Steps to Revive Indian Economy

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Introduction

Every generation faces a crisis at least once in their lifetime. Events of a global scale are few but distressing and have ignited catastrophes such as the two world wars and the global financial crisis. Historically, we have seen that political power and financial greed has benefitted a few and caused pain for others. Covid-19 is unique as it is a health crisis and critically, it has had such a devastating impact that it has no winners. Further, no statistical model was able to predict the sheer scale and speed of this crisis. In its recent report, the IMF has stated that the Covid-19 pandemic has had a more negative impact on activity than anticipated and there is still a high degree of uncertainty in estimating forecasts.

India has been no exception, and we need to pick up the pieces from the aftermath of this human tragedy and strive to get our house in order. We need to undertake concerted measures to reignite the Indian economy. In their capacity, the regulators have done a commendable job in ensuring that there is adequate liquidity in the system. However, additional steps need to be considered to complement the regulatory actions. Some of these are as follows:

1) Reviving demand

The Covid-19 crisis has led to less discretionary spending as people tend to hold on to cash in difficult times. For instance, one way to assess the risk averseness is to look at currency in circulation. As on July 3, 2020, currency with public stood at Rs. 25.72 lac crore and from April 1, 2020 it has grown incrementally by Rs. 2.22 lac crore, a growth of 9.4% compared to 2.8% in the same period in the previous year. This implies that people are hoarding cash due to the uncertainty of Covid-19 and that many are protecting themselves from job losses and salary cuts. Hence, it is imperative to restore confidence and revive the demand.

While the repo rate has been cut twice since March by 115 basis points to 4%, the transmission has still not taken place. Reduced rates are not proving to be enough of an incentive for credit to pick-up. Bank credit is hovering just around 6%, signifying the extent of risk averseness in India.

For demand to pick up, people need to be incentivised to spend. While corporate taxes have been reduced, individual taxes have gone up in the last couple of years. I believe that individual tax rates need to be rationalised as lower tax rates will increase the spending power of individuals, increase aggregate demand, and eventually lead to higher economic growth.

Higher demand for goods and services will enable the manufacturing industry to produce more and increase their revenue. To meet the increasing demand, firms will have to make additional investments. These new investments will create jobs which in turn will generate income, increase consumption and result in greater demand for goods and services.

2) Job creation

There is a limit on how much free money can be given out. Apart from in extremely emergency situations, such policy decisions could lead to economic instability. The focus needs to clearly shift to creating livelihoods. It is estimated that India needs to create 10 million jobs every year till 2030 to reduce the growing unemployment.

One solution is to first identify the sectors which are substantial employment creators and then address the specific challenges in each of these sectors. For instance, sectors such as manufacturing, housing & real estate, SMEs and hospitality are huge job creators but are facing their own set of challenges.

The regulators should allow a one-time restructuring of loans for these troubled sectors. The restructuring will allow the banks to shed their reluctance, thus stimulating confidence in the economy and allowing these sectors to come back strongly, which will then catalyse the creation of jobs. The restructuring will go a long way in helping in the transmission of the monetary policy, reviving these sectors and subsequently creating jobs.

For instance, the housing and the real estate sector is the second largest employer in India after agriculture. The sector has significant backward and forward linkages with nearly 300 industries, which not only contribute to capital formation, generation of employment and income opportunities – but it also catalyses and stimulates economic growth. Estimations by India's Economic Survey 2017-18 show that the real estate sector is expected to require over 66 million people by 2022.

3) Focus on Manufacturing

The Covid-19 pandemic has created an opportunity for India to create a manufacturing base to supply to international companies. However, the manufacturing sector in India is in doldrums currently. Manufacturing grew by a measly 0.03% in FY20. Further, the lockdown has led to a severe contraction.

The government's 'Make in India' campaign can be revitalised as we move towards a post-Covid-19 era. Apart from continuing reforms and ensuring improvements in ease of doing business, it is an opportune time for India to negotiate Free Trade

Agreements with other countries to support exports. As a labour abundant country, we have the advantage of employing and training a huge number of people in specialised labour-intensive sectors.

On a side note, India also has immense global opportunities in sectors like IT / back office, healthcare, fintech and ecommerce.

4) Land Reforms

Over the past few years, India has improved international sentiments in the ease of doing business. Unfortunately, India's Achilles Heel that impedes it as an attractive investment destination revolves around land. Several multinational organisations have shut shop in India largely due to land issues. Availability of land is the foremost requirement for investments. However, land titles are unclear, and the land acquisition process is mired with complexities. There is a need to relook at the current central and state laws so that property registration and land acquisition is simplified.

Majority of land records are outdated and need to be updated so that delays in approvals can be reduced. There is a need to expedite the digitisation of land records and the land-title-insurance process. A unique identity number could be considered to help streamline and organise the land record system.

Integrating approvals to one digital platform can be easily done. Once approvals are online, timelines can be transparently monitored. It will also promote accountability and efficiency in the public administration.

5) Investments in Infrastructure

Over the medium-term, the revival of India's GDP will largely depend on India's investment in infrastructure, which includes roads, urban infrastructure, airports and housing. Past evidence shows that an increase in infrastructure investments leads to greater consumer demand, revives sentiments and importantly, creates jobs.

It is estimated that India spends about US$ 17 per capita annually on urban infrastructure projects, against a global benchmark of US$ 100 and China's US$ 116. Hence, there is an immense opportunity. The government's National Infrastructure Pipeline initiative (which aims to adequately prepare projects to operationalise the plan of Rs 100 lac crore investment in infrastructure over the next five years) is a welcome move and its successful implementation will be a huge job creator in the next few years.

Conclusion

The Covid-19 pandemic is one of the most unprecedented events over the last century. The pandemic has affected the global economy by causing both aggregate supply and demand shocks.

Sound regulatory policies and implementing structural reforms will help India for a swift economic recovery. Foreign investors will need to be given the confidence that India is not headed for a structural slowdown.

I am hopeful that in the next few months we will start witnessing a pickup in the demand cycle. We are also hearing some positive news on the vaccine development. I am optimistic that India will emerge as a stronger economy post the pandemic. We have been able to ward off several crises over the past decade due to our inherent strength and strong fundamentals. India has proved to be a resilient economy and will do so once again.