gram Panchayats, 1.56 lakh Gram Panchayats have been already connected digitally by 31 May'21. In order to expand and upgrade of BharatNet to cover all Gram Panchayats and inhabited villages, Government has provided Rs 19,041 crore for BharatNet.

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