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Consol Bond - COVID-19 Financial Stimulus

What is the issue?

- With rising COVID-19 cases, urgent attention needs to be paid to the economy that is on a weakening trend.
- In this context, a Consol Bond issue is a more convincing solution for the government, to go beyond current revenue receipts to fund the complete stimulus.

What is the deficit scenario?

- In the Budget (2020) before the pandemic, India projected a deficit of Rs.7.96-lakh crore.
- However, even then there were concerns around -
    i. off balance sheet borrowings of 1% of GDP
    ii. an overly excessive target of Rs. 2.1 lakh crore through disinvestments
- The financial deficit number is set to grow by a wide margin due to revenue shrinkage from the coming depression.
- This will most certainly be accompanied by a lack of appetite for disinvestment.

Is the stimulus announced so far sufficient?

- In addition to the expenditure that was planned, the government has to spend Rs. 5-6 lakh crore as stimulus.
- The Finance Ministry is optimistic at this front and has suggested that the government will not exceed the borrowing limits indicated in the Budget.
- However, the stimulus provided so far and recent announcements by the RBI leave much to be desired given the ground reality.
- All the RBI's schemes are dependent on the availability of risk capital, the market for which has completely collapsed.
- RBI has been encouraging banks to lend to below investment grade micro, small and medium enterprises, but the results are not welcoming.
- The 60% increase in ways and means limits for States is a welcome move.
- But many States have already asked for double the limits due to the

shortages in indirect taxation collections from GST, fuel and liquor.
- The government and the RBI need to understand that half measures will do more harm than good, giving a false sense of security.

What is the Consol Bond?

- The COVID-19-led condition is termed as a war-like condition.
- Given this, it is fitting to look at war-time methods of raising finance.
- One such method that has been used as early as the First World War is the Consol Bond.
- Consol bond is a form of British government bond that has no maturity and that pays a fixed coupon.
- The value of a console bond was equivalent to its face value.
- The bonds, which paid out an interest of 5%, were issued in 1917 to raise more money to finance the ongoing cost of the First World War.
- The British government, in 2014, a century after the start of the First World War, paid out just 10% of the total outstanding Consol bond debt.

How will such a bond help India?

- For India, such bonds now would be a better option than the donations to PM-CARES Fund.
- Unlike PM-CARES, the proceeds of the bonds could be used for everything from PPE for doctors to a stimulus for small and medium-sized enterprises.
- Furthermore, with the fall of real estate and the lack of safe havens outside of gold, the bond would offer a dual benefit.
- It would be a risk-free investment for retail investors.
- Notably, most of the Consol bonds in the UK are owned by small investors, with over 70% holding less than £1,000.
- When instrumented, it would be issued by the central government on a perpetual basis with a right to call it back when it seems fit.
- An attractive coupon rate for the bond or tax rebates could also be an incentive for investors.
- The government can consider a phased redemption of these bonds after the economy is put back on a path of high growth.

Source: The Hindu