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Suggestions and Strategies for Reviving Economic Cycle after the Pandemic

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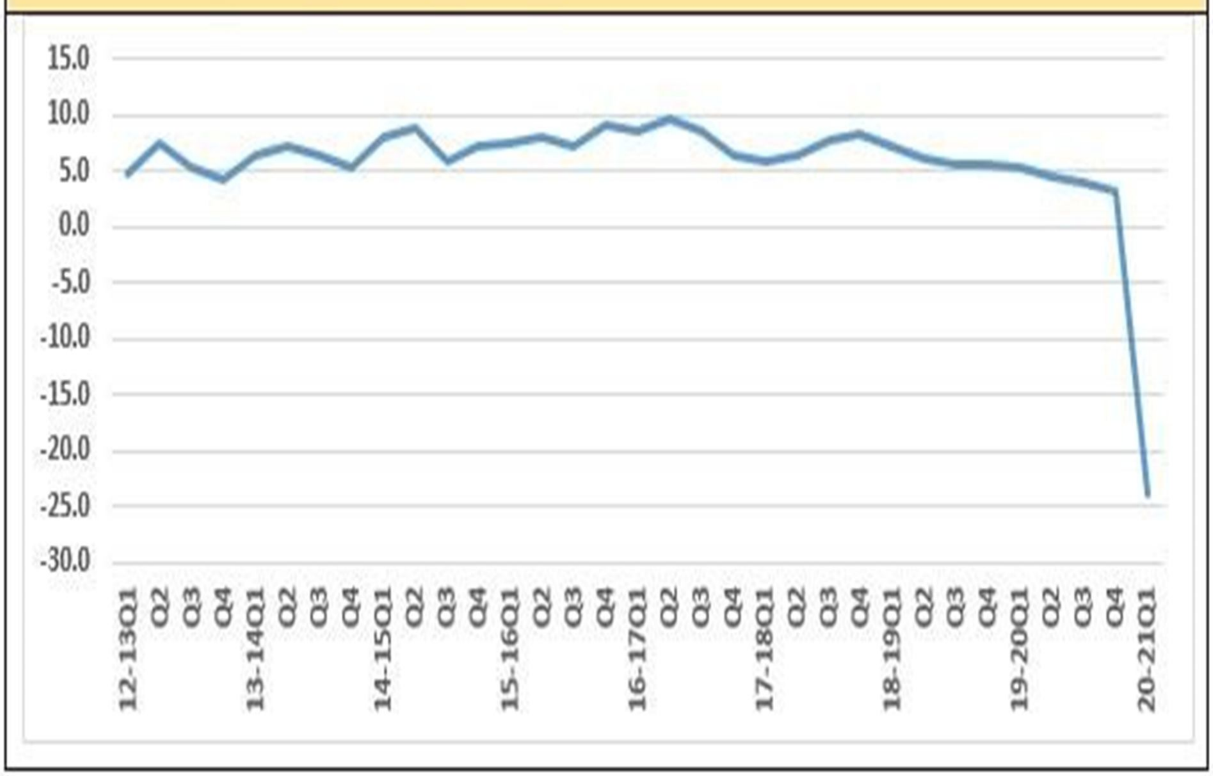
I. INTRODUCTION

“When learning is purposeful, creativity blossoms. When creativity blossoms, thinking emanates. When thinking emanates, knowledge is fully lit. When knowledge is lit, economy flourishes.”
-A.P. J ABDUL KALAM

The novel coronavirus which originated In Wuhan, China in 2019, and hit the world in 2020, following which Immediate lockdown and shutting down of countries was seen, and in a mere few days the face paced global economy took a backseat. The loss of lives, livelihood and economy was seen, the one like we’ve never seen before. The current health crisis has wiped us of years of gains, affecting woman, low wage workers and people of color amid this there are hopes to revive economy and await a boom in the economy, several world leaders, economists regularly voice their opinions and researches regarding, various steps to increase industrialization and provide more jobs, and to cope with the demands. There is hope around the corner with several countries rolling out they’re vaccination programs. The diagram of **Figure 1** excludes the GDP growth rate for the first quarter of 2020-21. The trendline tells the story: since Q1 of 2018-19, quarterly GDP growth rate has been sliding downward. The last quarter of 2019-20 saw a growth rate of 3.1 percent, less than the 4.3 percent of the last quarter in 2012-13.

FIGURE 1: Trends in quarter-wise growth rates of GDP (2011-12 series)



Talking about one of the worst hit country India , the economy is gradually recovering , taking a look back at the September quarter,

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once the restrictions were released the economy picked up its pace faster than expected , the increased pace in manufacturing helped GDP clock at a lower contraction of 7.5 percent , owing to the great deal of manual power that India holds , the manufacturing unit , majorly started contributing to the economy , the production line varied from medicines to clothes , the demand at consumer end started increasing, also , the various international relations which the country shares with others and the export of items began rapidly. Fiscal, monetary and financial sector measures announced till date provided much-needed support to the economy, including businesses, agriculture, and vulnerable households. The Indian government in this case is extending large handed support to prioritize swift implementation of existing support groups and also in helping in expanding their scope.

TABLE 1: Share of sectoral GVAs in total GVA in Q1 (April-June) of 2019-20 and 2020-21 (at 2011-12 prices)

	2019-20		2020-21		
GVA at basic prices from	Q1	Share in total GVA (%)	Q1	Share in total GVA (%)	20-21Q1 growth direction
Agriculture, forestry & fishing	439842.6	13.3	454657.9	17.8	⇑
Mining & quarrying	92806.5	2.8	71208.9	2.8	⇓
Manufacturing	578936.5	17.5	351395.6	13.8	⇓
Electricity, gas, water supply& other utility services	81627.9	2.5	75876.7	3.0	⇓
Construction	262827.8	7.9	130749.6	5.1	⇓
Trade, hotels, transport, communication and services related to broadcasting	630860.5	19.1	334284.4	13.1	⇓
Financial, real estate & professional services	803322.2	24.3	760490.9	29.8	⇓
Public administration, defence & other services	417483.0	12.6	374656.2	14.7	⇓
GVA at Basic Price	**3307707**	**100.0**	**2553320**	**100.0**	**⇓**

* Absolute GVA figures are in Rs. crore

Data Source: Ministry of Statistics and Programme Implementation (MoSPI)

TABLE 3: Monthly NIC 2-digit sectoral growth rates of industrial production (base: 2011-12)

NIC 2008	Description	Weights	March 20	April 20	May 20	June 20	July 20
24	Manufacture of basic metals	12.804336	-19.3	-70.7	-40.3	-21.0	-10.5
19	Manufacture of coke and refined petroleum products	11.774919	-1.7	-28.3	-24.5	-13.8	-17.2
20	Manufacture of chemicals and chemical products	7.873036	-21.6	-54.3	-19.2	0.2	-3.5
10	Manufacture of food products	5.302468	-14.9	-22.3	-17.7	-1.6	-4.6
21	Manufacture of pharma, medicinal chemical and botanical products	4.981002	-25.9	-53.8	2.8	34.8	22.0
29	Manufacture of motor vehicles, trailers and semi-trailers	4.857300	-48.9	-99.4	-81.7	-46.1	-31.4
28	Manu. of mach.&equipment n.e.c.	4.765303	-37.6	-91.3	-61.3	-33.4	-19.7
23	Manufacture of other non-metallic mineral products	4.085334	-23.7	-86.6	-27.7	-8.7	-13.8
13	Manufacture of textiles	3.291307	-16.6	-90.8	-68.3	-52.1	-14.8
27	Manufacture of electr. equipment	2.998264	-34.2	-94.5	-70.2	-37.4	-24.7
	Mining	14.372472	-1.3	-26.9	-20.5	-19.6	-13.0
	Manufacturing	77.633210	-22.8	-66.6	-38.4	-16.0	-11.1
	Electricity	7.994318	-8.2	-22.9	-14.9	-10.0	-2.5
	General	**100**	**-18.7**	**-57.3**	**-33.9**	**-15.8**	**-10.4**

II. SUGGESTIONS AND STRATEGIES

The Indian government has proposals to increase import duties on 300+ products, such as increasing the current 25% price on furniture import to 30%. Such measures can do a lot to provide an even ground for OMEs (Office of Manpower Economics), SMEs (Small and Medium Enterprises) and Indian handicrafts to enter the market and contribute to the economy. Globally, as the economy has come to a halt, many of the first world nations, like USA, will be on the lookout for affordable solutions when it comes to outsourcing in the fields of IT, finances and certain non-core items.

This is a scenario where India can open its doors to the world. Recently, many international buyers have turned their attention to India in order to source commodities such as ceramics, fashion, home and lifestyle goods. This can prove to be a great opportunity for India to enter the market as an alternative supplier of various commodities, both raw and manufactured. More than 1,000 manufacturers are planning to shift their production to India, which they deem as an alternative to China. Around 300 of these are already in talks with the government to setup production in a multitude of sectors. This can have a big impact on infrastructural growth in towns around such manufacturing plants, and can give a boost to employment.

Macro-financial package could trigger a virtuous growth cycle, by raising marginal propensities to spend above those to save, as demand is kept a step ahead of gradual relaxation in supply constraints. Activating India's large domestic demand can potentially insulate from global shocks and a likely prolonged shrinking of trade.

Monetary policy is already very accommodative and there are limits to more accommodation. In the near term, fiscal policy has to play a more important role in achieving the objectives of growth, jobs and equity by expanding the fiscal space by restructuring expenditure, widening the tax base and increasing non-tax revenue for that the fiscal policy has to return to a stable path in the medium term.

A calibrated reversal of the macro-financial tightening of the last decade may also actually reduce financial risks and improve stability. Across most of the world, new liquidity infusion is following quantitative easing that drove up asset prices. There are risks since credit is based on a Ponzi-type leverage on asset value. A collapse of stretched asset values is possible, and can create a large financial shock. But in India, there is the opposite problem. Credit growth has been very low, so a loosening of financial conditions can help asset values recover.

Tightening following the excesses and scams of the post-global financial crisis period created a trust deficit. There were valid moves giving individual favors towards improving business conditions. But in a large global like pandemic called Covid-19, aid from the government and regulators can apply balm to current as well as old wounds, revive trust and help the society by putting it together once more. Such a virtuous cycle is feasible since the major constraints that aborted past growth cycles are waning. Among these constraints are commodity price shocks and other supply-side bottlenecks; financial repression, mono-culture and discretionary allocation; and fiscal space.

Changes in the political economy of oil pricing, diversified sources of supply, and a secular fall in demand will keep oil prices soft. Structural improvements in agriculture will restrain food inflation, while flexible inflation targeting moderates the pass-through from commodity price shocks. Banks' net NPAs (Non-Performing Asset) are in single digits, there is improvement in governance and in risk-based lending. The IBC (Insolvency and Bankruptcy Code) has improved credit culture and repayment incentives.

Fiscal space is still constrained. However, in order not to overstrain government finances, stimulus should work through the financial sector, be targeted, temporary and self-limiting. Financing schemes will have to be designed to minimize impacts on future fiscal deficits, while maximizing growth revival. Fiscal stimulus can be increased to the point where reduction in debt ratios due to increased growth equals the increase in debt ratios from further borrowing. Changing the composition of expenditure and cutting flab would enhance the growth boost.

One reason for India's conservative polices was a fear of outflows. But size and diversity in a $2 trillion-plus economy creates much more depth and resilience. Steady domestic inflows are a counter. Financial markets absorbed many shocks since 2017, but recovered. Large outflows over March-April illustrate again that global risks matter more for them than domestic policy. Growth matters more than other risks even for rating agencies and spending to revive growth is acceptable, especially since every country is doing this. Despite this peer effect, emerging markets have to be more careful. If early pre-emptive action and effective follow-up makes India relatively less affected by Covid-19, inflows will resume.

Reversal of the tightening of financial conditions that characterized the last decade will help the financial sector move forward. Critical complementary reforms include fiscal restructuring, better coordination with States, strengthening corporate governance, and counter-cyclical financial sector regulation. Polices adopted in many countries around the world include transfers, credit guarantee funds, interest rate subventions, liquidity and refinance facilities, loan extension and forbearance, tax relief, deferrals and regulatory easing. Many of these expire over time and pay for themselves as they revive growth.

A seed fund can be leveraged many times, for example, credit guarantees are off-budget sheet items and may not add much to debt as recovery takes place. Banks can be incentivized to not invoke them. If the guarantee is only partial, banks will lend, but rather continue to carefully assess credit risks.

Wage/PPF (Public Provident Fund) subsidies and interest rate subventions should be targeted to MSMEs (Micro, Small and Medium Enterprises) and the most affected sectors, made conditional on preserving employment in the short-run, upskilling and re-structuring over time. Moratoria on debt repayments and provisioning deferrals must be given until growth recovers, but not indefinitely. Temporary and targeted measures reduce moral hazard. Transfers should only be to low-income groups, combining tax and Aadhaar databases. All government payments due must be made and expenditure on the national infrastructure pipeline frontloaded. Movement to India's optimal tax structure of low rates and a large base must not be given up. Voluntary contributions for the Covid-19 effort must be encouraged from the well-off, especially by the super-rich.

The RBI can announce an OMO (Open Market Operation) calendar and if necessary, finance special Covid-19 government bonds. These would take pressure off the bond markets, allowing interest rates to ease, while it is clear they are for a well-defined purpose and limited time. There is room to expand reserve money since broad money growth has been low for some time, and a monetary expansion that finances a growth recovery would not be inflationary. Firms that are not receiving payments are afraid of running out of cash and are hoarding liquidity. Since banks now only make risk-based lending, a government credit guarantee would be necessary for banks to undertake wider liquidity infusion. Even so, alternative direct liquidity channels may have to be established to reach those starved of funds.

III. CONCLUSION

The crisis reveals longer-run supply-side opportunities and directions for change. Examples include a larger share of distance work, economizing on fuel — the import of which has been India's weakness — and encouraging the digital economy, which is India's strength. Supply chains can be incentivized to shift from China. States that are the source of migration should think of packages to attract FDI (Foreign Direct Investment), thus reducing out-migration, excess labor living precariously in large cities. While some firms will suffer irreversible balance sheet shocks, and may not recover, others such as pharma, digital businesses and home services will do well.

The large post GFC (Global Financial Crisis) monetary-fiscal stimulus made possible a sharp V- shaped recovery. But over-reaction, and difficulty in reversing the stimulus, created macroeconomic vulnerabilities. A limited, well targeted and transient stimulus would avoid this even while aiding a credit-financed growth revival. Finally, despite a deepening deficit, we cannot lose sight of the fact that our education and skill training systems are in desperate need of an overhaul. These will demand greater funds, but the first priority must be to improve access to good-quality education for children who are losing out right now. Children are not in school during the lockdown. While the middle- and upper-class have access to distance learning, those from disadvantaged households do not. So, this sets the children from disadvantaged backgrounds even further behind in their trajectories. Thus, which creates even more problems in the future. In the end, I would like to conclude by saying that the novel coronavirus pandemic has been a blessing in disguise and created an opportunity for us to build an even stronger economy.

Sun-Tzu noted that "In the midst of chaos, there is also opportunity". Then for us, the opportunity is to set India on a more inclusive path abounds.

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