Go Bolder and Bigger on Relief

This is not the time for deficit worries

The relief package announced by finance minister Nirmala Sitharaman is welcome, to the extent that it is the beginning of pushing purchasing power into the hands of some of the most vulnerable sections of society to be hit by the Covid-19 pandemic and the resultant lockdown. However, it is incomplete and insufficient to either shield the poor, particularly the urban poor, or to provide a boost in purchasing power for industry. It would have been welcome if the government and RBI had together announced a comprehensive package of relief, rather than what would appear to be a piecemeal rollout of the proposed relief.

Transferring ex gratia payments to pensioners and women holders of Jan Dhan accounts would be effective. The amounts could be larger. Dipping into superfluous grain stocks — 60 million tonnes against the buffer stocking norm of 21 million tonnes — to offer additional rations is the sensible thing to do. Raising rural employment outlays would help, after the lockdown is over. Offering greater collateral-free credit to women self-help groups is welcome. Hollowing out the pension pot is not a great idea, however. The construction workers' fund and the district mineral fund have large amounts of unutilised money, and it makes sense to deploy it, but strict guidelines must guard against wastage of funds. The offer to pay provident fund contributions might not be the best way to guard against layoffs, cheaper working capital would work better. The actual outgo from the government would be a fraction of ₹1,70,000 crore. The US fiscal package, in contrast, is 10% of GDP.

The poor do not live in isolation from the non-poor. Just the opposite. The greater the dynamism of the non-poor parts of the economy, the greater the benefits that flow to the poor. This is why for six years on the trot, over 2008-14, rural wages grew in real terms, reducing poverty sharply. During the Covid-19 crisis as well, the support offered to industry and other productive sectors of the economy would determine how the poor would be able to survive the crisis. This is the time to think big.

TReDS Route to Discourage Layoffs

The best way for the government to induce employers to not lay off workers rendered redundant by the Covid-19 slowdown and lockdown would be to provide greater working capital relief to small companies by operationalising and fully realising the potential of the Trade Receivables Discounting System (TReDS). It should adopt a carrot-and-stick approach. To ensure that large companies release the payments due to their small-scale suppliers without delay, they must be mandated to come on to the TReDS platform. Small suppliers raise their invoices on their large buyers, when both the buyer and the seller are on the platform, participating banks carry out factoring, that is, take over the bill collection from the small suppliers and pay them their dues upfront, with a discount pegged to the creditworthiness of the large company that now owes the money to the bank.

Failure to come on to the TReDS platform should be treated as an offence, and incentives offered for compliance. This would sharply reduce the cost of working capital for small companies. The cost of financing is based on the risk profile of the large buyer. Small businesses would require less working capital — they would not have to wait for months to collect their dues, as has been the practice. Further, they would get their money from banks, far cheaper than their traditional, non-bank sources of funds. In bill discounting, recourse is on the small company, and the discount rate is based on the small company's risk profile. There is no incentive, further, for

GoI's relief measures will help those worst affected by the lockdown, but will it do the trick?

PACKING A DOSE

No Company Must Close

Ram Singh

The Covid-19 pandemic is a serious threat to many lives and livelihoods in India. Sensing the gravity of the situation, Prime Minister Narendra Modi announced a three-week lockdown for the entire country on Tuesday till April 14. On Thursday, finance minister Nirmala Sitharaman announced a ₹1.7 lakh crore Covid-19 mitigation economic relief package under the PM Garib Kalyan Yojana (PMGKY).

For the next three months, the package offers the following: additional 15 kg grain (rice or wheat) and 3 kg of dal free to 80 crore poor Indians; ex gratia ₹1,500 (₹500 over the next three months) to 20 crore Jan Dhan account-holding women; free liquefied petroleum gas (LPG) to 8.64 crore Ujjwala beneficiaries; addition support of an extra one-time ₹1,000 to the three crore senior citizens, widows and divyangs (differently abled). Besides, the five crore families of MGNREGA workers will received increased wage support of up to ₹2,000.

The government will expedite payment of the first instalment (₹2,000) due in 2020-21 in April itself under the Pradhan Mantri Kisan Samman Nidhi (PM-KISAN). For the organised sector worker, GoI will pay the Employees' Provident Fund (EPF) contributions of both sides for 80 lakh employees of small companies who earn up to ₹15,000 a month.

The package will surely help the 800 million poor — landless workers, small and marginal farmers in rural areas, the aged, poor women and construction workers — to mitigate the hardship caused by the Covid-19 lockdown.

However, it can be recalibrated for better effect. For instance, five crore families of MGNREGA workers with proper identification are unquestionably poor, as are the families of 3.5 crore construction workers. To boost their demand and income, these families should be paid a part of their entitlement without requiring them to work. (Under present circumstances, working outdoors is to be avoided anyway.)

The package is also not enough to address the economic crisis. It has left the market unimpressed. Even though GoI is absolutely right to call for a lockdown, the strategy has its own costs. Activities of major employers — in the hospitality and tourism, catering, entertainment, retail, construction and real estate sectors — have come to a grinding halt, leading to heavy job losses.

In other sectors, micro, small and medium enterprises (MSMEs) are struggling to pay their bills and service their debt. In fact, even big companies are looking at cash shortage, overstretched balance sheets, lower capital expenditure and no demand. The timing is especially bad, as the growth rate was already low and unemployment the highest in decades. Some very hard choices lie ahead for the finance minister-led economic response taskforce.

It is paramount to protect people from becoming unemployed, or from suffering an income shock that could lead to unemployment. Due to multiple reports of administrative inefficiencies and manipulations by hoarders, supplies of food and other essentials are in short supply, and their prices too high. For the poor to benefit from PMGKY transfers, it is crucial to address these issues.

GoI should invest in healthcare to augment capacity for diagnostic tests and intensive care, as well as preventive tools to suppress the virus. This is the most important investment today.

Moreover, the government and Reserve Bank of India (RBI) should work closely to bring financial stability and mitigate the crisis. The waivers and relaxations in deadlines under the tax and company laws announced by Sitharaman on March 24 are welcome. The raise in the threshold from ₹1 lakh to ₹1 crore for triggering insolvency proceedings under the Insolvency and Bankruptcy Code (IBC) will help MSMEs. However, the crippling effects of the pandemic are pervasive. More needs to be done.

Companies are having to deal with high cost of capital due to cancelled orders and unsold inventories. While the working capital cycles of companies have got longer, the private debt market has frozen. There are hardly any takers even for AAA-rated bonds. Clearly, the liquidity is not flowing to where it is needed, even though the system has enough of it. The worried market is causing cash-hoarding.

It will not be a good idea for RBI to purchase corporate bonds. However, a rate cut and big open-market operations will help, and ensure that the situation doesn't worsen. A special liquidity window for mid-tier banks will also help to provide much-needed backup liquidity.

Unlike developed countries, India does not have automatic economic stabilisers such as universal health coverage and unemployment insurance. Therefore, it is important to ensure that no company, small or big, faces the risk of closure or bankruptcy because of the Covid-19 lockdown.

Finally, GoI should be willing to relax the fiscal deficit targets to 6%. RBI can buy government bonds to keep the yields low and market orderly, just like it has managed the forex markets. With crude at $25 a barrel and good rabi crops, inflation is not an immediate concern. In fact, excise duty on petroleum products should be used to generate funds.

This approach to the crisis, of course, has its drawbacks. Public and corporate debt will soar. Some of the benefits may go to undeserving firms and individuals. However, risking a recession will cost more.

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Now Bump Up Health Spend

Hema Ramakrishnan

The Union government has done well to announce a ₹1.7 lakh crore relief package for the poor, workers and those requiring immediate help during the 21-day national lockdown to combat the Covid-19 pandemic. The Pradhan Mantri Garib Kalyan Yojana (PMGKY), which will cover 80 crore people, includes cash transfers and food security.

The government has been prescriptive, making selective interventions in niche areas. These include front-loading the payout to farmers under the PM-KISAN scheme, hiking wages under the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) scheme, providing an ex gratia amount of ₹500 for three months for 20 crore women Jan Dhan account-holders, paying provident fund contributions for both the employer and the employee (those who earn less than ₹15,000) for three months, among others.

Cash benefit transfers is a good idea, as it cuts leakages. Higher wages under MGNREGA, which provides a safety net to the poor in times of seasonal unemployment, makes sense, assuming the lockdown is not prolonged. Similarly, distributing food grains would help liquidate mounting food stocks with the Food Corporation of India and bring down storage costs.

COVID-19 PACKAGE

Some sanity

Fiscal hawks would argue that the Centre need not take on the extra burden of contributions into the Employees' Provident Fund (EPF) for the next three months. Instead, it could have waived mandatory contributions to the workers' retirement savings for this period. Letting workers withdraw from their EPF accounts would help but shrink their retirement nest.

Asking states to use the money — about ₹25,000 crore — in the district mineral welfare fund for medical testing and screening to combat the spread of pandemic is pragmatic. The government must ramp up testing and ensure the steady supply of medicine and medical supplies, even as it seeks to minimise the damage caused to the economy. Fixing the economy hinges on the health sector.

Expenditure on relief and social protection will rise, with several states also announcing measures to alleviate the financial stress of the poor. Kerala has announced a financial package worth ₹20,000 crore that includes direct transfers to poor households, while Uttar Pradesh has promised to transfer ₹1,000 to over 3.5 million workers. An agile state will seek to dovetail, as far as possible, the Centre's announcements into its own announcements.

How will the stimulus be financed? The Union government can borrow more to meet unforeseen spending. This would mean breaching its fiscal deficit target. But that's something it will not — and should not — worry about now. It can also negotiate a higher ways and means advance (WMA) limit with Reserve Bank of India (RBI) to tide over its own cash-flow mismatches. Limits for WMA, a temporary loan facility from RBI, can be revised under extraordinary economic circumstances.

Confederation of Indian Industry (CII) expects RBI — which has introduced long-term repo operations, open-market operations and variable-term repos to ease domestic liquidity pressures — to cut rates. Will RBI, too, purchase corporate bonds and commercial paper, on the lines of the US Federal Reserve that has taken determined steps to extend its bond-buying programme? The government must also help small business to survive. Sectors such as aviation, pharmaceuticals, tourism and construction need incentive packages.

The International Monetary Fund (IMF) has made a case for coordinated and synchronised global fiscal stimuli. "Fiscal measures are being deployed on a range of policies that immediately prioritise health spending," says an IMF blog on Policy Action for a Healthy Global Economy, adding, "Governments should continue and expand these efforts to reach the most affected people and businesses — with policies including increased paid sick leave and targeted tax relief."

How geared is our public health system to respond to the epidemic whose contours change every day? This is not the first such challenge, nor will it be the last one. The focus should be to vastly improve the country's creaky public health infrastructure.

Public spending on health must increase drastically to strengthen primary and secondary care, and other schemes like disease surveillance and epidemiology, as well as tertiary care where the vast majority rely on public institutions for medical needs. A robust public health spending approach must also address issues of sanitation and clean piped drinking water if the government is serious about avoiding preventable deaths.

Access to water is a pain point for the poor living in rural areas. How can one, then, expect them to follow hygiene instructions by the World Health Organisation (WHO) or government advisories — of washing one's hands thoroughly and frequently with soap? The answer lies in the 'piped water supply for every household by 2024' mission to ensure India is better prepared during the next emergency.

India's investment in digitalisation and adoption by society through infrastructure and promotional measures should help in many areas that include effective delivery of public health, drug discovery, work-from-home, digital financial services and a host of applications that offer a cyber layer to undertake socio-economic activities.

We need to ride out the Covid-19 crisis with a steady and clear-headed strategy and action plan, on both the health as well as economic fronts.