

COMMENT

A well-designed boost for the economy

The FM's comprehensive relief package shows that the ministry has been keeping an ear to the ground



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Given that the economy had been suffering from a complex set of problems, the finance minister (FM) did well to announce an array of measures to bring relief. The interventions were well thought out, as they addressed key concerns in the economy.

Further, the measures did not amount to a traditional fiscal stimulus, as only a few of them have any implications on revenue foregone or additional expense. Instead, they were aimed at rejuvenating "animal spirits" by removing some key hurdles to the economic activity.

Very significant measures have been taken to facilitate wealth creators as promised by the Prime Minister. Importantly, violations of corporate social responsibility (CSR) obligations are not to be treated as criminal offence. The interaction between tax payers and tax authorities has been proposed to move to a non-human interface thus easing the possibility of any harassment. Several measures have been taken to address the pain points of small and medium enterprises, especially, in their interaction with the banks. All pending GST refunds are to be paid to MSMEs within a period of 30 days, a move that will ease their liquidity situation.

The issue of delayed payments has been a concern to the industry, both small and large. Non-payment for jobs done can be detrimental to business sentiment, as it results in defaults across the supply chain. The FM has promised that the expenditure department will monitor all such delays that will then be reviewed by the cabinet secretariat. For payments stuck in disputes, it has been said that the decision to release 75 per cent of the arbitration awards will be implemented. This provides confidence that the government is seeking to resolve this issue at the highest level.

Multiple measures have been taken to address the problems in the financial sector that have proved to be complex and stubborn. The money for bank recapitalisation will be released upfront so that public sector banks can increase their lending soon. The banks are to launch products that are linked to external benchmarks such as the repo rate so that changes in the policy rate are transmitted to the borrowers. In order to encourage banks to take commercial decisions without fear, measures have been taken to give more power to banks' internal committees on vigilance issues.

Support has been extended to the non-banking financial sector that has been affected by liquidity issues. Besides providing additional liquidity support to housing finance companies, the partial credit guarantee scheme that was announced in the Budget will be monitored in each bank to make it more effective. NBFCs provide credit access to the underserved section of the economy so that their recovery would go a long way in boosting the economy. Their functioning has been facilitated by permitting measures such as Aadhaar authenticated KYC processes.

The capital spending on infrastructure projects is extremely important not only for providing a short-term boost to the economy but also for increasing efficiency. In India, it is often the case that even when sufficient funds are available, the key challenge is in implementation. The announcements made by the FM seek to ensure the target of investing ₹1 trillion in infrastructure over the next five years is translated into reality. An inter-ministerial task force has been formed to create a pipeline of projects and actively monitor their implementation.

The economic slowdown has most visibly manifested itself in the automobile sector in which production has been contracting for the last several months. Given that this sector has backward and forward linkages with many other sectors, some immediate measures were required to be taken. Two important measures have been announced: One, an increase in depreciation on all vehicles purchased now from 15 per cent to 30 per cent and two, a lifting of the ban on government departments' purchase of new vehicles to replace old ones. Any revision in registration fees have been deferred till June 2020.

It is known that tax related measures have an immediate impact on sentiment. The new surcharge imposed in the Budget have had a negative impact on sentiment and the FM did well to withdraw the surcharge on foreign portfolio investors. Recognising the tax-related problems being faced by start-ups, the withdrawal of the angel tax has been made applicable to all start-ups registered with DPIIT.

This is indeed a comprehensive package which shows that the finance ministry has been keeping its ears close to the ground. Industry now looks forward to two more announcements that have been promised and is confident that all pending issues will be addressed.