

WILL IT WORK?

Is the government's stimulus package the antidote the Indian economy needed to recover from its pandemic seizure? The Board of India Today Experts (BITE) weighs in



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● What do you think are the high points and shortcomings of the government's financial stimulus?

● D.K. JOSHI

The Rs 20.9 lakh crore economic stimulus is purportedly to support India's vulnerable population and businesses besides improving the growth potential via medium-term reforms. But, in fact, it is focused more on raising the 'trend rate' of growth than supporting the current cycle. It does not have enough to provide immediate relief to the millions affected by the pandemic. The design of the package is heavily influenced by the limited fiscal space available—and the actual fiscal hit is only about 10 per cent of the overall package. This situation needs generous fiscal support, as downside risks will dominate till a vaccine or reliable cure becomes available. On the positive side, agriculture gets the biggest reprieve. A new legal framework, long overdue, will give farmers the choice to sell their produce directly rather than being captive to the Agriculture Produce Market Committees, which instead of supporting farmers have left them exposed to price manipulation by traders and commission agents. The reforms in mining and minerals and the focus on health and education are the other positives, but implementation has to be monitored.

● VINAYAK CHATTERJEE

The high point is that the prime minister took a bold call in skipping conservative recommendations to announce a Rs 20 lakh crore package. But the problem is that the country requires a cash outlay of Rs 30 lakh crore. I have studied rational demands across categories and the economy requires a Rs 30 lakh crore cash stimulus, not reform stimulus—Rs 30 lakh crore is almost 14 per cent of India's GDP. In the current package, the fiscal impact is only 1.5 per cent.

● MAITREESH GHATAK

I would say it is rather small. The quoted number of Rs 20 lakh crore,

or 10 per cent of GDP in 2019-20, clearly overstates the size of the package. The general view of financial analysts and industry experts (such as the HSBC Global Research report, co-authored by chief economist, of HSBC, India, Pranjal Bhandari) is that the 'immediate additional fiscal' resources put on the table by the Centre—taking together this package and the one announced by the finance minister on March 26—is a tenth of the stated figure: 1.1 per cent of GDP or around Rs 2.1 lakh crore. Given



The problem is that the economy requires a Rs 30 lakh crore cash stimulus, not reform stimulus

— VINAYAK CHATTERJEE

that we are dealing with a once-in-a-century kind of public health and economic crisis—with predictions of GDP contraction of around 45 per cent in Q2—more can be done.

● N.R. BHANUMURTHY

The stimulus package has left all with mixed feelings. The lockdown has affected the growth prospects of the economy quite significantly, with most forecasts suggesting a contraction and recession. The stimulus package was supposed to revive the economy, especially the demand side. The second stimulus is largely a repackaging of the first plus the recent RBI measures. Various estimates suggest the actual fiscal stimulus is just about 1.5 per cent of GDP. However, the package has

some important structural measures that will help on the supply side, with potential to boost growth in the medium to long term.

● SHAMIKA RAVI

The high points are the structural reforms in agriculture and the sweeping market-friendly reforms across sectors. The humanitarian part of the package is comprehensive too; it targets the most vulnerable. The economy cannot be reopened without credibly addressing fears of infection and resurgence. A health crisis fuels economic crisis since people don't consume, work or invest when gripped with fear and uncertainty. We need a major healthcare package as part of the economic stimulus.

● R. NAGARAJ

The high points are the liberalisation and privatisation measures, which unfortunately are only remotely related to the immediate need of addressing the humanitarian crisis. The fiscal stimulus is meagre for the crisis at hand—rehabilitation of the displaced and distressed migrant workers.

● S.C. GARG

The stimulus was to serve three key policy objectives: i) put the growth engine back on track; ii) help businesses, especially small ones, survive and revive; iii) provide compensatory cash assistance to the millions who have lost their jobs. The first instalment did have some cash and food support. The [new] package is more gas than substance, provides very little fiscal support and places too much hope on the credit channel. Its biggest credit component (Rs 3 lakh crore to 4.5 million units), addresses only a fraction of the 75 million MSMEs. And even that stimulus, backed by the government guarantee, may fizzle out on account of the risk-averseness of banks and too much friction in the credit pipe. ■

Q.

What else can the government do to stimulate a revival?

● D.K. JOSHI

The impact sequence first. The pandemic created a supply shock as production of goods and services stopped [abruptly]. The impact on demand is more complicated. In the short run, the perceived supply shortage could have prompted consumers to hoard, creating excess demand for essentials. In the long run, factory shutdowns and resultant layoffs and income loss will weigh on demand.

The stimulus has two objectives: i) to minimise damage to households and businesses, so they can participate in the recovery and ii) to support the economy during the recovery phase with a demand stimulus. Right now, the stimulus is focusing on the first.

India is not in a position to spend its way out of the hardship, but given the depth of the slowdown, the current measures will need to be topped up in scale and scope. Micro enterprises that lack a capital buffer to sustain themselves in stressful times may wind up. Direct cash support and labour reforms that strengthen the safety net will need more focus.

● VINAYAK CHATTERJEE

My studied calculation shows the requirement is Rs 30 lakh crore. We need Rs 2 lakh crore for a discom bailout; Rs 10 lakh crore for infrastructure and large public works; Rs 3 lakh

crore for social and misery alleviation, Rs 1 lakh crore for healthcare capacities; Rs 6 lakh crore for support to state governments; Rs 3 lakh crore for MSMEs and other sector-specific bailouts; and Rs 5 lakh crore for financial sector support. In an unprecedented crisis like this, we have to think outside the box. We can fund it in the following ways: 4 per cent by increasing the fiscal deficit of the Union budget; 5 per cent through creation of a National Renewal Fund (NRF) Stage I; 5 per cent through an expanded NRF Stage II. The NRF could be a 50-year fund with a moratorium on repayments for the first 10 years. Thereafter, the fund can be wound down through a 1-2 per cent cess on all direct or indirect taxes. The NRF may be funded 60 per

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Direct cash support and labour reforms that strengthen the safety net will need more focus

- D.K. JOSHI

cent by government borrowings in the domestic market and 40 per cent internationally through friendly development financing institutions.

● MAITREESH GHATAK

I think it should be focused on direct cash transfers to individuals struggling to survive (including those who have lost their jobs). What makes this crisis harder are the simultaneous supply- and demand-side constraints. Without demand, supply won't be forthcoming. And, irrespective of demand, supply won't be forthcoming without

normal economic activity. Yet, most reforms announced have focused on supply-side remedies. Without paying attention to demand, recovery will be limited. There is also a strong case for focusing public expenditure on recruiting and training healthcare workers capable of doing basic tests and on supplies of testing kits and PPE. This will help lift the lockdown selectively as well as generate demand and employment as the economy recovers from a period of massive losses.

● N.R. BHANUMURTHY

As the current slowdown is largely due to a demand slump, the government should have taken measures to increase disposable incomes. It could have used the JAM (Jan Dhan-Aadhaar-Mobile) trinity to channel more resources to the rural poor. There is an increase in MNREGA allocation, but the Centre could have also increased the maximum number of person-days under the scheme from the current 100 days. As the states are at the forefront of this battle, the Centre should help them with their borrowing programme and/or front-loaded GST proceeds (especially the compensation part). The stimulus package depends heavily on public sector banks, and the Centre could have heeded a long-standing demand to recapitalise them.

● SHAMIKA RAVI

The government's main role right now is to lower uncertainty. It can do so by implementing a Covid management plan at the national level to instil confidence among citizens. With an investment of Rs 1 lakh crore on a comprehensive Covid-response strategy—including mass testing, isolation, distribution of masks, recruitment of additional health HR and upgradation of public health facilities into health and wellness centres—India could cut down losses of Rs 2 lakh crore per

week due to the lockdown. And while it may be difficult to envision a date when the number of cases drops very low (or hits zero), easing containment policies without a viable alternative like 'test and isolate' in place risks bringing us back to our current situation. Our strategy, once implemented, must be able to continue for the next 18-24 months (until a vaccine is widely available). Fear for our own health and uncertainty about additional lockdowns is driving a significant part of the current economic downturn.

● **R. NAGARAJ**

To begin with, the government has to admit that we are in the midst of a humanitarian crisis caused by a shock decision to lock down the economy. Workers rendered jobless and homeless had to be retained in the cities and protected from the pandemic and hunger. After all, these workers are needed to restart the economy. This required government at all levels to work together and rehabilitate distressed workers with food and income. This called for far greater government support in cash and in kind.

● **S.C. GARG**

A revival will hinge on four policy decisions: 1) unlock the economy—allow all businesses to start without a straitjacket of conditions; 2) use the principle of 'management by exception' to handle COVID-19 as a massive health risk—increase random testing and isolate the vulnerable and infected, not people generally; 3) provide a package of 50 per cent grant and 50 per cent credit support, equal to 5 per cent of GDP to over 70 million MSMEs; 4) provide wage support amounting to 25 per cent of wages to over 100 million workers who have lost jobs. The Indian economy will contract by 5-10 per cent or more if we don't take these measures. ■

Q

A. Do you think the push to ease the terms of credit can spur demand in the current situation?

B. Is consumption-led growth a mirage in the current situation, given the job and income losses all around?

● **D.K. JOSHI**

A. Easing the terms of credit will help households and businesses to better manage the disruption in economic activity to some extent. But because of heightened uncertainty, household consumption will remain subdued, while overall savings may go up. Consumption demand will pick up gradually.

● **VINAYAK CHATTERJEE**

A. The liquidity push only enables businesses to survive. It does not create a sterling demand. The measures announced are a supply-side solution. Demand-side solutions can come with very large public works programmes.

● **MAITREESH GHATAK**

A. I don't think so. It is a supply-side move. In the absence of demand, it is unlikely that businesses will want to borrow and increase their debt, given the uncertain future outlook.

B. Before the crisis had hit, the economy was going through a protracted slow-down that was largely demand-driven. Slackening consumer demand had spilled over to low investment because

corporates were hesitant to invest due to a loss of confidence in the outlook. This stemmed from investors' perception that growth in demand for their products was lacklustre. The lack of income in the hands of the poor and non-poor who have lost jobs means that without any direct income transfers (think of these as negative income tax), consumption-led growth may prove elusive.

● **N.R. BHANUMURTHY**

A. The Centre's credit guarantee scheme could help credit flow to MSMEs and the agriculture sector. Banks are wary of lending and are parking additional liquidity with the RBI even when reverse repo rates are further down. If the Centre's guarantee reduces frictions in monetary policy transmission, it could revive demand.

B. To revive the economy at this juncture, we must focus on reviving consumption, especially among the lower and middle classes. A fiscal stimulus that

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Demand is unlikely to pick up unless there is a clear healthcare roadmap

— **SHAMIKA RAVI**

increases their disposable incomes can spur consumption. Investment demand, which is subdued now, depends heavily on the revival of consumption demand. Consumption is still an important engine of growth for India, even more so in difficult times.

● **SHAMIKA RAVI**

A. It would most definitely do so in some sectors, like essentials. But, more broadly, demand is unlikely to pick up unless there is a clear healthcare roadmap.

B. Not for some essential sectors, but

definitely a mirage for others like travel, tourism, hospitality etc.

● **R. NAGARAJ**

A. Not very much, in my view. An entrepreneur's decision to take loans depends not just on the interest rate but also on the demand for his output. With low demand, reducing interest rates or offering interest-free loans may not spur credit offtake. People need money in hand to buy goods, which is missing as workers have lost jobs.

B. This government has propagated the myth that the Indian economy is a consumption-led success story. For many years, private consumption demand has

remained at 59–60 per cent of domestic output, or GDP. In fact, between 2012 and 2018, per capita personal consumption (net of inflation) declined by 3.7 per cent. However, after the lockdown, with massive production and job losses, consumption demand has expectedly collapsed. It is this that needs to be addressed with income support.

● **S.C. GARG**

A. The Rs 3 lakh crore credit package for 4.5 million existing MSME borrowers is built on the shaky foundation of high NPAs and repayment moratoriums for borrowers of doubtful creditworthiness. The package will most

likely dissipate in implementation.

B. For the upper-middle class and high-income class, the lockdown has been a restraint on discretionary expenditure—travel, restaurants, high-value consumer goods etc. Their savings are ending up in bank deposits, which grew by Rs 3 lakh crore in April alone. The lower income class has lost its ability to buy even essentials. This lot was spending on *roti, kapda, makaan*—plus education. If they get some fiscal assistance, they can hold up some amount of consumption. But consumption cannot lead the growth revival this year; it can at best ensure that the contraction is not too severe. ■

Q

Can China's loss be India's gain?

● **D.K. JOSHI**

The pandemic has created an environment of mistrust in China and India has a chance to ramp up its manufacturing sector substantially as the case for companies and supply chains to move out of China strengthens.

However, being a consumption-driven economy with a large domestic market, a young population and abundant labour supply at a reasonable cost may not be enough. Vietnam and Bangladesh have lapped up such opportunities in labour-intensive sectors in the past. The pandemic offers a chance to make big changes to labour and land laws, and regulations aimed at policy certainty, contract enforcement and curbing red tape. These will have to be complemented by significant engagement with

countries and companies planning to diversify out of China.

● **VINAYAK CHATTERJEE**

Firms looking to relocate have mixed feelings about India because ours is not a country for foreign investments, as recent incidents with Vodafone and Nokia have shown. Plus there is too much bureaucratic hassle. But I have a solution for that—coastal economic zones, an idea mooted by Dr Arvind Panagariya when he was vice-chairman of the NITI Aayog (between January 2015 and August 2017). There should be a superior version of the special economic zones to eliminate

most of the negatives associated with doing business in India.

● **MAITREESH GHATAK**

It can be to some extent, and there has been some positive news in this regard recently. However, given the fundamental factor market rigidities and general bureaucratic sloth built into the system, I don't see this happening at a major scale, at least not in the near future.

● **N.R. BHANUMURTHY**

In the present global environment with Covid and the US-China tussle, it is expected that many companies could move out of China. This, if it happens, would certainly be a great opportunity for India, which is turning out to be a favourable destination among all emerging markets. For this, compared to other competing destinations, there are some structural issues we may need to sort out, especially in the factor markets. However, I doubt that a large number of companies will exit China. Once the pandemic subsidies and the US election in November is done, the global environment could be very different.

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We will have to make our industry competitive and reset our industrial policy regime

— S.C. GARG

● **SHAMIKA RAVI**

Yes, if we get our act together and improve business environment by reducing regulatory and bureaucratic burdens. Remember there are several others who are also keen to gain from China's losses. Also, China is unlikely to take "losses" lying down. They will up the ante and make their markets more attractive for investors and global business.

● **R. NAGARAJ**

In principle, yes. As industrial wage rates have risen in China over the past decade, many labour-intensive industries are moving to countries like Vietnam or Bangladesh. Now, after the pandemic, a lot of footloose industries are seeking to relocate their factories. India could potentially attract such investments. Liberalisation and privatisation initiatives included in the economic package are, I guess, a signal to foreign capital that India is open for business. The Uttar Pradesh chief minister's ordinance to abrogate labour laws for three years is also directed at foreign investors. However, I am not optimistic. India lacks infrastructure and targeted industry and location-specific incentives to compete with China. Moreover, Indian industries need to become part of global production networks to attract export-oriented FDI.

● **S.C. GARG**

Relocation of production from China has been going on for some time now. With per capita income rising to over \$10,000 now and labour shortages becoming more and more visible, China has started offshoring its textile industry. The trade war with the US has diverted about 6 per cent of American imports away from China in the past two years. The present discomfort with China is likely to lead to a lot of relocation of investment and production.

Our domestic industry is internationally non-competitive in most products. It is not part of a global value chain. We pursue several policies that make our industry uncompetitive—higher power cost, hugely restrictive and costly land policy, a complicated tax regime, high cost of credit and so on. To take advantage of the industrial shift from China, we will have to make our industry competitive and reset our industrial policy regime, or we might keep missing the bus. ■

Q.

What do you make of the 'Atmanirbhar Bharat' slogan? Is India ready for self-reliance?

● **D.K. JOSHI**

If 'Atmanirbhar' means import tariffs to promote import substitution, it is not a good idea. But if it is used in the broader sense and includes attempts to attract foreign investments for the domestic and export markets, it is certainly worth pursuing.

● **VINAYAK CHATTERJEE**

At a geo-political level, it is cor-

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I am worried. This slogan should not lead us to the path of protectionism and isolationism

- **MAITREESH GHATAK**

rect, there are too many nations who are doing this. The US says America first, Britain has moved out of the European Union with Brexit. The whole discourse has changed, all nations are looking at being *atmanirbhar*, it is right for Prime Minister Narendra Modi to emphasise on self-reliance at this point

● **MAITREESH GHATAK**

A good slogan at an individual level and a virtuous character trait, but specialisation, division of labour, trade and exchange lie at the heart of a modern economy.

I am worried. This slogan should not lead us to the path of protectionism and isolationism. It is one thing to develop a capacity to withstand upheavals in the global economy but quite another to have an inward-looking economic approach based on import substitution.

● **N.R. BHANUMURTHY**

It is not clear yet if 'Atmanirbhar Bharat' means an inward-looking and protectionist model, which has failed in the past. If it means reducing reliance on imports while allowing foreign participation in the production process domestically, then it is quite possible to succeed. For this, there is a need to do a lot more to improve competitiveness (over trading partners). And with huge development gaps across, improving competitiveness is a long shot, but not impossible.

● **SHAMIKA RAVI**

Atmanirbhar Bharat is all about resilience and competitiveness of the Indian economy against an uncertain global future.

● **R. NAGARAJ**

Self-reliance means greater dependence on domestic production, savings and investment. In other words, it means less dependence on (i) imports of goods and services, and (ii) foreign capital and enterprise. In fact, self-reliance was the principal pillar of India's economic policy until free-market economic reforms were initiated in 1991.

There appears to be a



Structural reforms are immaterial in the short run as the economy is not affected by supply bottlenecks

— R. NAGARAJ

contradiction between the prime minister's call for greater self-reliance and the finance minister's push for liberalisation and privatisation, seeking to attract foreign capital and enterprise in even strategic defence-related industries. The government needs to sort out these contradictions in its policy pronouncements.

● S.C. GARG

You have termed it a slogan. The package has not yet been explained in terms of policy. We are not self-sufficient in technology, capital and markets. As long as it remains a slogan and does not translate into policy of restricting technology imports, capital flows and open trade, we will not suffer the fate of low growth witnessed in the first 40 years of our independence. Let us not fall into the trap of trying to raise domestic production by raising high tariff walls, denying Indians the choice of quality global products and preferring domestic technology over best globally available technologies. ■



What are the hits and misses of the new reforms push?

● D.K. JOSHI

The right noises have been made on deepening structural reforms, be it agriculture, mining, ease of doing business or social infrastructure. The present moment can also be an opportunity to direct some focus towards addressing the migrant labour issue to improve our preparedness for future crises. As for hits or misses, these will be a function of implementation.

● VINAYAK CHATTERJEE

The boldness of the idea is a hit, but the package is low on cash. Ideally, it should have been 70 per cent Public Works Programme, 20 per cent liquidity infusion and 10 per cent reforms. That's the pyramid we needed, but we have an inverted pyramid instead.

● MAITREESH GHATAK

It will take some time for the dust to settle and the full picture to emerge from the plethora of announcements, so I would not like to comment right away. However, I did not see anything major about factor market reforms.

● N.R. BHANUMURTHY

The second stimulus focused on many structural reforms and some of them were pending for a long time. Reforms such as 'one nation, one ration card', relaxing the Essential Commodities Act, unshackling the mining sector, FDI reforms are expected to structurally improve economic activities and promote ease of doing business in the country. Apart from land and labour issues (both are pending in Parliament), one of the areas missing was policy measures to strengthen public sector banks (PSBs). While the

government heavily depends on PSBs to implement its agenda, there appears to be gross neglect when it comes to strengthening them. Another area is fiscal policy, where the situation is precarious at both the Centre and state levels. Hope the government soon comes out with a credible medium-term fiscal framework.

● SHAMIKA RAVI
Answered.

● R. NAGARAJ

Additional demand generated by the stimulus seems modest compared to the collapse of output and employment after the lockdown. The liquidity support to MSMEs is unlikely to generate additional demand for loans, as there is an excess supply situation in most industries and in agriculture commodities (barring the immediate supply disruptions caused by the lockdown).

Structural reforms, which form the bulk of the package, are immaterial in the short run, as the economy is not affected by supply bottlenecks (on account of excessive government regulations). The reform agenda, packaged with the immediate requirement of fiscal stimulus, appears at best a distraction and, at worst, as advancing the ideology of small state—"minimum government, maximum governance"—in the guise of self-reliance.

● S.C. GARG

The prime minister spoke about reforms of land, labour, liquidity and laws. The reform package unveiled so far has components of agriculture reform only. The rest of the reforms are eagerly awaited. ■