



## Guarantor beware

1. The Supreme Court judgment upholding creditors' right to proceed against personal guarantors to loans provided by them to a corporate borrower helps lift the uncertainty over the extent to which banks and other financial lenders can pursue not only the corporate debtor but also the individuals who had furnished personal guarantees to enable the flow of credit to the company they had stood surety for.
2. This ought to be of significant consequence to the financial system, already under a mountain of bad loans, by helping expedite the resolution of such stressed assets.
3. The court was considering a clutch of petitions challenging the government's 2019 notification that made personal guarantors a separate category of individuals who could be proceeded against under the Insolvency and Bankruptcy Code as part of the insolvency proceedings initiated by lenders against defaulting corporate entities.
4. In dismissing the petitions, the judges made clear that the government was right in "carving out personal guarantors as a separate species of individuals", given the "intimate connection between such individuals and corporate entities to whom they stood guarantee".
5. Banks now stand a real chance of recovering substantially more from the resolution of a stressed corporate entity, as in most cases it has been the relatively affluent promoters who have been standing as individual personal guarantors for the loans extended to the companies they promoted.

### Impact:

1. Several corporate leaders are set to be impacted. The promoters of many defaulting corporates, which are facing action under the IBC, had furnished guarantees for thousands of crores in loans availed by the companies they ran.
2. The State Bank of India alone had submitted in the apex court that it had served demand notices aggregating to more than ₹39,000 crores to individuals who had signed as guarantors for credit provided to corporate entities.
3. The judges also cleared the air over another issue that is bound to strengthen the creditors' positions in all ongoing, future and even completed insolvency proceedings.



4. The Bench ruled that the approval of a resolution plan for the corporate debtor does not extinguish the personal guarantor's liability, which it said: "arises out of an independent contract".
5. Lenders can now proceed against the guarantors to enhance recovery given that most banks agree to 'haircuts' when negotiating a resolution plan with a new promoter for the defaulting company.
6. The only wrinkle here is that once the resolution plan becomes legally binding, the guarantor loses the recourse to remedy from the borrower when the creditor invokes the personal guarantee.
7. Entrepreneurs will now have to think twice before signing a personal guarantee unless they can be very certain that the business they found will not flounder.

## Another challenge

The second wave of the pandemic has thrown up another serious challenge. There is now a growing number of mucormycosis cases being reported in COVID-19 patients.

### Highlights:

1. A concerned Health Ministry has now asked all States to classify mucormycosis, a fungal infection, as a notifiable disease under the Epidemic Diseases Act 1897; a few States have complied.
2. As a notifiable disease, every suspected and confirmed case is to be reported to the State Health Department. While the infection is caused by a group of moulds called mucormycetes, which are commonly found in the environment, the fungi are largely harmless under normal circumstances.
3. But COVID-19 patients with uncontrolled diabetes who are on steroid therapy face a higher infection risk. Breathing in the fungi spores can cause an infection in the lungs or sinuses which can spread.
4. Even when blood sugar is under control, indiscriminate steroid use can cause an increase in blood sugar levels, making such patients more susceptible to mucormycosis infection.



## Rational use of Steroids:

1. Patients with severe COVID-19 disease tend to develop a systemic inflammatory response leading to lung injury and multisystem organ dysfunction. While WHO “strongly recommends” that corticosteroids such as dexamethasone be used in treating patients with severe and critical COVID-19, they should not be used in non-severe COVID-19 patients.
2. The absence of any new or repurposed drugs to effectively treat COVID-19 patients and the lack of clear guidelines in using certain drugs have led to indiscriminate drug use, including steroids.
3. The rise in mucormycosis infection cases should be a wake-up call for COVID-19 patients and medical practitioners to use steroids judiciously for a limited period and in the right dosage, especially in diabetic patients; self-medication with steroids should be avoided at any cost.
4. Most importantly, in COVID-19 patients with diabetes, controlling blood sugar levels using insulin can help prevent mucormycosis infection.

This is one more reason why people, particularly those with diabetes, should get vaccinated soon. Since complete vaccination prevents severe disease, diabetics will not need steroids, and hence will not suffer from mucormycosis.

## Recalibrate growth, reprioritise expenditures

The second wave of COVID-19 currently sweeping India is forcing States into successive lockdowns, in turn eroding economic activities. The growth projections of different national and international agencies and the financial projections of the Centre’s 2021-22 Budget require recalibration. This will lead to a lowering of tax and non-tax revenues and an increase in the fiscal deficit as compared to the budgeted magnitudes.

## Fiscal space:

1. Two factors will affect the fiscal deficit estimate of 6.76% of GDP in 2021-22. First, there would be a change in the budgeted nominal GDP growth.
2. Second, there would be a shortfall in the receipts from tax, non-tax and non-debt sources.



3. This would call for revising the fiscal road map again. Protecting total expenditures at the budgeted level is, however, important given the need to support the economy in these challenging times. There is a case for reprioritising these expenditures.

### Other steps, vaccination

1. The second wave of the novel coronavirus has put a spotlight on India's serious under-capacity in health infrastructure. Given the likelihood of a third COVID-19 wave, there is an urgent need to ramp up health and related infrastructure by enhancing the number of hospitals and hospital beds, sources of oxygen supplies, and the manufacture of COVID-19 vaccines and drugs.
2. The allocation for the health sector should be increased substantially by reprioritising expenditures.
3. Construction activities within the health sector will have high multipliers. There may also be higher expenditure on inducting a larger workforce of doctors, nurses and paramedics and other hospital-related administrative staff.
4. Furthermore, strong support is needed for the vulnerable groups of the society including migrant labour and the rural and urban unemployed population.
5. Speedy and larger vaccination coverage of the vulnerable population is key to minimising economic damage.

COVID-19 vaccination is characterised by strong inter-State positive externalities, making it primarily the responsibility of the central government. The entire vaccination bill should be borne by the central government. The central government may transfer the vaccines rather than the money that it has budgeted for transfer. Some of the smaller States may find procuring vaccines through a global tender to be quite challenging.

### The many benefits of an eco-tax

Environmental fiscal reforms will reduce pollution and generate resources for financing the health sector.

### Highlights:

1. The Indian government announced a pandemic-related stimulus package in FY 2020-21 though there was a large decline in tax revenue. The fiscal deficit



for FY 2020-21 (revised estimates) is projected to be 9.5% of the GDP; for 2021-22, it is pegged at 6.8%. The focus is on maintaining fiscal discipline. In this peculiar scenario, sustained health financing in India remains a challenge.

2. The Economic Survey of India 2019-20 has outlined the fact that an increase in public spending from 1% to 2.5-3% of GDP, as envisaged in the National Health Policy of 2017, can decrease out-of-pocket expenditure from 65% to 30% of overall healthcare expenses.
3. This is where the importance of alternate sources of health financing in India needs to be stressed. The COVID-19 pandemic has also forced countries all over the world to rethink climate change and the need for the preservation of the environment. Fiscal reforms for managing the environment are important, and India has great potential for revenue generation in this aspect.

### Fixing the eco tax rate

1. Environment regulation, in turn, may take several forms: command and control; economic planning/urban planning; environmental tax (eco-tax)/subsidies; and cap and trade. India currently focuses majorly on the command-and-control approach in tackling pollution.
2. Ideally, the eco-tax rate ought to be equal to the marginal social cost arising from the negative externalities associated with the production, consumption or disposal of goods and services. This requires an evaluation of the damage to the environment based on scientific assessments. This would include the adverse impacts on the health of people, climate change, etc.
3. The eco-tax rate may, thus, be fixed commensurate to the marginal social cost so evaluated.

Environmental tax reforms generally involve three complementary activities:

- a. eliminating existing subsidies and taxes that have a harmful impact on the environment;
- b. restructuring existing taxes in an environmentally supportive manner; and
- c. initiating new environmental taxes.

Taxes can be designed either as revenue neutral or revenue augmenting. In the case of revenue augmenting, the additional revenue can either be targeted towards the provision of environmental public goods or directed towards the overall revenue pool. In developing countries like India, the revenue can be used to a



greater extent for the provision of environmental public goods and addressing environmental health issues.

In India, eco-taxes can target three main areas:

1. one, differential taxation on vehicles in the transport sector purely oriented towards fuel efficiency and GPS-based congestion charges;
2. two, in the energy sector by taxing fuels which feed into energy generation; and
3. three, waste generation and use of natural resources. Tax revenues can be generated through eco-taxes.
4. There is also a need to integrate environmental taxes in the Goods and Service Tax framework.

#### **Eco tax benefits:**

1. The implementation of an environmental tax in India will have three broad benefits: fiscal, environmental and poverty reduction.
2. Environmental tax reforms can mobilise revenues to finance basic public services when raising revenue through other sources proves to be difficult or burdensome.
3. Revenue from environmental tax reforms can also be used to reduce other distorting taxes such as a fiscal dividend. Environmental tax reforms help internalise the externalities, and the said revenue can finance research and the development of new technologies.

Hence, this is the right time for India to adopt environmental fiscal reforms as they will reduce environmental pollution and also generate resources for financing the health sector.