
Coronavirus crisis: Little relief for the Indian economy

Published: April 9, 2020 6:00:32 AM

Ex-gratia payments to women account holders PMJDY, poor widows, senior citizens and physically challenged persons are welcome steps, including free gas cylinders for Ujjwala beneficiaries.



The economy, in any case, was slowing down for several quarters owing to a demand shortfall, this supply shock is, thus, a huge blow.

By Emmanuel Thomas & Lekha Chakraborty

The world is shut down to avoid a catastrophe. This has caused enormous damage to economies leading to a loss of livelihood. Governments across the globe are struggling to respond

RELATED NEWS

Covid-19 in India: Hacking coronavirus with technology

Coronavirus in India: Social distancing still virtually absent

Phased exit good, extending coronavirus lockdown better

For the Indian economy, the pandemic has come at the worst of times. The economy, in any case, was slowing down for several quarters owing to a demand shortfall, this supply shock is, thus, a huge blow.

To flatten the curve and save lives, India too has gone into a 21-day lockdown. It is perhaps the right decision, but, the total shutdown has upended the lives of millions of inter-state migrant workers.

Framing an appropriate policy response is a daunting task. But, there is no going back, and we have to face the challenge by resorting to 'whatever it takes' approach. Fiscal and monetary policies have to rise to the occasion. The policy-makers may not have the luxury of resorting to a calibrated approach.

RBI has recognised that 'central banks and governments are in war mode'. Experts highlight that fiscal policy will have a bigger role to play as public expenditure is required to save lives. Even if the pandemic is contained, the government will have to spend huge amounts to avert a humanitarian and an economic crisis.

Sensing urgency, RBI advanced the meeting of the MPC by a week. The announced monetary policy has paid attention to ensuring liquidity, reducing the cost of loans, encouraging transmission and regulatory easing. Reduction of repo rate by 75bps will ease the cost of funds. With this, the key rate has hit 4.4%, which is close to zero, given the inflation target of 4%. RBI has ingeniously widened the Monetary Policy Rate Corridor to 65bps from the earlier 50bps. This is expected to nudge banks to lend more, as parking of funds becomes less attractive. A moratorium on term loans and working capital loans for 3-months will provide relief to borrowers. Similarly, deferment of implementation of NSFR and last tranche of capital conservation buffer are expected to provide some relief. The sequential "Operation Twist" strategy of RBI prior to the MPC meeting has also helped.

On March 26, the FM announced a package worth Rs 1.7 lakh crore, aimed at guaranteeing access to food and cash for the poor and vulnerable sections. But, a closer examination raises doubts about the quantum of relief involved.

instead of just covering risks.

A critical component of the package is the free provision of an equal amount of eligible quantity of cereals and pulses for three months. Considering the quantum of buffer stocks and the cost of storage it is an easy decision.

Frontloading of the PM-Kisan transfer by about four months is another component. It involves an expenditure of Rs 17,500 crore out of the budgeted Rs 75,000 crore for the year. The FM has also raised wages under MGNREGA by Rs 20. But it is an annual exercise and wages were raised in March 2019 too. Of course, the quantum of increase is more this time. But, the problem is that the realisation of the announced gain of Rs 2,000 per worker per year will happen over a period of one long year, and assumes that each worker will get 100 days of work.

Ex-gratia payments to women account holders PMJDY, poor widows, senior citizens and physically challenged persons are welcome steps, including free gas cylinders for Ujjwala beneficiaries. These three components are expected to cost the government about Rs 46,000 crore.

An interesting fact is that about 40% of the announced amount is on account of Building and Construction Workers Welfare Fund and District Mineral Fund (DMF). According to the FM, the former is a corpus of about Rs 31,000 crore with about 3.5 crore registered workers. Similarly, the DMF has about Rs 35,000 crore, which is to be used for fighting the Covid-19 menace. The raising of the limit of collateral-free lending to SHGs is expected to benefit seven crore households. However, this does not entail any additional burden. Government paying the employer's and employee's share to EPF, in establishments which employ less than 100 workers is expected to grant the workers relief for the time being.

Given the warlike situation, the government will have to keep its concerns about the magnitude of debt and deficit engrained in the FRBM Act on the back burner. The challenge will be to flatten both the pandemic curve and the recession curve. But, that will require lots of imagination and innovation, including for financing the deficits. This can include 'Corona Bonds' and exceptional Money Financing of Fiscal Programme (MFFP). MFFP is a significant component of "helicopter money" discourse. The meticulous details of MFFP, both conceptual and empirical, are provided in a paper titled Helicopter Money: A Preliminary Appraisal by Samiskha Aggarwal and Lekha Chakraborty (2019 University of Munich paper). The specific details of fiscal seigniorage is

We suggest the following three fiscal-monetary policy steps:

One, frontloading of public expenditure through an effective method of fiscal policy response to strengthen the public health infrastructure and services

Two, tackle “macroeconomic crisis”, by designing a massive universal basic income transfer through “MFFP”. This will be the most plausible fiscal-monetary togetherness one can expect

Three, government as the “employer of last resort” with substantial upward revision in the wages is the effective post-Covid-19 policy strategy for economic recovery.

Thomas is asst professor, St Thomas’ College (Autonomous), Thrissur & Chakraborty is Professor, NIPFP. Views are personal
