Stimulating the Economy Post-Covid Era

This article is based on **How to pay for the stimulus** which was published in The Hindu on 06/08/2020. It discusses the options for stimulating the Indian economy in post-covid era.

The economic impact of **Covid-19 pandemic** has caused unprecedented damage to the global and India is no exception. It is clear that, for the first time in many decades, India's economy will contract significantly.

Moreover, India being a developing economy, the deleterious impact of an economic contraction is long and deep, especially on the poor. There will be a significant impact on the social sphere as well, as much of weaker sections of Indian society may slip back into poverty and unemployment.

Thus, greater public spending by the government as the sine qua non of economic revival. In this context, several economic experts have proposed the government to explore the option of borrowing debt from international institutions or monetize the deficit.

Debt vs Deficit Monetization

Borrowing Debt From International Institutions: India may make full use of loan programs of international institutions such as the **International Monetary Fund (IMF)** and **the World Bank**.

- India's long track record as an impeccable borrower with no default, timely repayments and full transparency make us an ideal borrower for these institutions.
- However, there are some challenges associated with this option.
    - The borrowed money will have to be paid back in hard currency. This would involve India having to earn hard currency by stepping up exports, but global demand will remain bleak in post-covid era.
    - Also, when considering borrowing from the World Bank and the IMF, there is the issue of conditionalities.

Deficit Monetisation: Printing Money or **Deficit Monetisation** imposes high intangible and institutional costs.

- Countries like Germany, Venezuela have opted for the printing money, and have experienced Hyperinflation in the past.
- Therefore, it is prudent to adopt deficit monetisation as the last resort when all other options are exhausted.

Way Forward

The macroeconomic fundamentals of Indian economy remain strong and India may not have opted either of the above options in near future. As the present slowdown in economic activity is both a function of external factors such as the lockdown and behavioural changes of people and enterprises. Government may take the following steps.

- **Increasing the MGNREGA funding and expanding to Urban areas:** The Mahatma Gandhi National Rural Employment Guarantee Act 2005 (MGNREGA) programme has proved to be a bedrock of support in the normal times and during times of difficulty (like Covid-19) and it will be a good idea to expand the scheme to urban areas.
- **Transfer of Cash benefits:** A meaningful cash transfer can restore confidence in these families. Money in the hands of people can provide an immediate sense of security and confidence, which is the cornerstone to restoring economic normalcy.
    It will raise the consumption and demand of the economy and can bring back the virtuous cycle in play.
- **Issues with the Banking system:** COVID-19 assistance measures undertaken by the Reserve Bank of India (RBI) and the government such as interest rate reductions, credit guarantee and liquidity enhancement schemes are welcome steps.
    - Although banks have largely failed to take initiatives as they are not confident of lending.
    - Thus, reviving the health of the banking sector is the immediate need of the hour.

Conclusion

More importantly allowing institutions such as the RBI, public sector banks, bankruptcy boards, securities and insurance regulators to function freely and professionally is the foundational step to restoring confidence in the financial system.

Drishti Mains Question

Greater public spending by the government as the sine qua non of economic revival. Critically discuss the statement.

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This editorial is based on **"In Kashmir, integrate Kashmiris"** which was published in The Hindustan Times on August 8th, 2020. Now watch this on our Youtube channel.