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GOVERNMENT PACKAGE TO HELP INDUSTRY REGAIN ITS MOJO

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Covid-19 has altered the entire economic paradigm like no other event. The global economic fallout is worsening by the day and countries across the world are grappling with the economic challenges. The ensuing battle against Covid-19 is expected to be a long-drawn one and its attendant economic costs will be humongous. At a time when the economy was showing incipient signs of recovery, the outbreak of the pandemic has come as a bolt from the blue. While the lockdown was necessary to save precious lives, it has had serious economic consequences. By the time the third phase of the lockdown ends, we would have lost almost two months of output.

The incoming high-frequency data that is trickling in has started to show the stress on the macros. The Purchasing Managers' Index (PMI) slumped to a record low of 27.4 in April from 51.8 in March, driven by sharp falls in new orders, output and employment indices. Manifesting the collapse in service sector activities, PMI services index, too, plummeted to 5.4 in April, an unprecedented low since the start of the survey. Industrial output also mirrored the stress as it contracted by a large clip, 16.7%, in March. Merchandise exports contracted by a record 34.6% that month as the virus wiped out global appetite for trade coupled with disrupted supply lines. These are ominous signs for the economy and only the beginning of what we believe would be a protracted period of slowdown.

Unsurprisingly, the growth forecasts for the current fiscal have been scaled down sharply, with most expecting de-growth, even in their best-case scenarios. Among the biggest casualties of the lockdown have been the daily-wage workers, who account for almost a third of the country's total workers. With factories shutting shops, these workers have been rendered jobless. The International Labour Organization has forewarned that 400 million Indians, including migrant workers and daily-wage earners, are at risk of being pushed deeper into poverty due to widespread joblessness. Another disturbing factor pertains to the lack of a social security net for the tens of millions of workers in the unorganised sector, which makes them vulnerable to the vagaries of a grinding halt in economic activities.

Taking cognisance of the very dire economic circumstances that we find ourselves in due to Covid-19, the announcement of the ₹20 lakh crore special 'Atma Nirbhar Bharat Abhiyan' package, which is roughly equivalent to 10% of GDP, by the prime minister was the need of the hour. Apart from providing the financial wherewithal to navigate out of the crisis, the thrust of the package is also on ensuring that India becomes self-reliant.

Rightfully, the focus of the first tranche of the package announced on May 13 was on the key sectors of MSME, employee provident fund, power distribution companies and taxation, among other major areas that are the most impacted. The six measures announced to alleviate the stress of the MSME sector, especially the provision of collateral-free automatic loans with 100% government credit guarantee and change in definition of MSMEs, are expected to be a major shot-in-the-arm for the beleaguered sector. Both these measures were something that the CII has been very strongly advocating with the government for long.

> The ₹20 lakh crore stimulus package, which is roughly 10% of GDP, is expected to provide support for growth in the short term. However, in line with the necessity for implementing bold reforms that the PM spoke about, a medium-term plan for recovery too is the need of the hour

The large allocation made for the guarantee will assure banks that the government will repay them in case the loans are not repaid by the borrower. As banks increase their credit, the economy could turn around and the actual default rate could come down. The guarantee will be a contingent liability for the government, not requiring any immediate spending.

It is heartening to note that the bouquet of announcements laid special emphasis on rejuvenating the infrastructure and construction sector for bringing growth back to the economy. Specifically, the ₹90,000 crore liquidity infusion into the power distribution companies (Discoms) is expected to help revive this critical sector, which has been accumulating huge losses, as the tariffs are not set on a commercial basis. It is hoped that the forthcoming packages to be announced in the coming days will supplement the well-calibrated and prudent measures announced in the first tranche.

These measures and the ones that will follow are expected to provide support for growth in the short-term. However, in line with the necessity for implementing bold reforms that the prime minister spoke about, a medium-term plan for recovery, implementable over a period of time, too is the need of the hour. Funding public infrastructure has been a proven route of stimulus that not only generates demand for many industries but also creates jobs, especially for a large section of informal workforce. In this regard, a public works programme on the lines of the already announced National Infrastructure Pipeline should be initiated with the involvement of state governments so that implementation bottlenecks can be overcome. The suggested areas could include roads, railways, ports and industrial parks.

Finally, the pandemic should serve as a reminder that it is critical to build on our health infrastructure. At present, our healthcare spending at 1.29% of GDP remains abysmally low as compared to our peers in the BRICS and OECD countries. The government needs to urgently prioritise healthcare spending to brace itself for facing any eventuality of the present kind in the future.

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