

A blueprint for a post-pandemic economy

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Easing the aam aadmi’s distress, initiating revival of MSMEs and avoiding politically controversial agendas can take India forward

God forbid, if you are ever wheeled in to an ICU, you’d expect the doctors to focus on your survival first, and then your revival. Not on your workout regimen. Post the pandemic, whether the economy will be pushed to the ICU will depend on the duration and frequency of national shutdowns, and the state of the global economy. But damaged, it will be.

The Indian economy was weakening even before the pandemic struck the world. Yet, this is not co-morbidity. The economy has always displayed remarkable resilience, and has the ability to face the challenge.

However, the economic blueprint for the country will need to be redrawn, at least for one or two years, with survival and revival taking precedence over expansion and growth. This is the time to strengthen the foundations of the economy, such as the banking and financial system, inflation, currency stability and capital productivity. Dreams of a double-digit growth can wait for another day.

There is a good case to establish a separate institution for economic revival, funded by long-term bonds floated in the global market. However, it is unlikely that there would be too much interest for such an issue, as most sovereign funds would be focussed on reviving their respective national economies, and private investors would be too shy to subscribe to long-duration debt.

Policymakers might wish to consider six pillars to support the new economic framework:

Focus on the aam aurat: The weakest link gives way, under stress. The *aam aurat*, who has been hit the worst from the impact of the pandemic, will now need to be moved to be the dead centre of our economic policies.

In the 30 years since liberalisation, India has pursued a policy to maximise growth on the assumption that the ‘trickle down’ effect will take care of the bottom of the pyramid. This expected percolation has, of course, been well augmented by a multitude of welfare schemes and social security measures, all of which have managed to lift millions from poverty, although helplessly contributing to the worsening of inequality in income levels.

In the immediate future, the *aam aadmi*’s concerns relating to quality healthcare, sustainable livelihood, fair wages and access to organised credit need to be squarely addressed, if we are to avoid the risk of social unrest. While doing so, it is equally important not to resort to fiscal profligacy, to avoid the risk of runaway inflation. The financial position of the government might not allow more than 2-3 per cent of GDP by way of additional support.

Therefore, the only option is to remain fiscally prudent, and reprioritise public expenditure in favour of the *aam aadmi*, however limited the scope might be.

In the past, access to organised credit at affordable price for the participants in the informal sector has significantly lagged the need, and is likely to suffer in the immediate future as banks claw back, faced with escalating bad loans. A relaunch of the Mudra scheme with learnings from the past experience would be necessary and urgent, in addition to mandatory provision of senior debt to private microfinance institutions.

Banking and financial system: It is certain that the pain experienced by the real sector will rapidly be transferred to the already strained banking system. The monetary policy interventions recently announced by the Reserve Bank have adequately addressed the immediate liquidity concerns of the financial market. However, capital adequacy issues, particularly of weak private banks and cooperative banks, will soon surface consequent to the expected spike in non-performing assets. This might necessitate that the government make available a pool of funds in the form of convertible capital bonds, repayable over 10/15 years or convertible at the option of the government, to be invested in banks fulfilling certain criteria. This would obviate the need for stitching together specific bailout packages, as in the case of YES Bank.

This might be the right time to create an operationally autonomous holding company for all shareholdings in PSBs, on the lines of Singapore’s Temasek, with the charter to select and develop the right leadership talent and make the public sector banks competitive and profitable.

Currency stability: India cannot afford a currency shock, although the risk of such an event is pretty low as we are cushioned with adequate reserves. This would depend on, however, demand-continued fiscal prudence and maintenance of credit rating.

This might be opportune time to canvass for institutionalising and strengthening coordinated action amongst central bankers and market regulators of key nations, with a view to prevent market shocks which have huge global impact.

MSME sector: MSMEs are the counterpart of *aam aadmi* in the industrial chain. Some escalated mortality in this sector will become unavoidable, and it would be even counter-productive to squander scarce resources to keep them alive. However, MSMEs which have had a history of viable operations, but are confronted with erosion in net worth, would need support by way of equity or quasi-equity. SIDBI might need additional capitalisation and it’s charter could be tweaked to operate on the model of the development banking institutions of the past, focussed on MSME sector. Senior long-term debt with convertible options could be a key financial support offered by this institution to stressed but viable MSMEs.

Capital productivity: This plan should operate at two levels: One, closing down unviable public sector undertakings and improving productivity of assets held by Central and State governments. Two, subjecting every proposed public expenditure to the test of yielding quick and robust economic returns.

This is no time to fund losses of chronically loss-making PSUs. Equally, it’s important to step up investment in brownfield assets, such as power transmission and railways, in order to improve efficiency and productivity.

Don’t waste a crisis: There are no atheists on a burning platform. This is the best time to push major economic reforms and take bold decisions; to remove obstacles in completion of stalled projects and cut red tape. And there are many areas where action is required. Ranging from administrative reforms to further liberalising FDI; from speeding up implementation of the Delhi-Mumbai corridor and bullet train project to concluding more government-to-government contracts for infrastructure, bypassing the debilitating tender process.

This is also the worst time for pursuing any political or social agenda that is potentially controversial, however legitimate the cause might be.

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