Source : www.thehindu.com Date : 2020-03-21

BLUNTING THE ECONOMIC IMPACT OF A PANDEMIC

Relevant for: Indian Economy | Topic: Issues relating to Planning & Economic Reforms

That screeching noise that you hear is of the wheels of commerce grinding to a halt. The effect of the strong clampdown measures taken by the government to arrest the spread of the coronavirus is beginning to be felt across a swathe of the economy.

Prime Minister Narendra Modi, in his address to the nation on Thursday, said that a task force under Finance Minister Nirmala Sitharaman has been constituted to assess the economic impact of the pandemic and suggest palliative measures.

Coronavirus | Interactive map of confirmed coronavirus cases in India

Here are some suggestions for the task force to discuss.

Those such as cab drivers, restaurant waiters, mall workers, domestic help, itinerant retailers and other casual job workers are either already without jobs and incomes or will soon find themselves in that position.

It may not be a bad idea to consider cash transfers of a fixed amount to these vulnerable sections. There are 33 crore accounts under the Pradhan Mantri Jan Dhan Yojana that can be leveraged for this purpose. There is also an efficient Public Distribution System prevalent in most States through which the beneficiaries can be identified for a cash handout.

There are a total of 23.53 crore ration cards in the country according to the National Food Security Portal. Assuming that all of these are below poverty line cards, a transfer of 1,000, which is the least that should be considered, will cost the Centre over 23,500 crore. Granted that the funds requirement is huge even for this basic amount. We will look at funding possibilities later in this piece.

COVID-19 pandemic could make another 25 million jobless

Last month, Hong Kong announced a cash handout of HK$10,000 to every permanent resident as a supportive measure. The United States is also weighing the option of a cash handout totalling $250 billion to its citizens.

Service industries such as airlines, hotels and restaurants and tourism have begun to feel the pinch, and in course of time the pain will extend to the manufacturing sector as well. The immediate problem for the services industry is that the cash spigot has been turned off. There will be revenue and profit issues to deal with later but the immediate crisis is one of cash flows.

While the cash registers have stopped ringing, these businesses have to deal with expenses that cannot be put off such as salaries, lease instalments, loan repayments and so on.

Banks are obviously not going to offer any accommodation to these businesses given their own issues with sick loans. This is where the government can consider what most of the affected nations in the West have done —offer loan guarantees to affected businesses. Britain has pledged £330 billion of government-backed loans and guarantees, France and Spain have announced €300 billion and €100 billion aid, respectively.

Monetary policy can’t combat the COVID-19 impact

The priority is to keep businesses liquid and that is the reason why these countries have pledged such large amounts as guarantees. The cash machine has to be kept well-lubricated in these difficult times and the government can play a role in that. For a start, it can provide guarantees to working capital loans and link it with assurances from the borrowers concerned that they will secure the jobs in their companies.

An equated monthly instalment (EMI) holiday can be a huge blessing for individuals and businesses when faced with a job loss, salary cut or loss of revenue. A three-month mortgage holiday should be coaxed out of lenders by the government to begin with for businesses in obvious trouble and to those employed by such businesses.

The Reserve Bank of India should show regulatory forbearance in the matter of asset recognition for banks when it comes to these industries. But it should be made amply clear that this is only temporary accommodation till the crisis plays itself out.

Data | The coronavirus impact on global air travel

God forbid, but if this shutdown prolongs beyond the next couple of weeks, the government may have to look at offering temporary tax relief to businesses. We are looking at an unprecedented situation where revenues are likely to fall off the cliff and cash flows wind down to zero. There are other helpful actions that the government can take such as promptly discharging its bills, refunding taxes without delay, promptly carrying out direct benefit transfers already budgeted for, and, if necessary, even permitting affected businesses to temporarily delay payment of statutory dues such as provident fund and ESI.

This is difficult but there are viable answers. The resources of the Centre and the States have to be pooled to develop a national response to this unfolding economic tragedy. Kerala, for example, has already announced a 20,000 crore package and other States may follow suit. It may be a good idea for the Centre to leverage State resources along with its own.

Second, the government will have to engage with the private sector while devising assistance measures. There is a lot of expertise and sharp financial minds available in the private sector and these should be tapped into for innovative ideas. The Yes Bank rescue proves the heft of the private financial sector in coming to the rescue of one of its own.

The virus has eaten into the just-a-month-old Budget whose numbers now appear unrealistic. It is not just tax revenues that are heading for trouble, even the disinvestment budget of 2.10 lakh crore now appears unachievable. Bharat Petroleum Corporation Limited and Air India appear destined to remain government companies in the foreseeable future. In this backdrop, it is impossible for the Budget to fund any stimulus programme now. Extra budgetary support will be needed and that is where the idea of a bond issue comes in.

A well-structured, tax-efficient bond issue can be an option to tap into the large pool of domestic savings. The large Indian diaspora can also be tapped into. Remember the Resurgent India Bonds experience of 1998 post-Pokhran? The State Bank of India raised about $4 billion from non-resident Indians against all odds to help India tide over the immediate impact of sanctions. Why not do something similar now? After all, this is as unprecedented a situation for the country as the aftermath of the sanctions in 1998.

raghuvir.s@thehindu.co.in

To reassure Indian Muslims, the PM needs to state that the govt. will not conduct an exercise like NRC

END