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21 DAY LOCKOUT MOST WELCOME EVEN AS FIRST LEAGUE OF ECONOMIC PACKAGE ANNOUNCED

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In a very crucial step towards ensuring the food and financial security of the most vulnerable section of the society amid the lockdown, the Government has come up with the Rs 1.7 lakh crore Pradhan Mantri Garib Kalyan Package. The announcement of the 21 day lockout beginning March 25 and ending April 14 is well intentioned, absolutely essential and well timed as 10 days either fall on holidays or are on weekends. This will mitigate people's hardships and help us navigate through the most difficult times in perhaps India's history, possibly much more than the global financial crisis. Corona trajectory so far shows that only 4 countries have been able to flatten the curve till now: South Korea, Japan, Singapore & Hong Kong. Theses counties either did a lot of testing or followed social distancing norms ultra strictly. As of now, the number of positive cases in India is rising and is at 665. This will go up substantially in the next few days now that more testing will be done across different states. One positive sign, as far as fatalities are concerned, is the fact that India has started the process of lockdown pretty early as far as number of positive Corona cases is concerned. Till date India has recorded 11 deaths. A study shows that China started its lockdown after around 30 deaths, Spain locked down after around 200 deaths and France after around 175 deaths. So far, Italy has recorded the highest number of deaths, with 800 people losing their lives before lockdowns started.

However, while the economic impact caused by the epidemic looks likely to be large, the long run effects on the economy can only be less severe as long as the Government and Central Bank act quickly and decisively to contain the fallout. Why the impact on India will be large? Once the epidemic is over, there will be some catch-up in growth as businesses restock inventories and consumers make up for forgone spending. But there will be a difference between the shape of the post-epidemic recovery in manufacturing, which will probably experience a sharp rebound, and the services sector, which may struggle for a longer period of time, as consumers will not be able to make up for "Social Consumption' – such as meals out, concerts or travel – that has been foregone now. Hence a properly defined fiscal support / forbearance is an absolute necessity for sectors like Aviation, Hotels, Automobiles, Food Processing, Textiles, Gems & Jewellery, Pharma and Ports where the impact is hardest. Such forbearance package should be uniform and for all segments, and not just SME. That would also encourage banks to extend credit to these businesses, knowing that they will have higher revenues once the epidemic ends.

What would be impact on India's GDP because of such a lockdown? Estimate shows that over a 60-year period, global GDP declined only once annually in 2009 by 1.7%. Even if we assume on a most conservative basis that global GDP declines at nearly similar rate in 2020 (although independent estimates suggest a significant contraction of as much as 4%) and given India's share in global GDP currently at 3.5% implies a contraction of 2% of real GDP in FY21 purely because of India's integration with global economy through trade channel and social consumption channel. We estimate another 1.7% impact on real GDP because of 21 day lockdown in FY21 resulting in at least 70% of economy at a standstill. **We thus peg our FY21 GDP estimate at 2.6%, with a clear downward bias, with Q1FY21 GDP numbers witnessing a contraction. FY20 GDP estimates could also see a downward revision from 5% to 4.5% with Q4GDP growth at 2.5%**. The total cost of the lockdown is at least Rs 8.03 lakh crore in nominal terms / output loss of at least 4%, an income loss of Rs 1.77 lakh crores and a loss in capital income of Rs 1.69 lakh crores. The **income loss is maximum in Agriculture, Transport, Hotels, Trade and Education and these sectors will have job losses (see inoperability table).** However, the economy could recover potentially faster the quickly the stimulus programme is in place. With US unemployment projected to be 32%, an astonishing number even if temporary, the implementation of a stimulus package on priority basis is of highest importance.

The output loss needs to be matched with equivalent resource mobilization plans. The Government has already come up with a package for the relief of the poor and deprived, the total cost of which is pegged at Rs 1.7 lakh crore, of which Rs 73,000 crores is cash payments and the rest is a combination! However, we expect immediate monetary and more fiscal packages for the economy, as this first package is only for providing food security and financial security to poor households and this entire expenditure is not additional outlay. We believe reliance on increased excise collections will be grossly inadequate and could be maximum 0.5% of GDP given the significantly weak demand. The RBI should thus aggressively monetize the deficit and this could be another 2% of GDP and the rest 1.5% could be funded from small savings collections and specially floated bonds, fight this pandemic, that could be outside fiscal deficit and shown separately in budget. The Government should incentivize these bonds for better market response. The fiscal deficit can expand by 1.5% of GDP. Besides the already announced Rs 1.7 lakh crore package which is almost the same as transferring Rs 3000 to 20 crore families for 3 months each family, the total economic package should include (a) at least Rs 75,000 crore GST shortfall in FY21 that could be compensated by Centre (b) Postponement of taxes and bailout for specific sectors that could be another Rs 1 lakh crore (c) Rs 75,000 crore capital requirement freed up supporting Rs 10 lakh crore additional lending and (d) Rs 50,000 crore forbearance package for the stressed sectors. Thus the total cost to the Government could be around Rs 3.55 lakh crore, while the RBI could provide a relief of Rs 1.35 lakh crore to banks that could potentially be a game changer.

The RBI monetary policy response to this severe (yet temporary) shock should have four key elements and should have been ideally operational by now. **First**, safeguarding liquidity conditions in the banking system through a series of favourably priced traditionally liquidity measures, including aggressive rate and CRR cuts. **Second**, protecting the continued flow of credit to the real economy through a fundamental recalibration of the targeted longer-term refinancing operations (LTROs) and a universal forbearance programme for stressed sectors to bank credit flows to such sectors after the crisis is over. The RBI should move beyond traditional liquidity measures given that CP & mutual fund market are facing extremely debilitating liquidity asymmetries. This could include providing backstop arrangements / incentivisation through exemption in regulatory requirements to banks for providing support to CP and mutual funds and **Third**, via an aggressive increase in the asset purchase programme and adjustments to capital conservation buffer, countercyclical buffer, buffers for systemically important banks preventing that financing conditions for the economy will tighten in a pro-cyclical way.

Finally, some important points.

First, an announcement of a forbearance package by RBI must be accompanied by a change in rating industry regulation that defines default as "one day one rupee".

We must emulate what the US has done "There would be a total moratorium on negative reporting during the pandemic and for 120 days thereafter. Afterwards, consumers could add their names to a database for continued protection, similar to Chairwoman Waters' legislation related to suspending reporting during a government shutdown. In addition, consumer credit reporting agencies would be prohibited from lowering a consumer's credit score."

Second, financial market operating with normal timings can cause more risk to people. Thus it will be better if uniform timings of say 9:00 am till 3:00 pm for the markets are considered till situation normalises. This will not only ensure uninterrupted continuity but help in preventing community spreading.

In a similar vein and most importantly, banks are presently required to keep at least 90% of their CRR on daily basis. As the RTGS/NEFT is open round the clock, there is a chance that this level is breached due to unexpected outflows. Banks manage this by having treasury team till late in the evening to monitor and cover for any flows with RBI in the Rev Repo/ MSF window available till midnight.

Considering the prevailing circumstances surrounding the Covid pandemic, and the measures taken by Government and banks to address the same, deploying officials in late evening shift may also need to be revisited by reducing the market hours. For example, if the daily requirement of 90% CRR is dispensed with for the time being, the late evening shift for CRR maintenance can be done away with. Any fine tuning of CRR to achieve 100% on a fortnightly basis can be done even on the last day of the fortnight.

Third, policy makers need to understand it is still unknown to the medical community whether contracting the virus makes people immune in the long term (this is the case for the measles virus, but it is not the case for other viruses like dengue). Hence, social distancing is not a sufficient condition. A vaccine is at least one year away; strict containment policies cannot last for one year. After these policies are relaxed, the virus will continue to circulate, and we may observe a second peak of the epidemic curve in the autumn or winter of 2020. To avoid the need to reinstate strict containment policies, it is necessary to implement massive testing and tracking (as in South Korea) and safeguard the national healthcare system.

We would hence like to emphasize that this crisis is the best opportunity to scale up our health infrastructure. India has around 718 districts with above par medical care in at most 200. In the balance districts, the government must build 500-bed hospitals as part of this program to insulate the Indian population against future shock. Even if the Government is able to complete 50% of such hospitals, at the rate of about Rs 50 lakh per bed (including all accessories even ambulance) for 1.25 lakhs beds, this could cost Rs 20,000 crore per annum over the next 3 years, but this is must for a better life for our population!

GOVERNMENT STIMULUS: HOW CAN IT BE FINANCED?

- The Government has recently hiked excise duty by Rs 3 per litre for petrol and diesel. However, the expected resource mobilisation from such may not fructify given weak demand and shutdown.
- On 23rd March, the Government has increased the cap on special additional excise duty on petrol and diesel to Rs 18 and Rs 12 per litre, through amendments, from the current cap on the same of Rs 10 for petrol and Rs 4 for diesel. Soft crude prices along with increasing cap on excise will provide additional room of Rs 8 to increase excise duty on both diesel and petrol. After adjusting for the Rs 3 increase, this will result in another Rs 5 increase from the current levels.
- In normal times Rs 5 per litre increase in petrol and diesel prices could have led to extra revenue of Rs 57,000 crore yearly. But there is both a downward risk from exchange rate and low oil demand on expected revenue from petro products. If rupee depreciates, it will nullify the positive impact of falling crude prices. Our estimate shows one rupee depreciation in exchange rate will lead to 32 paisa increase in crude oil prices per litre and reduce the room for excise duty hike.
- Lower crude price and weak downstream margin will likely hit oil PSUs' earnings. According to our estimate direct tax and dividend revenue collection from O&G sector could be lower by Rs 25,000-30,000 crore in FY21.
- Considering all the above points, we made an attempt to estimate the revenue collection of Centre through excise duty in the current lock-down period. Since almost entire nation is under lockdown, the demand for oil will come down drastically (we assume average 65% decline in demand for the first 4 months and normal demand for the remaining eight months). Under this situation, Rs 5 per litre increase will lead to only Rs 45,000 crore yearly in the form of extra revenue.

STATE WISE SALE OF PETRO PRODUCTS

- Covid-19 virus which poses contagion risk has already impacted the consumption of petrol and diesel. The data suggests that Maharashtra, Gujarat, UP, the three major states which contribute more than 32% of overall consumption of petro products in India, are severely impacted by the COVID-19 virus. Any further deterioration in health situation in these states could spread to neighbourhood states, thereby leading to further tightening in mobility across many states for a longer period which in turn could adversely impact the consumption of petroleum products. All this could lead to a fall in excise collection in FY21. **We also expect states to raise VAT on oil.**

MONETISATION OF DEFICIT A MUST COUPLED WITH OMO

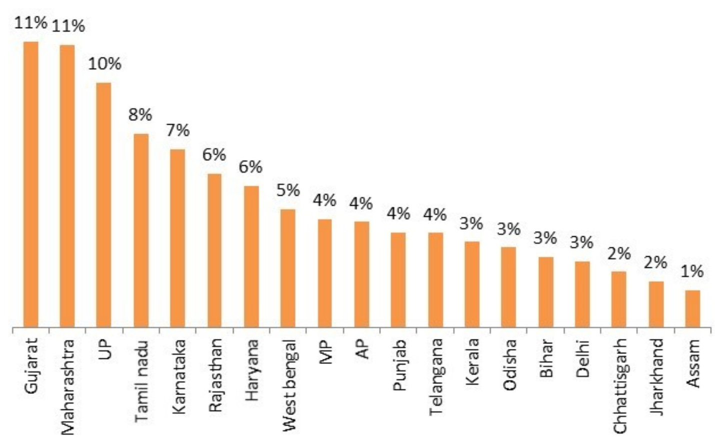
- Apart from using increased excise duty collection on diesel and petrol, the other option remaining with the Government is monetisation of deficit. This provision is available in the FRBM Act which can be availed in the special circumstances. We expect RBI of around 2% of GDP.
- Furthermore, the total borrowing requirement of the Center and the State for FY21 is around Rs 11 lakh crore. Of this, demand of securities from banks will be around Rs 3.7 lakh crore (assuming 10% growth in NDTL and 27% SLR). The insurance sector could subscribe upto Rs 3.85 lakh crore. The rest of the amount will be borrowed from PD's (Rs 20,000 crore), Mutual Funds (Rs 62,000 crore), FPI (Rs 62,000 crore) and others.
- However, in the current scenario when market appetite is already low it seems difficult how such a huge amount will be raised. Thus, RBI will have to aggressive OMO purchase to fulfil the supply-demand gap in the next fiscal.

Arithmetic of Additional Revenue from Hike in Excise duty @Rs 5

On 2019-20 consumption	Monthly Petrol consump-tion (in lakh litres)	Monthly Diesel consump-tion (in lakh litres)	Monthly Revenue from ex-cise duty @ Rs 5 increase (in Rs Crore)	Annual Rev-enue from excise duty (in Rs Crore)
On Normal Circumstances	25290	69930	4761	57132
Scenario 1: 65% decline in con-sumption in first four months and normal situation thereafter	8852	24476	1666	44753
Scenario 2: 80% decline in con-sumption in first four months and normal situation thereafter	5058	13986	952	41897

Source: SBI Research

State wise Share (%) of Petroleum Products Consumption



Source: SBI Research

IMPACT ON INDIA'S GROWTH

- What would be impact on India's GDP because of such a lockdown? A ball park estimate shows that over a 60 year period, global GDP declined only once annually in 2009 by 1.7%. Even if we assume on a most con-servative basis that global GDP declines at nearly similar rate in 2020 (although independent estimates suggest a significant contraction of as much as 4%) and given India's share in global GDP at current 3.5%, imply-ing a contraction of 2% of real GDP in FY21 purely because of India's integration with global economy through trade channel and social con-sumption channel.
- We estimate another 1.7% impact on real GDP because of 21 day lock-down in FY21 resulting in at least 70% of economy at a standstill. We thus peg our FY21 GDP estimate at 2.6%, with a clear downward bias, with Q1FYGDP numbers witnessing a contraction. FY20 GDP estimates could also see a downward revision from 5% to 4.5% with Q4GDP growth at 2.5%. The total cost of the lockdown is at least Rs 8.03 lakh crores in nominal terms / output loss of at least 3.7%. However, the economy could recover potentially faster the quickly the stimulus programme is in place.

Distribution of inoperability loss due to COVID-19 Lockdown (Rs Crore)			
Sectors	**Output Loss**	**Labour Income**	**Capital Income**
Agriculture,Hunting,Forestry and Fishing	-39,211.5	-16,870.8	-13,553.0
Mining and Quarrying	-11,278.1	-1,828.2	-4,823.3
Food Products,Beverages and Tobacco	-20,265.2	-1,448.1	-2,083.7
Textiles, Textile Products, Leather and Footwear	-8,228.4	-1,147.5	-1,462.5
Wood and Products of wood	-1,440.6	-178.2	-375.4
Pulp, Paper,Paper products,Printing and Publishing	-4,559.8	-560.2	-921.0
Coke, Refined Petroleum Products and Nuclear fuel	-46,019.5	-429.8	-7,413.5
Chemicals and Chemical Products	-10,800.1	-697.8	-3,074.0
Rubber and Plastic Products	-8,222.9	-824.1	-1,679.0
Other Non-Metallic Mineral Products	-1,469.4	-165.8	-375.6
Basic Metals and Fabricated Metal Products	-6,129.5	-424.9	-776.9
Machinery, nec.	-3,776.3	-489.6	-856.6
Electrical and Optical Equipment	-4,044.4	-457.8	-866.7
Transport Equipment	-8,422.7	-628.6	-2,013.7
Manufacturing, nec; recycling	-7,321.5	-795.9	-875.1
Electricity, Gas and Water Supply	-12,774.5	-1,939.7	-3,208.1
Construction	-5,461.6	-1,532.6	-463.5
Trade	-95,840.6	-33,784.8	-39,038.2
Hotels and Restaurants	-108,519.2	-21,166.6	-16,269.5
Transport and Storage	-337,137.3	-86,609.5	-67,904.0
Post and Telecommunication	-4,505.4	-717.8	-1,274.3
Financial Services	-15,863.1	-3,951.2	-7,453.4
Business Service	-10,737.8	-2,783.7	-3,928.9
Public Administration and Defense; Compulsory Social Security	0.0	0.0	0.0
Education	-28,599.2	-15,720.1	-6,655.0
Health and Social Work	-610.8	-261.7	-110.8
Other services	-2,616.0	-973.6	-1,118.2
Total Loss	**-803,855.4**	**-177,468.5**	**-169,490.2**
Note: Figures at 2019 prices. Assumption: Air transport shock -20%, Inland transport shock -12%, Hotels -10%, Retail trade -2% and Education -3%.			

FREEING UP CAPITAL IS A NECESSARY CONDITION

- Presently as per the regulatory requirement Indian Banks needs to have a regulatory capital of 9% of risk Weighted Assets (RWA) along with additional Capital Conservation Buffer of 1.875%, which is slated to increase to 2.5% from April'2020. **At this point in time (CORONA), if RBI waive entire CCB requirements Banks can free up capital worth Rs 2.46 lakh crore and if only last tranche of 0.625% deferred Indian Banks can have a capital ease of around Rs 60000 crore, which will be very crucial for Banks to garner new business and tackle emerging stress.**
- In the similar though a waiver of additional capital requirement for Systematically Important Banks (SIBs), additional capital of around Rs 15, 000 can e freed up from the system which will be helpful for the sector at this testing time.
- With the capital freed up of around Rs 75000 crore (Rs 60000 + Rs 15000) can boost fresh business of Rs.10 lakh crore with RWA of 70% and CAR at 10.875%

RELAXATION IN IBC THRESHOLD A WELCOME MOVE

- Up to Dec'2019, 190 cases were resolved under IBC with a recovery Rs 151664 crore from the total admitted of Rs 3.52 lakh crore by Financial creditors i.e. 43%. It is also observed that out of 3312 cases admitted, around 1439 cases i.e. 43% are initiated by financial creditors, whereas around 49% i.e. 1630 cases are initiated by operational creditors and remaining 7% by corporate debtors. Further, out of 1961 ongoing process 32% cases are pending for more than 270 days from the date of admission.
- Given the small threshold limit of Rs 1 lakh, operational credits seem to be more aggressive in dragging the corporate debtor into NCLT, eating the bandwidth of the court and thereby delaying resolutions. The recent announcement to raise the threshold of default under section 4 of the IBC 2016 to Rs 1 crore (from the existing threshold of Rs 1 lakh) will be definitely an enabler for faster resolution and also by and large prevent triggering of insolvency proceedings.

LEARNING FROM SOUTH KOREA: THE CORONA WAY

- South Korea is one of the very few countries with large outbreaks, alongside China, to flatten the curve of new infections. And it has done so without restrictions on movement or economically damaging lockdowns like those in Europe and the United States.
- In late February and early March, the number of new corona virus infections in the country exploded from a few dozen, to a few hundred, to several thousand.
- At the peak, medical workers identified 909 new cases in a single day, Feb. 29, and the country of 50 million people appeared on the verge of being overwhelmed. But less than a week later, the number of new cases halved. Within four days, it halved again and again the next day.
- As global deaths from the virus grows with each passing day, officials and experts worldwide are scrutinizing South Korea for lessons. And those lessons, while hardly easy, appear relatively straightforward and affordable: swift action, widespread testing and contact tracing, and critical support from citizens.
- **To sum up: Trace, Test & Treat , these three are the key lessons India too can learn from the South Korean success story.**

INCOME SUPPORT TO POOR PEOPLE

- In the backdrop of the coronavirus (Covid-19) scare affecting the livelihoods of daily wage earners due to slowing down of the economy, the state governments across the country are planning to give unemployment benefits to contract and temporary workers who have the fear of losing their jobs, and putting a plan in place to tackle the economic challenges thrown up by the pandemic. As a measure of social distancing and to contain the spread of the virus, many states had earlier announced a lockdown in India till March 31. Under the prevailing circumstances the daily or contract wage earners are the worst-hit because they are dependent on their daily earnings to meet the basic needs.

Risk Weighted Assets and Capital Conservation Buffer (CCB) of SCBs (31 March 2019)

Description	Amount (Rs Crore)	CRAR (%	Entire CCB effective April 2020	Last tranch to be implemented from April 2020
Risk Weighted Assets	9846768			
Capital Fund	**1409220**	**14.30%**	2.50%	0.625%
Tier I	1205181	12.20%	246963	61741
Tier II	204039	2.10%		

Source: RBI; SBI Research

Systematically Important Banks (SIBs) and Additional Capital (31 March 2019)

SIBs	SBI	ICICI	HDFC
Bucket	3	1	1
Add. Common equity Tier 1 Requirement	0.60%	0.20%	0.20%
Tier I	10.65%	14.73%	15.50%
CAR	12.72%	16.47%	16.77%
Capital Tier I	205238	112660	155110
CAR Rs in Crore	245225	125958	167856
Add. Capital Requrement (Rs crore)	**11563**	**1530**	**2001**

Source: Bank disclosures; SBI Research

Support by State Governments for Corona Lockdown

States	Rs Crore
Telangana	2417
UP	353
Punjab	116
Haryana	1200
Kerala	20000
HP	500
Tamil Nadu	3280

Source: SBI Research

- In a raft of anti-coronavirus measures, state governments across Delhi, Uttar Pradesh, Telangana, Odisha Haryana, Maharashtra, Punjab and Himachal Pradesh are ramping up efforts to provide financial assistance to compensate businesses and people, particularly daily wagers. The administrations are coming up with guidelines for safety and security of those who are running the health services, financial, power, transport, water supply and sanitation services etc.
- Many countries around the world have begun to deliver a robust fiscal response with a mixture of tax incentives, loan guarantees, wage subsidies in order to shield their citizens as well as its enterprises from the devastating effects of the pandemic. US has provided a series of stimulus as $8.3 billion spending bill, state of emergency, allowing the Federal Government to distribute up to $50 billion in financial aid to states, cities, and territories. Further, on 17 Mar'20, government proposed a stimulus package of $1 trillion in order to fight the coronavirus-driven economic slowdown.

- Peoples Bank of China (PBoC) has implemented several policies to provide economic relief during the coronavirus outbreak. The PBoC has expanded reverse repo operations by $174 billion. On 03 Feb, followed by another $71 billion on February 4. On March 5, the Chinese authorities allocated $15.93 billion for coronavirus-related funding. Further on March 13, China's central bank launched $79 billion stimulus effort to help the country's ailing economy.
- In a very In a very crucial step towards ensuring the food and financial security of the most vulnerable section of the society amid the lockdown, the Government has come up with the Rs 1.7 lakh crore Pradhan Mantri Garib Kalyan Package. Despite the hardships that will naturally follow from the lockdown, the announcement of the 21 day lockout beginning March 25 and ending April 14 is well intentioned, absolutely essential and well timed as 10 days either fall on holidays or are on weekends.

	Prime Minister Garib Kalyan Yojna			
	Category	Beneficiaries (in crore)	Measures	Fiscal Cost (Rs crore)
A	PDS	80	Extra 5 kg cereals per person + 1 kg pulse per household for next 3 months for free	45000
B	MGNREGA		Daily wage increase from Rs 182 to Rs 202	5600
C	Senior Citizens/Widows/Divyang	3	Rs 1000 in 3 months in 2 installments	3000
D	Women PMJDY	20.4	Rs 500 per month for next 3 months	31000
E	UJJWALA	8.3	3 free cylinders for next 3 months	13000
F	Organised Sector (upto 100 employees)	-	EPFO contribution (24%) paid by Government for next 3 months / non-recoverable advance of 75% or 3 months of wage, whichever is lower	5000
G	Building and Other Construction Workers Welfare Cess fund		Welfare of Construction workers	31000
H	Medical Staff	22 Lakh	Insurance cover of Rs 50 lakh per person	1100
I	Farmers	8.7	Frontloading of 1st installment of Rs 2000 under PM-KISAN	16000
J	Women SHGs	63 Lakh	Collateral free loans upto Rs 20 lakh to SHGs	19300
K	**Total**			**170000**
L	**Estimated incremental amount (B+C+D+E+H+J)**			**73000**
Ministry of Labour had previously stated that it would utilise the Building and Other Construction Workers Welfare Cess fund of Rs 52,000 crore to provide relief to the construction workers through direct benefit transfer (DBT)				
Source: SBI Research				

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