Create Congenial Ecosystem for Growth to Return & Rock

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THE
Prime Minister Narendra Modi has done well to put growth back on the national agenda without giving up vigil on Covid-caused influenza. He did this by branding achievements for the first year of Modi Government version.2 as Vikas Yatra.

"We will get our growth back. India will get its growth back"
Mr. Modi stated on 2 nd June while addressing the Annual Session of Confederation of Indian Industry.

He affirmed:
"Getting Growth Back is not so difficult. And the biggest thing is that now you, the Indian Industries have a clear path i.e. the way to Atmanirbhar Bharat; the path of self-reliant India".

He has, however, not backed his long-term vision with multi-faceted building blocks starting from ground zero. The country needs a workable, holistic action plan on the ground. In the absence of such bottoms-up plan, the unfolding ground reality is fuelling uncertainty. It is delaying return back to pre-lockdown era when growth was a way of life.

Hence, many stakeholders, ranging from Reserve Bank of India (RBI) to Moody's, see growth bogged down in negative zone in 2020-21. This puts a question mark over both the impact of phased lockdown exit & its stimulus package.

Before mooting the immediate road-map to kickstart the grounded sectors of economy, balance PM's optimism with pessimism from credible institutions.

Consider first the findings of latest Consumer Confidence Survey (CCS) conducted by RBI. Released on 4th June along with two other surveys, CCS says:
"Consumer confidence collapsed in May 2020, with the current situation index (CSI) touching historic low and the one year ahead future expectations index (FEI) also recording a sharp fall, entering the zone of pessimism".

Factor in now the minutes of RBI's Monetary Policy Committee (MPC) released on 5th June. In the 3-day MPC meeting ending 22nd May, RBI Governor Shaktikanta Das said:
"the growth outlook has deteriorated sharply. There is still uncertainty as to when the COVID curve will flatten. Even as the supply side is expected to ease gradually as the lockdown related restrictions are phased out, it is the demand side, which will continue to weigh heavily on economic activity for some time to come".

This concern found echo in observations made by another MPC member, Dr. Ravindra H. Dholakia. He observed:
"a distinct possibility of the real GDP growth in India during 2020-21 to be in the negative zone for the first time in the last 40 years. Even the nominal GDP growth may slip into the negative zone. There are all symptoms of a recession â€“ fall in aggregate demand, negative real growth and high unemployment".

Dr. Michael Debabrata Patra, Deputy Governor in charge of monetary policy, shared the worry as:
"the damage is so deep and extensive that India's potential output has been pushed down, and it will take years to repair".

Consider now Moody's rationale to downgrade India's foreign-currency and local-currency long-term issuer ratings to Baa3 from Baa2 on Ist June 2020 amidst raging pandemic. It retained a negative outlook on the ratings. In November 2019, it had changed the outlook on the India's ratings to negative from stable.

Moody's explained that the rating downgrade
"was not driven by the impact of the pandemic. Rather, the pandemic amplifies vulnerabilities in India's credit profile that were present and building prior to the shock, and which motivated the assignment of a negative outlook last year".

Referring to diverse stimulus initiatives unveiled before and after outbreak of Covid-19 infection, It says:
"Moody's does not expect that these measures will durably restore real GDP growth to rates around 8%, which had seemed within reach just a few years ago".

The most crucial observation made by Moody's is this:
"Governance is material to India's credit profile and a material factor in today's downgrade. The country's scores are moderate on institutional factors, as measured by the Worldwide Governance Indicators, reflecting modest government and policy effectiveness compared with peers".

It added:
"Policymakers' limited success in achieving stated objectives in recent years -- an important aspect of governance under Moody's definitions â€“ together with Moody's expectation that policymaking will remain challenged is an important driver in both the downgrade to Baa3 and the assignment of a negative outlook ".

This brings us to first I of the five I's that Mr. Modi expounded at CII: Intent, Inclusion, Investment, Infrastructure and Innovation. He stated these 5Is are essential to build a self-reliant India and to bring India back on the path of rapid development.

Looking at the â€˜***Intent***
' from angle of governance deficit, the Government should show courage to pay heed to unpleasant feedback on implementation of well-intentioned policies and schemes.

This should be coupled with governance transparency that inspires confidence among all stakeholders. The Government is found wanting in sharing vital information on pandemic and lockdown. Its interaction with the opposition parties falls too short of Mr. Modi's 2014 resolve to pursue consensus politics.

The Government should realize that Covid's relentless march is enhancing uncertainty. Everyone is clueless as to what Government would do when Covid explodes to reach peak. Would Government re-impose stringent, national lockdown when the infection peaks. This is heightening uncertainty among in the business community. Many have thus risk aversion for taking loans under the Rs 20-lakh crore fiscal-cum-monetary stimulus package.

Let the Government make a categorical statement on its lockdown policy. Let the Government speak on the risk of 2nd wave of pandemic - the emergence and spread of covid in villages. This risk can't be kept under wraps by the Government. The Government should disclose how it is prepared to face this 2 nd wave challenge including on the agriculture front.

The Government ought to make public all reports of different groups constituted to tackle corona virus. The Government should not be too touchy about its criticism. There are bound to be genuine and few deliberate errors in managing complex and vast country of continental dimensions. The more information Government puts in public domain, the better it is for businessmen to understand all risk directly or indirectly related to Covid.

The Government should not reduce its interface with citizens when going gets tougher and heads towards toughest phase - Covid explosion.

The Government should realize that ever-changing lockdown rules at national, state, municipality and community levels are not conducive to doing business. The complex web of dynamic rules cannot end the demand and supply crunch. It can only choke or slow down working of supply chains.

While maintaining containment zones where virus is rampant, the Government should allow all economic activity with repeated reinforcement of need for standard prevention measures. The physical distancing in the working population and at work places can be improved by introducing round-the-clock working.

The Government & enterprises ought to give incentives for persons who can work from home and for those who would have to come to workplace during the night shifts.

Let the workplaces buzz with activity to catch up not only growth but to also make up for slippages that started with demonetization in late 2016.