**The Four-engine Challenge**

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It's double trouble for India - a health crisis and a tumbling economy, both at once. On one hand, Covid-19 cases in the country have exceeded 4.5 million, making it the worst affected after the US. On the other, the economy is in a free fall as gross domestic product (GDP) contracted 23.9 per cent in the April-June quarter. Largely, because over the past seven years, all four engines of growth - exports, private investment, consumption, and public expenditure - have crashed, one after another. The last two, as recently as the past three years.

There is growing demand from industry and economists for an urgent second stimulus. But the Centre believes that must wait until a vaccine hits the market and economic activity resumes thereafter.

Business Today spoke to eight leading economic and market experts - Arvind Virmani, Chairman, Foundation for Economic Growth & Welfare and former Chief Economic Advisor; Subhas Chandra Garg, former Finance Secretary; Pronab Sen, former Chief Statistician of India; Nilesh Shah, Group President & Managing Director of Kotak Mahindra Asset Management; D.K. Srivastava, Chief Policy Advisor, EY India; P. Thiagarajan, DMK legislator representing Madurai Central Assembly Constituency and former MD, FM Sales, Standard Chartered Bank, Singapore; Rashesh Shah, Chairman and CEO, Edelweiss Group, and N. Sivaraman, MD & Group CEO, ICRA - to ask them how to fire up the four engines of the economy, and where to find the money.

**We raised five questions to each one of them: Where can the government find money for a second stimulus? What can be done to drive consumption, revive exports, kick-start investment and increase public expenditure. Here are their prescriptions:**

Where can government find the money for a second stimulus?

Arvind Virmani: The decline in tax revenue associated with decline in GDP due to the pandemic and associated lockdown must be, directly or indirectly, monetised by the Reserve Bank of Indian (RBI). Last years low GDP growth rate taken as the benchmark can be used as the base line. Defence capital and R&D expenditures need to be stepped up sharply. Sale of land and shares in defence PSUs could be used for this purpose. Pending asset sales should be expanded and accelerated. There is enough liquidity in the global economy to attract foreign investment, provided the policy environment is right.

Subhash Chandra Garg: Raise additional resources to not only cover revenue shortfall but also meet additional expenses. There is liquidity in the market now. There is a large group of people not able to spend on discretionary items. That has resulted in increase in deposits in banks, hence greater liquidity in the banking system. The government can comfortably raise money from the market. At some point of time, if there is tightness in the market, government can think of borrowing directly from the RBI. Monetising (printing money) should not be rejected on ideological considerations and should not be seen as the only right way. It should depend on availability of funds in the system.

Nilesh Shah: The government has to be innovative in raising resources. We shouldn't follow the US or the EU model of raising fiscal deficit or expanding central bank balance sheet by trillions of dollars. Unlike the western world, we have many means of raising resources. A gold amnesty scheme at an attractive tax rate can bring out gold from the tijori along with taxes for government. Strategic divestment rather than market divestment will bring higher resources to the government. Monetisation of assets with Custodian of Enemy Property, surplus land of defence and railways, infrastructure assets from roads to transmission towers will yield resources. It can also break the taboo and legalise betting and gambling like racing and lotteries. The entire underground market will start contributing to government coffers.

Pronab Sen: We are getting into a situation where there is excess foreign exchange coming in, and RBI is forced to print money to prevent the rupee from appreciating hugely. So, there is a lot of liquidity, essentially from RBI buying foreign exchange. This cash needs to be mopped up. There is enough room in the market for government to sell bonds and mop up this fresh flow of money. This should be done quickly and at least Rs 5-6 lakh crore can come in. Since government is also losing on taxes, it will have to bridge that deficit too. Hence. if there is a need for more money, government may have to monetise. But that is after you have borrowed whatever you could from the market at a reasonable rate.

D K Srivastava: A second stimulus is urgently needed but resources need to be identified in the context of a severe contraction in tax revenues. The CGA data for the first four months of FY21 indicate a contraction of 29.5 per cent in the Centre's gross tax revenues. These are expected to contract for the full year following a 3.4 per cent fall in FY20. As such, non-tax resources, including borrowings, appear to be the only option for financing a second round of stimulus. Three important sources for financing a second stimulus may be: (a) monetisation of debt up to 2 per cent of GDP, (b) monetisation of government assets and (c) borrowing from external sources, including multilateral institutions, bilateral assistance and private sector abroad.

Rashesh Shah: India's overall external position is strong despite Covid. The current account deficit is balanced to modest surplus and capital flows are robust with Fed likely to keep real rates negative for some time. Besides, inflation is expected to fall in coming months. In this background, there is scope for borrowing more to scale up government spending. Most economies have scaled up borrowings to drive spending. However, our comparative number is on the lower side. RBI can be a big support in facilitating government borrowing through enhanced open market purchases. Government should keep divestment of assets in focus as a sizable revenue source for the year.

N. Sivaraman: The fiscal situation is stretched due to the pandemic. ICRA estimates the revenue shock to the government at Rs 6 lakh crore relative to the budgeted level for FY2021. The space for a second stimulus can come through a few options. One is accelerated divestment and asset monetisation in the next six months. The second is expenditure rationalisation in establishment costs, subsidies and transfers. This would make way for spending that can generate higher multiplier effect. The third is allowing the fiscal deficit to enlarge further, perhaps with support from RBI in terms of larger open market operations.

**P. Thiagarajan: Divest, borrow and print money. These are broadly the suggestions made by many, and I consider all three as immediate, short-term options. However, I will qualify the suggestions by saying that divest honestly, borrow intelligently, and if need be, print more money, but cautiously. There is a reason. This is a problem created by the government. Short-term measures are not enough.**

Why did tax revenue fall so much? The OECD Guidelines say 60 per cent tax revenue should come from direct taxation. In 2013/14, direct taxes constituted 53-54 per cent of tax collections. Today, 60 per cent comes from indirect taxes. The dependence on indirect taxes created a huge gap in governments earnings when the pandemic-hit economy went into a lockdown.

Direct taxes are better because you are taxing a person or an enterprise earning money. Second, rich people are less affected than poor. Hence, direct tax collections will not shrink as much as indirect tax collections in a distress situation. But for low crude oil prices and high retail fuel prices, government finances would have collapsed.

How can we drive consumption?

Srivastava: Private consumption will increase only after we exit fully from lockdowns. Rural private consumption demand is holding up and supply side constraints should be identified and removed, particularly those related to food items, so that inflation is under check. A second stimulus preceding the festive season will give private consumption a tangible uplift.

Virmani: During the pandemic, demand and supply factors are intimately linked, with excess demand in some geographical pockets and some industries co-existing with excess supply in others. There is also a disruption of income generating activities, including among the self-employed (household & tiny) and small sectors. Subsidies directed at bottom 40 per cent of the population should be integrated into a direct cash transfer scheme in which rural poor receive the transfer on their Aadhaar-linked mobile wallet. Further simplification of GST and direct taxes code (DTC), accompanied by reduction of marginal rates, can help revive growth.

Garg: Once 12 crore people who have lost jobs are provided funds, it will impact consumption. This group suffered the most, because they did not have income, savings, and were compelled to reduce consumption. Once they get government support, it will stimulate demand. The government has already provided some help, food grains, but that's small assistance for a large group. They deserve more to restore consumption. Government needs to raise an additional Rs 4 lakh crore. Of this, Rs 2 lakh crore should be support for MSMEs and workers, while the rest be capital and infrastructure spend to trigger consumption.

Rashesh: Discretionary spending will recover over time. Government should focus on enhancing spending in near term, which will spur liquidity and enhance consumption. In parallel, relaxations and exemptions on consumption purchases in near term, while it might affect government finances, will accelerate recovery. Intention should be to prioritise government spending to create a positive spillover impact on the economy - once that happens, government revenues will also gradually revert to normal levels.

**Thiagarajan: Government funds that go into infrastructure and direct income support to needy will increase consumption. Shah: There is need to support the needy segment of society. Government has done a remarkable job through direct benefit transfer, provision of food grains, and higher allocation to MGNREGA. Now, it should focus on encouraging employment creation by incentivising entrepreneurs. It will create a multiplier effect on consumption.**

Sivaraman: Consumption of discretionary items, and services where social distancing is difficult to maintain, have been badly affected. There are some items, such as two-wheelers, on which GST rates could be rationalised to spur private consumption, which would offset the impact of lower rates on overall GST inflows. The government could enlarge the scope of MGNREGA and introduce a similar scheme for urban poor.

How do we revive exports?

Virmani: We need a dual trade policy to revive exports. A comprehensive import substitution policy for imports from China and a free trade policy with the rest of the world. We should launch a comprehensive supply chain relocation Initiative (SCRI) to move supply chains from China to free market open economies like USA, the EU, Japan, the UK, Canada and Australia. As part of the latter, we should sign Free Trade Agreements with the US and the EU. The SEZ law should be amended to make labour use completely flexible and abolish controls and regulations on investment in and functioning of business, except those relating to health, safety and environment.

Srivastava: Atmanirbhar Bharat implicitly calls for relocating supply chains from China to India. It does not imply a full-fledged import-substitution strategy. Exports would increase by attracting new investment as industries shift from China. Identification of land banks and single window clearances at the state level should facilitate such investment. Individual state governments may also look at constraints arising from rigidities in their labour laws.

Garg: Revival of exports happens in two ways. First, Indian exports will have to return to pre-Covid level and grow further. The second is to tap new markets. To get back to normalcy, you need to open up the economy, which the government has done. To find new markets, government has announced several schemes and incentives like duty refunds. I dont see anything more the government can do.

Rashesh: India's exports are highly correlated to trends in global trade and have been struggling for some time now. They should start picking up going forward as economies start reviving. Aatmanirbhar Bharat can be a big lever to increase exports. But, there needs to be enhanced focus on Ease of Doing Business. A dedicated governmental advisory service for smaller enterprises which can resolve their problems can help them focus on scaling up business. Lastly, a weaker exchange rate is required to provide that extra tailwind.

Sivaraman: In the current scenario, where global demand has collapsed for many product lines, the best we can expect is to increase market share of Indian exports in the immediate term. Steps to do that will position Indian exports well over the medium term to take advantage of an eventual revival in global demand. This could include addressing infirmities that reduce competitiveness of our exports, including labour laws, infrastructural bottlenecks, inverted duty structures as well as gaps in certain free trade agreements.

Shah: We need to be part of the global supply chain to increase exports. Let us lay the red carpet for all companies moving out of China to make India their base and make India the manufacturer to the world like we have become back-office to the world.

Sen: The stimulus has no role in exports but exports have not been growing for the last six years, and even if it does, you cant expect it to be a growth engine, because the global economy, even if it is going to recover, is not going to be back where it was very soon.

What has to be done to raise public expenditure?

Garg: There are three broad areas where there is an urgent or continued need for government or public expenditure. One, millions of MSMEs are severely impacted by the lockdown. Lakhs are closed, many are operating at very low capacity and suffering huge losses. This is reflected in the stress you are seeing in the retail account. So, the first port of call is stimulus or government help to MSMEs. This should not be in the form of loans. They need assistance to get back to work. The second is 10-12 crore people who have lost jobs. This includes salaried people in the informal sector. The third is capital works in infrastructure, where Q1 GDP showed a fall of 60 per cent.

Virmani: Construction and investment are among the worst sufferers from the pandemic so far. Existing public investment and infrastructure programmes must be accelerated sharply. Contact services like restaurants, hotels, travel, tourism, retail trade, entertainment, are among the worst sufferers. The Centre should start a big loan programme for manufacture and subsidised purchase of ultra-violet filtration systems for centrally air-conditioned spaces and UV lights for cleaning of closed public spaces. Ventilation improvements could be part of this programme.

Rashesh: The government has been supporting the rural economy - cash transfers to farmers, MGNREGA spending, fixing rural infrastructure. But, there is need to extend support to the urban economy to boost construction/infrastructure projects which could pull back migrant workers. Also, cash transfers to urban poor may be needed.

**Thiagarajan: The governments focus should be to save lives, as economic revival cannot happen without healthy citizens. Equally important is to get money directly into the hands of the poor. The third focus should be public infrastructure. Job creation should happen in millions.**

Sivaraman: Expenditure trends have been mixed this fiscal. There is fear that the revenue shock faced by state governments may force them to curtail expenditure, which will negate the extra spending committed by the Union government. State governments may need to monetise certain assets, including land banks, power generation units and distribution licences. Clarity on magnitude of government borrowings at different levels would allow for public expenditure to be planned and prioritised.

Sen: Government has planned an additional Rs 4 lakh crore of borrowing over and above the budget. The government may need to borrow another Rs 2-2.5 lakh crore, which should go to infrastructure and direct income transfer. Hopefully direct income transfer will be better and larger. The Rs 500 transfer was a joke.

Shah: The government has to provide fiscal support to the needy. Care should be taken to ensure the right entrepreneurs and businesses are supported. There is no point throwing good money after bad. A promoter who has weakened his business by gold plating or siphoning off money shouldn't be supported. Another point on public expenditure is to create maximum multiplier effect. Any spending on construction, textiles, instant consumption will have higher multiplier effect.

Srivastava: Increase in public expenditure should be considered as additionality to budgeted expenditure for FY21. Stimulus would be effective only if some non-budgeted expenditures are not neutralised by contraction in budgeted expenditures. The most desirable increase in expenditure is on health and physical infrastructure. Despite the importance given to the National Infrastructure Pipeline (NIP), central government's capital expenditure increased only 3.9 per cent in the first four months of FY21. All three segments of investment should come together to make an effective impact in augmenting infrastructure-related demand.

How can private investment be kick-started?

Srivastava: Private investment has a complementary role in infrastructure investment in the detailed plan of the NIP. A beginning should be made here this year. The private sector should be encouraged to borrow from banks, which should be encouraged to increase risk-taking appetite for infrastructure projects.

Shah: Entrepreneurs need rule of law and Ease of Doing Business. One multinational CEO says they face more litigation in India than in the 55 countries put together where they operate. Limitation of our commercial law is best explained by the crores of cases pending in courts for cheque bouncing or never-ending trial of 1991 securities scam or Satyam's auditor paying a fine in the US for a crime committed in India but not facing any material consequences in India. The rule of law should be clear and swift like Novak Djokovic's penalty at the US Open. Unless rule of law is established, entrepreneurs will take investment decisions on the backfoot demanding higher risk premium rather than on front foot demanding lower risk premium.

Sivaraman: The Q1 FY2021 results confirmed many entities have chosen to protect themselves by conserving cash. If this continues, private investment is unlikely to emerge as an early driver of recovery. With consumption still below pre-Covid levels, it may take 12-18 months for corporates to have visibility before they commit capital. However, there will be several companies opting to utilise the downturn to reduce dependence on supply chains concentrated in China. Such firms must be supported through speedy clearances, access to land parcels, etc.

**Thiagarajan: Government should force all large companies and public institutions to settle every bit of outstanding dues. Large corporations, flush with cash, should be asked to provide advance credit to vendors. Advance payments will ease liquidity pressure on the entire supply chain. Once entities start supplying more, it will have an impact on demand, and in turn result in more private investments**

Rashesh: Capacity utilisation is still low. Private capex will see a broad-based pick-up gradually. There is a reasonable chance the global economy bounce is better than expected. After all, fiscal-monetary coordination in the west is back after 10 years and is happening at unprecedented scale. To that extent, India's global tradable sectors may lead recovery in capex. However, for private investment to start, real rates need to be even lower. Sen: Private investment is not going to come back in a hurry as capacity utilisation is 60-65 per cent. Until it is above 80 per cent, dont even expect investment.

Virmani: To expect private investment to pick up when capacity utilisation has collapsed is to misjudge the macro economy completely. The focus has to be on stimulating private consumption in industries and sectors where demand has fallen sharply, reducing capacity utilisation.