Bleak Expectations Of A Revival

Is Prime Minister Narendra Modi's Atmanirbhar Bharat package a baggage for the stakeholders?

By **Yagnesh Kansara & Arindam Mukherjee**

As expected, India's fourth quarter Gross Domestic Product (GDP) has slowed down to 3.1 per cent, lowest in last 11 years, data released on the last Friday of month revealed. This number fully reflects the slowdown, which the economy has been going through in the last two years and it also amply highlights the importance of a demand-led recovery for sustainable future growth. This number is more important than a quarterly number. Because this number would be the base against which the impact of the lockdown and consequent demand destruction, loss of productivity and employment would be mapped. What could be the fall from this level is the question that would be asked.

In this backdrop, we need to dissect the much talked about "Atmanirbhar Bharat" package worth ₹20 lakh crore announced by Prime Minister Narendra Modi on May 12 and need to do thread-bare analysis of its adequacy and relevancy.

Commenting on Q4 GDP numbers, Upasna Bhardwaj, Senior Economist, Kotak Mahindra Bank, says, "The number partly reflects the sudden halt in economic activity led by the COVID-19-related response. While the slowdown in economy was already underway, the COVID-19-related disruption has further exacerbated the issue. We expect the Q1FY21 to record a sharp contraction of over 14 per cent, with only a gradual recovery thereafter. For the year, we continue to expect contraction in GDP (over 5 per cent). Accordingly, expansionary fiscal and monetary response will have to continue to aid the economy."

If the expansionary fiscal and monetary response have to continue from policymakers, through the year, do we have that economic and financial might-to-fight-out the after

effects of COVID-19? Looking at the PM's Atmanirbhar Bharat package, and the lack of enthusiasm post the announcement, the going seems to be difficult.

The Atmanirbhar package is comprised of measures amounting to 4 per cent of GDP, which has been undertaken by the Reserve Bank of India (RBI). The direct fiscal impact of the reforms however comes to around ₹2 lakh crore only (1 per cent of GDP). The measures announced have been a mix of short and long term, with focus on building the capabilities for small players in the economy as well as paving the way for structural changes in certain sectors. However, the package does not do much to boost consumption in the short term and that could act as a drag on growth.

But has the massive economic package come at the right time and will it have the desired impact?

Devang Mehta, Director, Equities, Centrum Wealth Management says, "The government will probably be looking to address, a number of challenges, faced by a host of sectors, at an appropriate time. Once the lockdown ends, the exact extent of monetary and business pain would be known. While some sections of the population are yet to receive relief, we must understand that no one knows for sure when the pandemic will end and economic operations will fully return. However the timing to address these issues has to be apt and it cannot be too little and too late. Structural reforms for land, labour, law and liquidity are clearly the need of the hour. The government seems to be conserving resources at its disposal to be ready to invest more at a later appropriate time."

Soumya Kanti Ghosh, Group Chief Economic Adviser, SBI, explains, "We estimate that the revenue loss for the Centre after taking into account of gains from excise duty hike and DA freeze comes to around ₹6.53 lakh crore. However, the government has announced additional borrowing of ₹4.20 lakh crore for FY21. As per our estimates, a total of ₹4.36 lakh crore is still the uncovered loss for the Centre even after the additional borrowing."

Ghosh says, interestingly, this is nearly equivalent to Budgeted Capital Expenditure (CE) of the Centre, implying almost negligible growth in CE in FY21. "We are thus less

hopeful of recovery in current fiscal and our GDP numbers could now have a downward bias from current stress estimate of–4.7 per cent in FY21," he concludes.

But will the package address the demand side problems which have assumed a global nature with the COVID-9 crisis?

Mehta strongly feels that the government's package focuses mainly on supply-side reforms and relief measures. The underlying issue is of demand destruction and joblessness and that still stands to be addressed. The demand side needs immediate support, as an estimated 70 per cent of India's economic growth since liberalisationhas been powered by domestic consumption. There is a clear case of loss of business and hence a big setback for incomes, salaries and wages.

Vijay Kuppa, Co-Founder OroWealth, argues, "Majority of the support is in the form of long term instruments like loans and credit guarantees and not much in the form of direct cash benefits or reduction of tax rates. Now whether the government should do more or not, will only be known once these announced measures step off the ground. At the moment,

UPASNA BHARDWAJ
Senior Economist, Kotak Mahindra Bank

We expect Q1FY21 to record a sharp contraction of over 14 per cent, with only a gradual recovery

DEVANG MEHTA
Director, Equities, Centrum Wealth Management

Various structural reforms for land, labour, law and liquidity are clearly the need of the hour in this situation

the prelim assessment is that they will fall short in reviving the economy. What is needed is a massive short term power booster. Unfortunately, we don't have the finances for it, and the government knows this too."

Economists however, feel that in handling the situation, the government may have had its own limitations.

Says Abheek Barua, Chief Economist, HDFC Bank, "If by capability you mean fiscal resources, then the government certainly has constraints. Thus large cash transfers or large scale direct support to badly affected sectors might not be possible. Even with a relatively small additional fiscal outlay, deficit is likely to climb to 6 per cent of GDP because of revenue losses."

Besides, the government wants to be cautious and keep the fiscal powder dry should the infection itself come substantially worse and a lot more needs to be spent on healthcare. It has tried to innovate and focus on keeping the supply side ticking by ensuring the flow of credit to the economy, Barua says.

The government, he says, has done this by acting as a super-guarantor for a large swathe of loans particularly to MSMEs and NBFCs. This will help companies especially the smaller ones to survive and operate. This could set off a virtuous cycle of production, employment, income and finally demand. "This was needed but can it entirely compensate for the absence of demand side measures? Perhaps not and if the economic situation improves and there is a better sense of possible revenue and additional healthcare needs, the government will have to consider demand side measures, says Barua.

Barua, however, feels this is a good opportunity to push with pending reforms and address many issues in the economy. He says, "The history of India's political economy shows that crises are the best opportunities to push through long pending reforms and so the timing is right. I do not believe that the desired effect is to boost the economy immediately but rather to ensure that India, in the medium term, is in a position to benefit from shifts in the global supply chain that will invariably follow, (particularly with reduced dependence on China). It is also a strong positive signal to the broader global community that we are taking both short-term measures as well as long-term ones to prepare for a post-COVID new normal."

Says Lav Chaturvedi, ED & CEO, Reliance Securities, "We still believe that India is placed better compared to other countries in various parameters. For instance, our government debt to GDP stands at 69.6 per cent, which is far below countries like USA, Japan, France, UK, and Brazil. Our fiscal deficit at 3.8 per cent in FY20 is significantly lower than 6.6 per cent which was seen during the global financial crisis and more importantly we have strong back up of our Central bank which maintains a robust balance sheet.

It is true that the slowdown began across the world even before the COVID-19 crisis properly set in globally and hence many governments had already started announcing their fiscal stimulus packages.

Mehta clarifies, "The RBI had also been proactive not only in cutting rates but also in infusing liquidity and announcing some important unconventional measures. Government's current package of ₹20 lakh crore focuses largely on supply-side reforms and relief measures. It can now do more to increase disposable income in the hands of the middle class and taxpayers to drive consumption. But before the government proceeds on the path to increase the disposable income in the hands of middle class, the interim

MAGZTER

period is going to be of severe stress for the banking sector.

Certain provisions of Atmanirbhar Bharat package related to the banks and financial sector will make the situation for the sector from bad to worse. The listed banks will suffer the most, claimed Emkay Global Financial Services in one of its research note on listed banks.

It says the Insolvency and Bankruptcy Code (IBC) referral suspension for one year will be a major set-back for banks as the code assisted banks to recover ₹1.84 lakh crore since its inception (44 per cent of loans due) and instilled fear in the minds of belligerent corporates, unlike earlier mechanisms. In view of COVID-19-induced disruptions, the government suspended of filing of fresh cases for insolvency proceedings under the IBC for the next 12 months.

"We believe that this will be a setback for banks looking for resolution/liquidation under the legal umbrella, with no risk of witch-hunting later on and more so, when another wave of corporate NPAs could be on its way. With little help from economic package focused on long term reforms, banks have to defend themselves from asset quality storm. The first order of asset quality impact of COVID-19 will be seen in retail/SME, followed by another wave of corporate NPAs with demand for moratorium extension/ forbearance/restructuring on the rise amid extended lockdown", Emkay's report says.

It also recommended staying with select banks with strong capital/provisioning buffers and healthy core profitability to absorb COVID-19-induced shocks.

The markets have been extremely volatile but have shown some resilience of late, with the Sensex staying above the 30,000 mark. But who will take a call on where we will see them in the next six months?

Chaturvedi says, "Equity markets do not like uncertainty and as long as uncertain environment persists, markets may take bit longer to reward investors. However, given the ease of lockdown across the globe and resuming economic activities offered a required boost of equities despite concerns related to second wave of coronavirus and escalation of USA-China stand-off. The good part of Indian markets as of now is our valuations at 21.7 xs, which appears to be

attractive. Hence, going forward with further ease in lockdown restriction especially in red zone areas should essentially offer more clarity about earnings momentum, which will augur well for the market".

Kuppa feels that the markets may correct further going ahead as the full extent of damage due to lockdown will be seen in the corporate quarterly results in July and October. "We may not see the sharp declines as seen in March where the indices had hit a low. The government may take further relief measures which will lead to market consolidation. Additionally, we will need to watch out on the global market developments which will decide on the Foreign Institutional Investor (FII) flows. Due to historic liquidity measures taken by different countries and central banks, stock markets will remain up despite negative real economies. And if global indices remain up, Indian markets will stay up too," he says.

Thus, the government's 'Atmanirbhar' package, elaborated by Finance Minister over the last five days at the fag end of the first fortnight of May, was a mix of many easy loan schemes, a slew of long-awaited policy reforms across sectors and a little bit of actual money spent by the government (₹2 lakh crore or 102 bps of GDP hit in FY21). The '10 per cent of GDP stimulus' as claimed and the reform announcements, are worth grabbing international headlines. The overall package is a disappointment for expectations of a revival of demand in the economy, and for sectors that are stressed due to the lockdown. □

yagnesh@outlookindia.com, arindam@outlookindia.com

MAGZTER