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FISCAL AND MONETARY STIMULUS MEASURES TO COMBAT COVID-19

To support the economy from the impact of the COVID-19, fiscal stimulus measures in two tranches and monetary stimulus have been announced. The announcements and our views of the probable impact been explained below.

Relief measures relating to Statutory and Regulatory compliance matters across Sectors in view of COVID-19 outbreak	Announced on 24th March 2020

The relief measures were announced in areas of

- Income Tax
- GST
- Customs & Central Excise
- Corporate Affairs
- Insolvency & Bankruptcy Code (IBC)
- Fisheries
- Banking Sector
- Commerce

Income Tax

- Last date for income tax returns for FY19 extended from 31st March to 30th June in 2020.
- Aadhaar-PAN linking date to be extended from 31st March 2020 to 30th June 2020.
- Under Vivad se Vishwas scheme, no additional 10% amount to be made, if payment is made by 30th June 2020.
- Due dates for issue of notice, intimation, notification, approval order, sanction order, filing of appeal, furnishing of return, statements, applications, reports, any other documents and time limit for completion of proceedings by the authority and any compliance by the taxpayer including investment in saving instruments or investments for roll over benefit of capital gains under Income Tax Act, Wealth Tax Act, Prohibition of Benami Property Transaction Act, Black Money Act, STT law, CTT Law,

Equalization Levy law, Vivad Se Vishwas law where the time limit is expiring between 20th March 2020 to 29th June 2020 shall be extended to 30th June 2020.

- For delayed payments of advanced tax, self-assessment tax, regular tax, TDS, TCS, equalization levy, STT, CTT made between 20th March 2020 and 30th June 2020, interest rate has been reduced to 9% instead of 12%/18 % per annum. No late fee/penalty shall be charged for delay.

GST/Indirect Tax

- For businesses having aggregate annual turnover less than Rs 50 million, the last date for filing GSTR-3B due in March, April and May 2020 has been extended to the last week of June 2020. No interest, late fee and penalty will be charged.
- Business having aggregate annual turnover of more than Rs 50 million can file returns due in March, April and May 2020 by last week of June 2020, but will have to pay a reduced rate of interest of 9% per annum from 15 days after due date, from the current interest rate of 18% per annum. No late fee and penalty to be charged, if complied before 30th June 2020.
- Date for opting for composition scheme is extended till the last week of June 2020. Further, the last date for making payments for the quarter ending 31st March 2020 and filing of return for FY20 by the composition dealers will be extended till the last week of June 2020.
- Date for filing GST annual returns of FY19, is extended from 31st March 2020 to the last week of June 2020.
- Due date for issue of notice, notification, approval order, sanction order, filing of appeal, furnishing of return, statements, applications, reports, any other documents, time limit for any compliance under the GST laws where the time limit is expiring between 20th March 2020 to 29th June 2020 shall be extended to 30th June 2020.
- Payment date under Sabka Vishwas Scheme shall be extended to 30th June 2020. No interest for this period shall be charged if paid by 30th June 2020.

Customs

- Customs clearance will continue 24/7 till end of 30th June 2020.
- Due date for issue of notice, notification, approval order, sanction order, filing of appeal, furnishing applications, reports, any other documents etc., time limit for any compliance under the Customs Act and other allied laws where the time limit is expiring between 20th March 2020 to 29th June 2020 shall be extended to 30th June 2020.

Financial Services

- Relaxations for debit card holders to withdraw cash free of charge from any other banks' ATM for 3 months.

- Waiver of minimum balance fee.
- Reduced bank charges for digital trade transactions for all trade finance consumers.

Corporate Affairs

- No additional fees shall be charged for late filing during a moratorium period from 1st April to 30th September 2020, in respect of any document, return, statement etc., required to be filed in the MCA-21 Registry, irrespective of its due date, to reduce the compliance burden and enable long-standing non-compliant companies/ LLPs to make a fresh start.
- The mandatory requirement of holding meetings of the Board of the companies within prescribed interval provided in the Companies Act (120 days), 2013, shall be extended by a period of 60 days till next two quarters i.e., till 30th September.
- Companies (Auditor's Report) Order, 2020 shall be made applicable from the financial year FY21 instead of from FY20.
- As per Schedule 4 to the Companies Act, 2013, Independent Directors (IDs) are required to hold at least one meeting without the attendance of Non-independent directors and members of management. For the year FY20, if the IDs of a company have not been able to hold even one meeting, the same shall not be viewed as a violation.
- Requirement to create a deposit reserve of 20% of deposits maturing during the financial year FY21 before 30th April 2020 shall be allowed to be complied with till 30th June 2020.
- Requirement to invest 15% of debentures maturing during a particular year in specified instruments before 30th April 2020, may be done so before 30th June 2020.
- Usually, the newly incorporated companies are required to file a declaration for Commencement of Business within 6 months of incorporation. An additional time of 6 more months shall be allowed.
- Non-compliance of minimum residency in India for a period of at least 182 days by at least one director of every company, under Section 149 of the Companies Act, shall not be treated as a violation.
- Due to the emerging financial distress faced by most companies on account of the large-scale economic distress caused by COVID 19, it has been decided to raise the threshold of default under section 4 of the IBC 2016 to Rs 10 million from the existing threshold of Rs 0.1 million. This will by and large prevent triggering of insolvency proceedings against MSMEs. If the current situation continues beyond 30th of April 2020, we may consider suspending section 7, 9 and 10 of the IBC 2016 for a period of 6 months so as to stop companies at large from being forced into insolvency proceedings.

Department of Fisheries

- All Sanitary Permits (SIPs) for import of SPF Shrimp Broodstock and other agriculture inputs expiring between 1st March 2020 to 15th April 2020 extended by 3 months.

- Delay up to 1 month in arrival of consignments to be condoned. Rebooking of quarantine cubicles for cancelled consignments in Aquatic Quarantine Facility (AQF) Chennai without additional booking charges.
- The verification of documents and grant of NOC for Quarantine would be relaxed from 7 days to 3 days.

Department of Commerce

- Extension of timelines for various compliance and procedures will be given for which detailed notifications will be issued by Ministry of Commerce.

Dun & Bradstreet's View

Amidst lockdown, the Finance Minister's announcement of series of measures to ease the compliance burden related to Income Tax, GST, Customs, MCA, IBC, bank and commerce related to citizens and businesses were much required. While this was just regulatory and compliance related announcement, this will facilitate ease of doing business and reduce cost of compliance for businesses. Further, this will support businesses to comply with the lockdown announced by states, help small businesses to cope up with the loss of foregone business and delayed payments and also help to reduce additional indirect expenses made to meet obligations, which either fails to get reported or counted during such episodes. Raising the threshold of default to Rs 10 million from the existing threshold of Rs 0.1 million will assuage the concerns of the MSMEs and help businesses to tide over the current slowdown. 24/7 Customs clearance is laudable and is a much-needed relief for imports and exporters as this will facilitate movement of essential goods.

Rs 1.70 Trillion Relief Package under Pradhan Mantri Garib Kalyan Yojana for the poor | Announced on 26th March 2020

Measures were intended to reach out to the poorest of the poor so that they do not face difficulties in buying essential supplies and meeting essential needs.

Insurance scheme for health workers fighting COVID-19 in Government Hospitals and Health Care Centres

- Insurance cover of Rs 5 million per health worker fighting COVID-19 to be provided.
- All government health centres, wellness centres and hospitals of Centre as well as States would be covered under this scheme. Approximately 2.2 million health workers would be provided insurance cover to fight this pandemic.

PM Garib Kalyan Ann Yojana

- 800 million poor people will get 5 kg wheat or rice and 1 kg of pulses, according to regional preferences, for free every month for the next three months, over and above the current allotment of rice and pulses to them.
- Each one of the 800 million poor people would be provided double of their current entitlement over next three months.
- The additional provision of the above-mentioned items would be free of cost.

Benefit to farmers

- Under the initiative of Pradhan Mantri Kisan Samman Nidhi Yojana, all farmers were entitled to receive Rs 6,000 per year as the minimum income support from the government announced by the Finance Minister in the Interim Budget for 2019. The first instalment of Rs 2,000 will be front-loaded and paid in April 2020, benefitting 87 million farmers.

Cash transfers Under PM Garib Kalyan Yojana

- **Help to Poor**: A total of 204 million Pradhan Mantri Jan Dhan Yojana (PMJDY) women account-holders would be given ex-gratia of Rs 500 per month for next three months.
- **Gas cylinders**: Under PM Garib Kalyan Yojana, gas cylinders would be provided to 80 million poor families for the next three months free of cost.

- **Help to low wage earners in organised sectors**: Government proposes to pay 24% of the monthly wages into the Provident Fund (PF) accounts for next three months to wage-earners below Rs 15,000 per month employed in businesses having less than 100 workers.
- **Support for senior citizens (above 60 years), widows and Divyang**: Government to give 30 million, aged widows and people under Divyang category, Rs 1,000 to tide over difficulties during next three months.
- **MNREGA**: MNREGA wages would be increased to Rs 202 a day from Rs 182 with effect from 1st April 2020. Wage increase under MNREGA will provide an additional Rs 2,000 benefit annually to a worker. To benefit approximately 136.2 million families.

Self-Help groups

- Limit of collateral free lending would be increased from Rs 1million to Rs 2 million to self-help groups. This will benefit women organised through 63 lakhs Self Help Groups (SHGs) which supports 68.5 million households.

Other components of PM Garib Kalyan package

- **Organised sector**: Employees' Provident Fund (EPF) Regulations will be amended to include pandemic as the reason to allow non-refundable advance of 75% of the amount or three months of the wages, whichever is lower, from their accounts. Families of 40 million workers registered under EPF will be able take benefit from this window.
- **Building and Other Construction Workers Welfare Fund**: Welfare Fund for Building and Other Constructions Workers have been created under a Central Government Act, where around 35 million workers are registered. State Governments will be given directions to utilise this fund to provide assistance and support to these workers.

District Mineral Fund

- The State Government will be asked to utilise the funds available under District Mineral Fund (DMF) for supplementing and augmenting facilities of medical testing, screening and other requirements in connection with preventing the spread of COVID-19 pandemic as well as treating the patients affected with this pandemic.

Dun & Bradstreet's View

The government should be applauded for thinking through the critical requirement of the country at this time of crisis. The government has been more systematic and target oriented compared to the fiscal measures taken by some countries globally. The first set of measures were announced to ease the compliance which was the immediate need of the corporate sector, given the fiscal year end. These announcements were much required and would provide relief to 800 million people belonging to the low-income group i.e. farmers, senior citizen, poor widows and poor disabled. This would assuage them and prevent the rise of any kind of social disturbances in the time of scarcity or unavailability of resources. This is in addition to the relief package already announced by various states. While it will add Rs 1.7 trillion to the fiscal deficit of the government, this is likely to restore confidence amongst people which will help the economy to recover once the pandemic in India is controlled.

7th Monetary Policy Statement, 2019-20

Announced on 27th March 2020

Resolution of the Monetary Policy Committee (MPC)

- Policy repo rate rater under the liquidity adjustment facility (LAF) reduced by 75 bps to 4.40% from 5.15% with immediate effect
- Accordingly, the marginal standing facility (MSF) rate and the Bank Rate stand reduced to 4.65% from 5.40%
- Consequent upon the widening of the LAF corridor as detailed in the accompanying Statement on Developmental and Regulatory Polices, the reverse repo rate under the LAF stands reduced by 90 basis points to 4.0%.
- The MPC also decided to continue with the accommodative stance as long as it is necessary to revive growth and mitigate the impact of coronavirus (COVID-19) on the economy, while ensuring that inflation remains within the target.

Outlook of the MPC on inflation and growth

Inflation

- Food prices may soften even further under the beneficial effects of the record food grains and horticulture production.
- Collapse in crude prices should work towards easing both fuel and core inflation pressures, depending on the level of the pass-through to retail prices.
- As a consequence of COVID-19, aggregate demand may weaken and ease core inflation further.
- Heightened volatility in financial markets could also have a bearing on inflation.

Growth

- Apart from the continuing resilience of agriculture and allied activities, most other sectors of the economy will be adversely impacted by the pandemic, depending upon its intensity, spread and duration.
- If COVID-19 is prolonged and supply chain disruptions get accentuated, the global slowdown could deepen, with adverse implications for India.
- The slump in international crude prices could, however, provide some relief in the form of terms of trade gains.
- Downside risks to growth arise from the spread of COVID-19 and prolonged lockdowns.

- Upside growth impulses are expected to emanate from monetary, fiscal and other policy measures and the early containment of COVID-19.
- The MPC is of the view that macroeconomic risks, both on the demand and supply sides, brought on by the pandemic could be severe.

Statement on Developmental and Regulatory Policies

Various developmental and regulatory policies have been announced to directly address the stress in financial conditions caused by COVID-19. They consist of

I. Expanding **liquidity** in the system sizably to ensure that financial markets and institutions are able to function normally in the face of COVID-related dislocations.

II. Reinforcing **monetary transmission** so that bank credit flows on easier terms are sustained to those who have been affected by the pandemic.

III. Easing **financial stress** caused by COVID-19 disruptions by relaxing repayment pressures and improving access to working capital.

IV. Improving the **functioning of markets** in view of the high volatility experienced with the onset and spread of the pandemic.

1. Liquidity Management

Three measures relating to Targeted Long-Term Repos Operations (TLTROs), Cash reserve ratio (CRR), and Marginal Standing Facility (MSF) will inject a total liquidity of Rs 3.74 trillion in the system.

Targeted Long-Term Repos Operations (TLTROs)

- The RBI will conduct auctions of targeted long-term repos of up to three years tenor of appropriate sizes for a total amount of up to Rs one trillion at a floating rate linked to the policy repo rate.
- Liquidity availed under the scheme by banks has to be deployed in investment grade corporate bonds, commercial paper, and non-convertible debentures over and above the outstanding level of their investments in these bonds as on 27th March 2020.
- Banks shall be required to acquire up to 50% of their incremental holdings of eligible instruments from primary market issuances and the remaining 50% from the secondary market, including from mutual funds and non-banking finance companies. Exposures under this facility will also not be reckoned under the large exposure framework.
- These non-SLR investments will be classified under Held-To-Maturity (HTM) category.

Cash reserve ratio (CRR)

- As a one-time measure, CRR of all banks has been reduced by 100 basis points to 3.0% of net demand and time liabilities (NDTL) with effect from the reporting fortnight beginning 28th March 2020. This dispensation will be available for a period of one year ending on 26th March 2021.
- This reduction in the CRR would release liquidity of about Rs 1.37 trillion uniformly.
- It has been decided to reduce the requirement of minimum daily CRR balance maintenance from 90% to 80% effective from the first day of the reporting fortnight beginning March 28, 2020. This is a one-time dispensation available up to 26th June 2020.

Marginal Standing Facility (MSF)

- In view of the exceptionally high volatility in domestic financial markets, the RBI decided to increase the limit of MSF from 2% to 3% with immediate effect.
- This will inject additional Rs 1.37 trillion of liquidity under the LAF window at the reduced MSF rate.
- This measure will be applicable up to 30th June 2020.

Widening of the Monetary Policy Rate Corridor

- In view of persistent excess liquidity, the policy rate corridor has been widened from 50 bps to 65 bps.
- Under the new corridor, the reverse repo rate under the liquidity adjustment facility (LAF) would be 40 bps lower than the policy repo rate.

2. Regulation and Supervision

Measures to prevent the transmission of financial stress to the real economy

Moratorium on Term Loans

- All commercial banks, co-operative banks, all-India Financial Institutions, and NBFCs are being permitted to allow a moratorium of three months on payment of instalments in respect of all term loans outstanding as on 1st March 2020.
- Accordingly, the repayment schedule and all subsequent due dates, as also the tenor for such loans, may be shifted across the board by three months.

Deferment of Interest on Working Capital Facilities

- Lending institutions are being permitted to allow a deferment of three months on payment of interest in respect of all working capital facilities outstanding as on 1st March 2020. The accumulated interest for the period will be paid after the expiry of the deferment period.

- The deferment of payment of instalments in respect of all term loans and interest rates in respect of all working capital facilities will not be treated as change in terms and conditions of loan agreements and hence will not result in downgrading of asset classification.

Easing of Working Capital Financing

- In respect of working capital facilities sanctioned in the form of cash credit/overdraft, lending institutions may recalculate drawing power by reducing margins and/or by reassessing the working capital cycle for the borrowers. This will not result in asset classification downgrade.
- The rescheduling of payments for term loans and working capital facilities and will not qualify as a default for the purposes of supervisory reporting and reporting to credit information companies (CICs). CICs shall ensure do not adversely impact the credit history of the beneficiaries. CICs shall have to ensure that the actions taken under this announcement will not adversely impact the credit history of the beneficiaries.

Deferment of Implementation of Net Stable Funding Ratio (NSFR)

- As per the Basel Committee on Banking Supervision, banks were required to maintain a NSFR of 100% from 1st April 2020 which now stands to be deferred by six months to 1st October 2020. NSFR requires banks to fund their activities with sufficiently stable sources of funding over a time horizon of a year.

Deferment of Last Tranche of Capital Conservation Buffer (CCB)

- As per Basel standards, CCB was to be implemented in tranches of 0.625% and the transition to full CCB of 2.5% was set to be completed by 31st March 2019.
- The RBI decided to further defer the implementation of the last tranche of 0.625% of the CCB from 31st March 2020 to 30th September 2020.
- The pre-specified trigger for loss absorption through conversion/write-down of Additional Tier 1 instruments (PNCPS and PDI) shall remain at 5.5 % of risk-weighted assets (RWAs) and will rise to 6.125% of Risk Weighted Assets on 30th September 2020.

3. Financial Markets

Measure to contain increased volatility of the rupee caused by the impact of COVID-19.

Permitting Banks to Deal in Offshore Non-Deliverable Rupee Derivative Markets (Offshore NDF Rupee Market)

- At present, Indian banks are not permitted to participate in the Offshore NDF Rupee Market.

- To remove segmentation between the onshore and offshore markets and improve efficiency of price discovery, the RBI decided to permit banks in India which operate International Financial Services Centre (IFSC) Banking Units (IBUs) to participate in the NDF market with effect from June 1, 2020.
- Banks may participate through their branches in India, their foreign branches or through their IBUs.

Dun & Bradstreet's view

Strong proactive measures have been taken by the Reserve Bank of India (RBI) to address the need of the country in times of heightened risk and uncertainty to growth. Such robust measures were unanticipated and would restore the confidence in the market, restrict foreign capital outflows, both in the debt and equity market, and will help in arresting depreciation of rupee. The 75-basis point cut in repo rate is in addition to the 135-basis point reduction in repo rate made by the RBI during 2019. The liquidity measures which will induce Rs 3.74 trillion in the system amounting to around 3.2% of GDP was a much-required impetus. Mitigating debt servicing burden to prevent transmission of financial stress to real economy was much needed as various countries globally have deferred loan payments from three to six months. However, banks might face difficulties to meet the capital adequacy norms which we expect will be further relaxed by the RBI during the short term. The deferment of increment capital conservation buffer from March to September 2020 will help to an extent in this regard.

While some of these measures are short -term in nature, long term structural measures such as widening the existing policy rate corridor from 50 bps to 65 bps, permitting Banks to Deal in Offshore Non-Deliverable Rupee Derivative Markets to improve price discovery of rupee and conducting long-term repos auction (LTRO) is laudable. LTRO is expected to bring down the cost of funds for banks, enable better transmission of monetary policy, manage bond yields, reduce the current redemption pressures in the debt market and boost working capital finance.