India can not only soften the pandemic’s impact on the economy but also revive growth

Yes, We Can

The government’s stimulus package, at ₹20 lakh crores, is large enough in size. But can it address not just immediate relief for the lockdown- and pandemic-stricken economy but also the reversal of the slowdown that had preceded Covid-19? Why stop the ailing if the plan is to dump it into the fire?

Is it possible for India to offer relief to the nearly 6.4 crore production units, of which only about one crore are registered under the goods and services tax (GST) and, having kept these alive, offer them a life more vigorous than survival on a ventilator?

Politics the Key

It is. India can stage a relatively rapid recovery, not merely despite, but aided by, a floundering global economy. India runs a current account deficit and growth does not depend critically on exports. Energy, other commodities, machine goods, planes, ships, entire companies and technology can be shipped out cheap from a world in a slump. Capital will be cheap, too, if India can minimise the risk that companies’ deployment in India.

What India needs to realise this possibility into material reality is bold politics. The economics is straightforward enough. Without political courage, the stimulus would flow down the Ganga, joining human and industrial waste.

India must create a vibrant bond market, kicked off by RBI or by a special purpose vehicle (or several SPVs) whose bond issuance is mopped up by RBI.

Eshew sectarian politics for social cohesion, the basis of prosperity. Wean political funding off kickbacks, depend on transparent donations. This will lower the capital-intensity of Indian business (no more padding of project costs to siphon money out of over-generous bank loans sanctioned through political patronage and commissions), force Indian business to make money primarily from efficient running of their business, rather than from setting up new projects and making over-valued acquisitions. It would improve the integrity of accounting and corporate governance.

Stop patronising power theft and power giveaways, which bankrupt the power sector; denying it 30-40% of potential revenue, create bad loans on bank books and deprive rural areas of daytime supply of stable power supply, without which an agro-processing industry cannot take shape.

Replace inflated support prices for specific crops and subsidised inputs with investment in infrastructure, including irrigation, land consolidation and logistical linkage to markets, remove restrictions on farmers’ marketing freedom and give them income support. This will end grain mountains with the Food Corporation, shift sugarcan from arid Maharashtra to the floodplains of Bihar. Horticulture would bloom, to feed a new crop of agro-processing industry in rural areas, generating new income for farmers and structural change in the rural economy.

How can micro, small and medium enterprises (MSMEs) that have had zero revenue for more than six weeks but have had to pay interest, rent and wage costs, tide over the crisis? They need liquidity to stay afloat.

Begin with the money they are due. Large entities, including the government and public sector units, to whom MSMEs make supplies, do not release payment for months on end. Fixing this is the first step. All companies have been mandated to list on the factoring platform, Trade Receivables Discounting System (TReDS), where suppliers, buyers and financiers are registered, suppliers list their invoices raised on the large firms, the large firms authenticate these invoices and financiers take over the receivables, pay the suppliers their invoice amount, less a discount that reflects the credit risk of the large buyer.

Vibrant Bond Market

TReDS does not work because it does not have a sufficient variety of financiers and because large firms do not authenticate the invoices raised on them. Bring on board large and small non-banking financial companies (NBFCs). Let Sebi direct rating agencies to lower the rating of companies that try to sabotage TReDS by not authenticating legitimate invoices.

Large companies can borrow from banks, or issue bonds. India must create a vibrant bond market, kicked off by RBI or by a special purpose vehicle (or several SPVs) whose bond issuance is mopped up by RBI. Let the SPV subscribe to bonds issued by companies and NBFCs that fund MSMEs. NBFCs can, in turn, offer loans to MSMEs or pick up their bond offerings and trade in them. Drop regulatory restrictions against trade in subprime bonds. Let the mutual funds, banks and other investors trade in all kinds of bonds, across the risk-reward spectrum, aided by derivatives to mitigate risk. Siddhi’s venture arm could offer equity.

Will industry find demand for its output? It would, in completion of stalled projects worth lakhs of crores and huge fresh investment in healthcare and physical infrastructure, including new plans, dense towns that urbanising India desperately needs.

Where will the ₹20 lakh crore come from? The state can borrow from the domestic market and RBI, without fretting about fiscal deficits. Deflation, not inflation, is the worry now. An SPV can raise sovereign-guaranteed debt, besides equity, from global capital markets in desperate search of positive returns. If the capital is spent so as to raise relative productivity, the rupee would appreciate, de-risking servicing the capital.

India can pull itself out of the morass. Provided it has the political will.

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