

What are the policy options before the government to resuscitate the economy from the second shock and speed up growth?

TRIGGERING AN ECONOMIC RECOVERY AFTER SECOND WAVE

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After ravaging the country for almost two months, the second wave of the pandemic seems to be finally receding—a crucial development that raises expectations of gradual reopening of economic activity. While the caseloads are still high and there are significant imponderables about infection spread, questions abound about what could be the likely fallout of the second wave on the economy as it reopens after extended regional lockdowns to contain the viral spread.

At the outset, the economy is flashing mixed signals. Among the positives include the robust growth of India's exports since December 2020, as global recovery, particularly of advanced countries, has given export buoyancy to India. A sustained rebound in exports would help the Indian economy at a time when domestic demand is under significant strain.

Second, corporate performance is showing good recovery in the third and fourth quarters of FY2021. While the first quarter of FY2022 may be weak, it is likely that we will revert to the underlying trend once the pandemic abates. Similarly, certain sections of industry such as IT services, financial services and e-commerce are doing well. Some sectors may face cost pressures on account of the rise in commodity prices but this

would be offset by moderation in operational costs. Further, the government sector, which comprises a major chunk of the economy, is also not significantly impacted in terms of jobs and incomes.

Despite this, there is growing evidence that the second wave would pose downside risks to the economy. Already, a clutch of high-frequency indicators is showing a weaker sequential momentum. What is also worrisome is the rural spread of the second wave and the resulting distress that could affect investment opportunities and demand. The impact of poor health facilities in the hinterland could also be felt on the summer harvest.

The risks to industry, especially small businesses, have risen due to the weakening of balance sheets since 2020. The regional lockdowns could hit their supply chain. Service sector revival is also particularly affected due to restrictions. Besides, the unemployment rate is on the rise and distress among the poor is on an upswing.

Despite this, the economic damage in FY22 would not be of the same scale as the first wave. There are many reasons for this. For one, unlike last year, firms are more experienced and have reinvented management response to the pandemic. Secondly, unlike last year, vaccines are present now and the

government is taking proactive measures to make them available. Third, the world economy has started looking up and countries such as the US and UK, with which India has strong economic linkages, are showing signs of revival. Fourth, the base effect of last year is in our favour.

Businesses are hopeful that the waning of the second Covid wave, a sped-up vaccination drive, release of pent-up demand and prospect of good monsoons would mean better times for the rest of the fiscal. It is anticipated that while the brunt of the pandemic on the economy would be mostly borne by Q1, the damage would become much less in the second quarter and onwards.

The mood could become better towards September-October as the festive season sets in and the sentiment could get a lift. But that is only if the third wave does not hit us, a

fair chunk of the population has been inoculated and vaccines are readily available.

The question arises as to what the policy options are before the government to resuscitate the economy from the second shock and speed up growth.

At this juncture, it is important to prioritise and step up the level of vaccination and ensure that by August, the country would have around 15 crore doses available per month. For bringing efficacy and transparency in distribution, an ideal policy would be two vaccine quotas with 75% going to the Centre and the rest to the private sector. The Centre should then allocate the doses to the states depending on requirements. This would contribute significantly to de-risk the country from a third wave.

Further, the economy should be opened up in a thoughtful and calibrated manner. This would help minimise the risks emanating from the impending third wave of Covid and provide requisite time to the government to strengthen its health infrastructure and vaccination.

Second, in view of the widespread distress, the government should announce immediate short-term fiscal support to protect livelihood and minimum requirements of those worst impacted by the pandemic. This could be income sup-

port in the form of Direct Benefit Transfer (DBT) and food rations, and remaining generous with MN-REGA, where demand for work is outstripping supply. This would improve consumption demand while preventing rural distress at the bottom of the pyramid.

Similarly, to help small businesses with stressed balance sheets and protect jobs, it is recommended that the Emergency Credit Linked Guarantee Scheme (ECLGS) that was for ₹3 lakh crore be expanded to ₹5 lakh crore.

Going forward, swift implementation of capital expenditure schemes announced in the Budget, especially for infrastructure, would ramp up demand in the economy.

Third, a boost to exports is critical at this stage to take advantage of the global tailwinds. Hence, the Remission of Duties and Taxes on Exported Products (RoDTEP) scheme should be announced immediately with a higher allocation to enhance the competitiveness of Indian exports.

To conclude, the government has the onerous job of striking a fine balance between saving lives and restoring the economy. It is hoped that with appropriate interventions, it would be possible to contain the infection and bring the economy back on track.

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