

## CONDITIONAL FISCAL STIMULUS AT A MINIMAL 0.2% OF GDP

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After a long clamor for fiscal stimulus the Government today came up with measures with direct fiscal support to people and states and to generate demand. However, the announcements have come with a "conditions apply" tag. These measures include: (i) LTC Cash Voucher Scheme for Government employees if they can't travel due to pandemic. Employees can use the money to buy items attracting 12% or more GST, increasing consumer demand. However, employees can spend an LTC cash voucher only through digital mode and at places registered under GST before 31 March 2021. (ii) Special Festival Advance Scheme of Rs 10,000 to Government employees for festivals upto 31.3.2021, which would be returned on maximum of 10-installments, (iii) Thrust to Capital expenditure of states and centre, including Special interest free 50-year loans to States for capital expenditure for Rs 12,000 crores & Rs 25,000 crores additional capex from Rs 4.13 lakh crore for expenditure .

In the case of LTC scheme, it is doubtful how many will avail this scheme as if the person availing this also has to pay GST amount out of his/her pocket then it will be a burden on the person and in fact he would be better off paying taxes on the amount availed by him. **The scheme is unlikely to work unless the Government decides to pay GST component also over and above the fare entitlement amount as is done by many PSBs. Further since LTC covers not just the employee but the dependent family members, the draw down on the personal income will be huge. For instance for employee eligible for business travel get two way fair value of Rs 36000. For a family of four this works out to Rs 1,44,000. The total expenditure works out to Rs 4,32,000 plus GST amount of Rs 1,03,680.**

The festival advance scheme is akin to the interest free advance provided to certain public sector bank employees, in which they receive one month's salary which is repaid in 12 interest free installments. Out of the two schemes, it is only in case of the festival advance proposal that one can think there is some additional income over and above the current income. This is where one can expect demand will get a boost by way of discretionary consumption.

**However, the consumption boosting proposal ignores the vital fact that rise in savings is due to curtailment of discretionary consumption in higher fractile groups. The fractile group that is targeted under proposal have higher marginal propensity to save and any additional savings is more likely to be not consumed.**

Government has also proposed a special interest free 50-year loans to States for capital expenditure for Rs 12,000 crore to be spent till Mar'21. Of the total, Rs 10,000 crore will be provided to all states (in proportion to share in Finance Commission devolution) and Rs 2,000 crore to states which meet at least 3 out of 4 reforms given in AtmaNirbhar fiscal deficit package. Though we welcome this step, we believe that Rs 12,000 crore is minimal given the fact that this amount is only 1.6% of states FY21 budget estimate of capital expenditure of select 18 states. This number will reduce further if we add the capex projections of all the other states. Regarding the extra Rs 2000 crore, we believe that only a few states will be eligible for this amount (out of 19 states that we analyse only 8 states are eligible).

We believe only around 10-15% employees would use the LTC Scheme. In case of festival advance assuming it is taken in November and since it is returned in maximum of 10 instalments, 4 instalments will be paid back in this fiscal, thus leaving a burden of Rs 2400 crore to the exchequer. Further capital expenditure will lead to Rs 25,000 crore cash outgo for Centre's budget allocation and Rs 12,000 crore loan for States. **Taking all these into account, Rs 40,000 crore is the maximum additional cash outgo of the Centre during the current fiscal, which is around 0.21% of GDP.** The last stimulus package had a cash outgo of Rs 2 lakh core or around 1% of GDP. Let us hope these new measures are not a case of too little too late. However, on a positive note, power demand across major states continue to increase, implying economic recovery. Economic activity as revealed by our business activity index also shows improving momentum since August. The moot question is sustainability.

### STIMULUS SCHEMES TO BOOST DEMAND BY RS 73,000 CRORE

- ◆ The Finance Minister has announced a slew of measures to create demand in the economy. It is good that Government has turned its attention towards the demand side. However, the announcements have come with a "conditions apply" tag.
- ◆ Measures include: (i) LTC Cash Voucher Scheme for government employees if they can't travel due to pandemic. Employees can use the money to buy items attracting 12% or more GST, increasing consumer demand. However, employees can spend an LTC cash voucher only through digital mode and at places registered under GST before 31 March 2021. (ii) Special Festival Advance Scheme of Rs 10,000 to Government employees for festivals upto 31.3.2021, which would be returned on maximum of 10-installments, (iii) Thrust to Capital expenditure of states and centre, including Special interest free 50-year loans to States for capital expenditure for Rs.12,000 crores & Rs 25,000 crores additional capex from Rs 4.13 lakh crore for expenditure .

### Summary of Demand Boost

Measures	Estimated Amt. (Rs. Cr)
<b>Consumer demand</b>	<b>36,000</b>
LTC voucher Scheme	28000
Festival Advance	8000
<b>Capital Expenditure</b>	<b>37000</b>
50 Year Interest free Loans to State	12000
Central govt. additional Capex	25000
<b>Total</b>	<b>73,000</b>

Source: SBI Research

- ◆ **Festival Advance:** Special festival advance scheme which was given till 6th Pay commission to non-gazetted officers, has been revived one time for all the Government officials and the centre expects an outlay of Rs 4000 crore on this. Combined with states the amount spent is expected to Rs 8000 crore.
- ◆ In our view, the central government employees are least impacted in terms of savings due to lockdown and no salary loss. We think this move will encourage consumer spending to some extent for some state government employees who have faced salary issues, but depends upon how many employees avail the scheme given that the conditions are being imposed. **There are around 3.5 mn central government employees who would be entitled to this benefit. Most of the consumption may be in in electronics items such as mobile, tablets etc.**
- ◆ **LTC Cash Voucher Scheme:** Under this scheme, an employee can avail cash payment in lieu of leave encashment as well as the fare depending on the entitlement of the employee. Furthermore, this amount can be tax free provided the employee spends 3 times the amount he avails and the entire leave encashment amount on goods and services which carries GST of 12% or more.
- ◆ For Central Government employees this will cost Rs 5675 crore and for PSB's and PSU employees Rs 1900 crore. The Government has estimated that demand infusion from this will be around Rs 19,000 crore. Thus the Government has assumed an MPC of 0.6 here. However, it is doubtful how many will avail this scheme as if the person availing this also has to pay GST amount out of his/her pocket then it will be a burden on the person and in fact he would be better off paying taxes on the amount availed by him.
- ◆ For instance, if the person is eligible for Rs 50,000 as fare then he would have to spend Rs 1,50,000 on goods or services and pay a GST of minimum 18000 (12% GST) so overall he would have to shell out Rs 1,18,000 from his pocket to get Rs 50,000. And in the current unprecedented situation when there is so much uncertainty it seems people will not be willing to spend that much. **The scheme is highly unlikely to work unless the Government decides to pay GST component also over and above the fare entitlement amount as is done by many PSBs including SBI.**
- ◆ **Economics of LTC Cash Voucher Scheme:** The design of the scheme is such that it is difficult to draw a direct link with the standard fiscal multiplier logic and demand generation. This is because for Rs 100 disbursed by the employer, Rs 200 is to be made good by drawing down the personal savings. Thus the fiscal stimulus is only to the extent that fare payment will be tax free. **Further since LTC covers not just the employee but the dependent family members, the draw down on the personal income will be huge. For instance for employee eligible for business travel get two way fair value of Rs 36000. For a family of four this works out to Rs 144000. The total expenditure works out to Rs 432000 plus GST amount of Rs 1,03,680.** This scheme can only be done by cutting other expenditures.
- ◆ It is only in case of the Festival advance proposal that one can think there is some additional income over and above the current income. This is where one can expect demand will get a boost by way of discretionary consumption.

- ◆ Lastly, the consumption boosting proposal ignores the vital fact that rise in savings is due to curtailment of discretionary consumption in higher fractile groups. The fractile group that is targeted under proposal have higher marginal propensity to save and any additional savings is more likely to be not consumed.
- ◆ **Capex Expenditure:** With an objective to give new thrust to capital expenditure of States, Government has proposed a special interest free 50-year loans to States for capital expenditure for Rs 12,000 crore to be spent till Mar'21. Of the total, Rs 10,000 crore will be provided to all states (in proportion to share in Finance Commission devolution) and Rs 2,000 crore to states which meet at least 3 out of 4 reforms given in *AtmaNirbhar fiscal deficit package*.
- ◆ The four reform areas are: universalisation of 'One Nation One Ration card', Ease of Doing Business, Power distribution and Urban local body revenues. Though we welcome this step, we believe that Rs 12,000 crore is minimal given the fact that this amount is only 1.6% of states FY21 budget estimate of capital expenditure of select 18 states. This number will reduce further if we add the capex projections of all the other states. Regarding the extra Rs 2000 crore, we believe that only a few states will be eligible for this amount (out of 19 states that we analyse only 8 states are eligible).
- ◆ However, it will save the interest expenditure for states, while reducing the interest income for Centre. With the higher maturity government securities trading at around 7%, even if we assume a simple interest rate, it leads to a notional interest loss of Rs 40000 crore for Centre and the same amount gained by states. However, it a notional loss and with states in dire need of support this is a welcome move.
- ◆ Further, Government will provide Rs 25,000 crores additional budget for capital expenditure on roads, defence infrastructure, water supply, urban development, defence infrastructure and domestically produced capital equipment.

**Arithmetic of Special interest free 50-year loans to States for capital expenditure**

States	States Capital Exp: FY21 BE	Interest Free Loan for Capex	States eligible for Extra Rs	Interest Free Loan as % of
Maharashtra	47417	414	Yes	0.9%
Tamil Nadu	59397	302	Yes	0.5%
Gujarat	52475	231	Yes	0.4%
Karnataka	58117	353	Yes	0.6%
Uttar Pradesh	117744	1347	Yes	1.1%
West Bengal	50279	549	No	1.1%
Rajasthan	39981	412	No	1.0%
Telangana	22061	183	No	0.8%
Andhra Pradesh	44397	303	Yes	0.7%
Kerala	14428	188	No	1.3%
Madhya Pradesh	-	566	Yes	-
Haryana	14414	81	Yes	0.6%
Bihar	47010	725	No	1.5%
Punjab	59089	118	No	0.2%
Odisha	35209	348	No	1.0%
8 NE States	-	1600	-	-
Jharkhand	13054	235	No	1.8%
Chhattisgarh	19091	231	No	1.2%
Uttarakhand	11137	450	No	4.0%
Himachal Pradesh	10008	450	No	4.5%
Remaining	-	913	-	-
<b>Total</b>	<b>742116</b>	<b>10000</b>	<b>2000</b>	<b>-</b>

Source: SBI Research

## FISCAL IMPACT OF TODAY'S PACKAGE

- The additional maximum amount that the Government will have to draw if all Central Government employees avail the cash in lieu of LTC will be Rs 5675 crore. However we believe only around 10-15% employees would use this. In case of festival advance assuming it is taken in November and since it is returned in maximum of 10 instalments, 4 instalments will be paid back in this fiscal, thus leaving a burden of Rs 2400 crore to the exchequer. Further capital expenditure will lead to Rs 25,000 crore cash outgo for Centre's budget allocation and Rs 12,000 crore loan for States. **Taking all these into account, Rs 40,000 crore is the additional cash outgo of the Centre during the current fiscal.**

## PICK UP IN POWER DEMAND CONTINUES

- Increasing Power demand:** Power demand across major states continue to increase, implying economic recovery. The weekly variation of peak demand of electricity shows that the pick-up in demand continues in October. However, power demand is yet to recover in certain bigger states like Uttar Pradesh, Tamil Nadu, Haryana and Punjab among others.
- Business activity index also shows positive momentum:** Economic activity as revealed by our business activity index also shows improving momentum since August. After moderating slightly in mid-Sep the index again started increasing with the latest value now highest since the lowest point reached in April.

## SBI Business Activity Index



Source: SBI Research

## Fiscal Estimate (Rs lakh crore)

Net Revenue slippage	6.8
Additional spending due to first stimulus package	2.0
Net Impact of supplemental demand announcement	0.6
Current Fiscal Deficit Estimate	17.4
<b>Fiscal Impact of today's announcements</b>	
LTC announcement	0.01
Festival advance	0.02
Capita Expenditure of States	0.12
Enhanced capital expenditure	0.25
<b>Total fiscal impact of today's announcement</b>	<b>0.40</b>
<b>% of GDP</b>	<b>0.21%</b>
<b>New Fiscal Deficit</b>	<b>17.8</b>
<b>as % of GDP</b>	<b>9.5%</b>

Source: SBI Research

## Weekly Variation in Electricity Peak Demand Met (MW)

States/UT	Sep-20				Oct-20	
	Week 1	Week 2	Week 3	Week 4	Week 1	Week 2 So far
Gujarat	2791	-730	302	1045	1139	774
Maharashtra	1112	-140	-759	709	1333	609
West Bengal	-804	711	-643	338	125	525
Madhya Pradesh	1366	46	-350	-122	451	429
Karnataka	-736	-943	-56	1129	392	237
Andhra Pradesh	640	-1813	-10	717	47	185
Rajasthan	787	3018	61	-905	-141	163
Jammu and Kashmir	108	-27	68	175	68	135
Odisha	-1	496	117	10	-196	111
Bihar	22	-365	-556	676	552	104
Assam	-57	-131	-52	260	11	93
Chhattisgarh	269	254	-820	389	-189	72
Jharkhand	33	93	-35	-63	-173	28
Himachal Pradesh	51	66	-12	-21	-40	26
Puducherry	39	-31	47	-57	-6	19
Dadar Nagar Haveli	48	3	26	1	1	18
Uttarakhand	18	63	83	-187	-29	14
Arunachal Pradesh	-2	-7	12	0	-5	12
Tripura	31	-27	-34	51	23	11
Daman and Diu	38	4	6	-4	-6	9
Goa	-2	16	11	2	5	9
Nagaland	-2	-1	-1	4	1	7
Sikkim	10	-8	-12	4	0	5
Manipur	30	-8	-22	22	8	4
Mizoram	-6	-1	-3	11	-1	2
Meghalaya	19	2	1	-9	25	0
Chandigarh	16	26	4	-77	-37	-3
Tamil Nadu	-301	-412	962	-369	-285	-73
Kerala	38	-11	-70	161	88	-90
Haryana	537	830	-379	-881	-754	-189
Delhi	502	635	122	-1183	-843	-276
Uttar Pradesh	845	-235	-1424	-1049	-212	-371
Punjab	-221	1850	52	-2472	-1580	-624
Telangana	1034	-5019	837	421	1104	-737

Source: SBI Research, Posoco

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