

Economy Needs Much More Than Phased Fiscal & Monetary Stimulus

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INDIAN Government remains glued to fixed path of phased & muted response to worsening economic crisis. This is evident from the Finance Ministry's latest Covid-19 relief package announced after prolonged outcry from different stakeholders.

Conceived to stimulate demand, the package is too little to make any significant impact of gross domestic product (GDP). The conditions attached to package are likely to constrain the Ministry's expectation to generate additional demand for goods and services worth over Rs 1 lakh crore. Analysts have estimated the cost of package as mere 0.2% of GDP.

India's fiscal stimulus looks too modest when compared to the one unveiled by other G20 countries and when compared to the challenge at hand. Several reputed entities have forecast alarming negative growth of GDP in range of -9.5% to -14.8 for the current financial year.

As put by RBI in its latest Monetary Policy Report,

"the uncertainty about COVID-19's spread and trajectory continue to fog the outlook and makes forecasts of real GDP growth extremely challenging".

We can roughly take an average of all projections as 10% contraction in economy during 2020-21. The fall in GDP on per capita basis would, however, be higher than 10%. Cautious International Monetary Fund (IMF) has estimated this at -11.2% for 2020-21.

India's Lockdown-triggered socio-economic woes were rightly described by a top IMF official as ***"horrible crisis"*** on 13th October. He was responding to a question at press briefing of release of IMF's World Economic Outlook.

He stated:

"On the fiscal side we believe there is more that can be done to provide support to households that have been affected by this, to provide support to firms that have been affected by this pandemic with the shutdowns and to tilt the composition of the fiscal support towards more of the direct spending and tax relief measures and to rely slightly less on the liquidity support measures, the credit guarantees, which are clearly important to support the provision of credit in the economy. But if you look at the approach that was taken, there was more of an emphasis on that type of measure. We think that there is room to recalibrate and to provide more direct relief and spending support, which could have a first order impact on preventing even worse outcomes".

The economy's double-digit collapse thus does not leave more room for wait & watch strategy. It is time to jettison unveiling of packages in bits and parts. We urge the Government to revisit the entire gamut of factors from political to social issues that constrain return to fiscally sustainable, robust growth.

First and foremost, the Government should put on the backburner, reforms that trigger agitations such as rail roko and road blocks. The permanent blockade of few rail tracks by farmers in Punjab is affecting economy hard.

India should not block its economic resurgence. The Centre should thus put on hold two controversial farm laws till the Supreme Court decides whether the enactments are unconstitutional as agriculture is a state subject.

Alternatively, the Centre should accept farmers' demand for minimum support price (MSP) law for at least the 23 crops for which MSP is announced every cropping season.

The Government should not shun process of consultation and debate on its proposed reforms agenda. Thrusting reforms through overnight ordinances is bound to trigger bandhs, which we must avoid at all cost.

The States must effectively manage law and order challenges to minimize crimes of all types ranging from attack on doctors to rape, dacoity and murder. This would minimize risk of abrupt public protests that invariably affect road traffic.

Second, the Government must stabilize regulatory environment to usher in clarity and stability in business environment. The well-intended call for self-reliance is leading frequent changes in Public Procurement (Preference to Make in India) Order and tendering guidelines.

Third, it is high time to give up the strategy of phased unlocking with no end in sight. Complete unlocking, however, must be preceded by free supply of masks, soaps and sanitizers to the poor people. This should be coupled with free testing all over the country.

Third, both the Centre and the States should understand that there is more to the meltdown than the negative GDP number. It has eroded substantially, economic base extending from street hawkers to stock-market-listed large enterprises. Countless small businesses remain shut. Many won't be able to restart. Millions of migrant workers are still jobless. Companies have yet to moderate their aversion to the risks in investing in expansion or greenfield projects.

The Government should provide minority equity support up to 24% in greenfield, viable projects. Such investment would reduce risk aversion. The shareholders agreement for such projects should provide safeguards and timeline for divestiture of Government stake.

Put simply, the longer the delay in unveiling holistic short-term, medium-term and long-term road-maps, more difficult and staggered would be the economic revival. Double-digit growth rate is the only way to fulfil growing aspiration of the teeming crores of people.

The Government ought to resort to expenditure cuts on unproductive projects such as new Parliament building, museums and statues. All such projects can be put in deep freeze, if not scrapped altogether. The Government should put pause on electoral compulsions-led welfare expenditure.

The Government should not mind criticism of factors that have contributed to economic downslide right from demonetization to mismanaged GST to wrong-timed & mismanaged lockdown. This is because criticism and public discourse facilitate emergence of better solutions to the problems. It is here pertinent to cite G20 Finance Ministers' Communiqué dated 14th October 2020.

It says:

"We commit to evaluate and learn the lessons from the impact of COVID-19 on our economies and the global financial system, as well as from our economic, financial and health response, and consider integrating these into future policy design where appropriate."

The Finance Ministry should translate this commitment into action by setting a task force that should do a quick desk study on lockdowns, stimulus packages and projected GDP of comparable countries. We, like rest of the world, would like to know why China, the exporter of Covid-19, would post positive GDP growth of 1.9% in 2020. How it controlled viral infection without national lockdown.

What has enabled Bangladesh to attain projected GDP growth of 3.8% in 2020. It too had prolonged national lockdown. Its population density is a few times more than India's and yet it suffered fewer Covid-caused deaths. More important is to study the fact that Bangladesh's GDP per capita is comparable with India's. The former might overtake latter in the growth race.

Time is ripe to do sincere introspection on the complex interplay of factors that hold back India from attaining sustained, double-digit growth over the medium to long run. Quick introspection should be followed by action in all domains to reduce economic uncertainty.