Rs20/- Lakh crs Stimulus Package

Ever since the Honorable PM's announcement of Rs.20 lakh Crs stimulus package, one question keenly debated is "How would GOI find the resources to fund such an ambitious target?

For starters any stimulus package has to strike a balance between fiscal and monetary measures .Monetary measures though very critical do not pose 'revenue constraints'. For e.g. RBI's bazooka 2.0 of Rs.5 lakh Crs is a monetary measure. Rs 3 lakh Crs sovereign guarantee for the MSMEs translates into a fiscal obligation only when the guarantee is invoked upon default. But infusion of liquidity is critical. In crisis times, ***Cash Flows are more important than the Balance Sheet and Balance Sheet is more important than the P&L***. Ask anyone who has ever managed/owned or worked for a commercial unit and she will tell you that liquidity in times of crisis is the first ask. The 3 most dreaded words in English are "Negative Cash Flows"

Let us get the "elephant in the room' behind us.

This progressive government with 'political will' will find resources and mitigate dependence on RBI printing notes (fiat Money?)

GOI has many arrows in its quiver

- Low international crude price will add fiscal 'elbow room' of Rs. 1.7 lakh Crs for a full year. Every $1 reduction in crude price reportedly saves $1.5 bn. Of course Travel & Transport has to gain momentum for the gain to be visible.
- RBI's proactive policy rate reductions have set in a low interest rate regime and GOI is the largest borrower with a mandated debt program of Rs. 12 lakh Crs for FY-21. For every 1 % reduction in the coupon rates, GOI saves Rs.1 lakh Crs.
- The 'Vivad Se Viswas' scheme addresses a Universe of Rs. 9.32 lakh Crs of disputed direct tax demand. The scheme may need some tweaking. For e.g., taxpayer has to settle based on Proceedings and cannot choose demands/Issues and settle. Given the huge base of Rs. 9.32 lakh Crs, even realization of a fraction would add a meaningful sum.
- GOI targets to realise Rs. 22k Crs from selling its SUUI holdings. (Erstwhile UTI's holdings in blue chips like ITC, Axis and L&T etc.)

- GOI may explore ETF model in lieu of disinvestment. GOI could float 4 or 5 ETFs esp. Energy (Oil & Gas) Fund, Metals & Minerals Fund etc. and the 'pièce de résistance' will be 'Banking & Financial Services Fund'. GOI could download a part of its equity holding in a few PSBs (but retaining the majority of 51%) i.e. 7 to 8 stocks blended in the ETF structure – If a small holding in LIC were to be thrown in as sweetener, this ETF could sell well. GOI will continue to retain voting rights with subscribers reaping dividend and capital appreciation. Time has come to explore radical structures like "Golden share" i.e. GOI retains 26 % or 51 % of the voting rights with just 10% holding in PSUs. Disproportionate voting right will fall foul the Companies Act. Extraordinary times call for extraordinary measures and amendment to the Companies Act to cement GOI's control in PSUs via 'Golden share' will never be inappropriate. 'Top co –Hold Co and Op Co' is another structure which lends itself for exploration. The Op Co will be board governed with full autonomy to the professionals i.e. the present management. In a way separation of Ownership and Management is accomplished.
- I for one will not be surprised if GOI were to initiate a full-fledged Economic Value Added (EVA) exercise and realize value /monetize many of its assets.

  a) Sale & lease back of land holdings with – Railways and Defence could generate huge resources and reduce the burden on the consolidated account. (Air India owns 40,000 pieces of art & artefacts worth Thousands of Crs including the works of M.F.Husain, V.S.Gaithonde and Anjolie Ela Menon!!!)

  b) DRI seizes huge amount of smuggled gold and let all that be auctioned on shore. If there are pending litigations, Revenue department can furnish undertaking to issue Gold bonds upon final verdict. Apart from resource generation – this sends a signal that 'fouler and his gold are separated fast '. AP forestry realized Rs. 1,700 Crs on sale of confiscated red sanders.
- The revised 'economic capital framework' adopted by RBI last year resulted in additional transfer of Rs.52,637 Crs of excess provision carried. Benchmarked with the recommended provisions holding of 6.5%, RBI had 6.8% post the transfer too.

  Even after factoring in considerations like.

  Adequate sum of provisions to maintain RBI's AAA rating

  dividends out of current year's earning only and

  optimal sum of outgo which is non-inflationary,

  There exists a room for receipt of additional sum this fiscal too.

- The burgeoning forex reserve of $485 bn offers itself for the next 'stroke of genius' as to how to leverage the same for economic revival from COVID-19 -19. (That is a topic in itself!)

In sum, the Rs.20 lakh Crs package is for real and this government is determined to find resources and productively channelize the same with a human touch.

<u>Therefore, you are better off Betting on India, its resilience and of course the resultant progress than joining the crowd of purist economists.</u>

Now that the million $, sorry Rs. 20 Trn question is answered, we can take a deep dive on the stimulus package and apply the T3 test i.e. Target segment, Tool and Treatment to comment on its efficacy.

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