GS SCORE

An Institute for Civil Services

POST COVID ECONOMY

GIST OF YOJANA

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INTRODUCTION

- The world economy experienced a major crisis in 2020 due to the Covid-19 pandemic.
- This is the biggest shock to the world economy since the Great Depression of the 1930s and World War II.
- The situation is still evolving and considerable uncertainty prevails.
- This complicates the situation as far as taking concrete decision to shape post-COVID world is concerned.
- Indian policy-makers too faced a challenging period on both health and economic fronts.

THE BARBELL STRATEGY

- It is important, firstly, to explicitly layout the intellectual framework of India's response to both the health and economic challenges caused by the pandemic.
- The central problem in both cases related to making major decisions under conditions of extreme uncertainty and paucity of information; what can be dubbed "the fog of war".

- The World Health Organization, however, was far from clear in its recommendation and changed its stance repeatedly.
- Epidemic experts consulted by governments around the world provided wide-ranging assessments.
- Some advocated herd immunity, while others predicted millions of deaths unless something drastic was done.
- Whatever strategy was adapted was a one-way street and would have to be held to the end. It was also recognised that it was probably a marathon rather than a sprint.
- Given these constraints, the Central Government opted for what is known in financial markets as a **"barbell" strategy** - i.e. hedge first for the worst-possible outcome while progressing step-by-step with a Bayesian updating of information.
  - The initial total lockdown, therefore, should be seen as a hedge against the worst possible outcomes.
  - It was bolstered by advice from some experts who argued that a strong initial lockdown could stall the epidemic at an early stage (this was not an unreasonable idea given the available information)
  - It should be noted that this initial lockdown also gave the space to arrange a large-scale medical response in terms of equipment, quarantine and testing capacity.
- As time has passed, the central government then unlocked the economy step-by-step as information as well as medical capacity both improved.
- Lockdowns and other responses were increasingly left to local governments.
- Meanwhile, better information meant that it was possible to make sensible tradeoffs between health and economic needs.
- This explains why the government was later willing to keep opening up despite there being any Covid-19 infected people whereas it had done an Initial lockdown when there were very few patients.

Economic response

- The same barbell strategy was used in the economic response.
- The Indian economic response during the lockdown phase was oriented more towards providing a cushion to the most vulnerable segments of society and of the business sector (such as medium and small enterprises).
- This explains the emphasis on food availability, cash transfers to Jan Dhan accounts, government guarantees on loans to small enterprises, moratoria and postponement of financial deadlines.
- Every effort was made to avert a cascade of defaults in the banking system.
- Unlike many other countries that front-loaded large stimulus packages, Indian policy-makers decided that trying to pump demand during a lockdown was like pressing the accelerator when the foot was firmly on the brake.
- It was better to save the ammunition for later as the cycle of demand simply would not take-off in a lockdown.
- Instead, the time was used to put in place long-term structural reforms in anticipation of the post-Covid world.
- Both monetary and fiscal space exists for this push despite the widening of the fiscal deficit.
- Demand-driven inflation is not a major issue as almost all price increases are due to supply disruptions.
- Every financing avenue will be explored including foreign and domestic capital, asset monetisation and even deficit monetisation.

ADAPTING TO A POST-COVID WORLD

- The post-Covid world that emerges from this crisis will not be a mildly-altered version of pre-Covid world.

- This new world will have its own geo-politics, supply chains, technological innovations, institutional structures, consumer preferences and so on.
- All of these factors will interact in multiple, unpredictable ways.
- So, how can one prepare for an uncertain new world? Rather than invest in a rigidly master-planned response, it is better to invest in two things: flexibility and resilience. This is the context in which recent supply-side reforms need to be seen.
- The agriculture sector reforms frees up farmers to sell their produce as they wish while those involved in the supply chain can invest in storage without fear of being labelled "hoarders".
- This will allow the farm sector and farm-related industries to adapt their activities to changes in demographics, climate change, consumer tastes and so on.
- India has the world's second largest stock of cultivable land and there is no reason it shouldn't be an export powerhouse in agriculture.
- Similarly, dozens of central labour laws have been reduced to four internally consistent codes. On one hand they strengthen laws related to safety and working conditions, on the other hand they allow employers greater flexibility.
- Again, this is important for an unpredictable, evolving post-Covid world where the economy needs to be able to efficiently redeploy the workforce according to changing conditions.
- Other recently announced reforms related to bilateral netting, and trade finance factoring are also directly aimed at improving the flexibility of the financial system.
- The other ingredient of the longer term post Covid framework is the emphasis on resilience.
- Vision includes increased participation in global supply chains as well as a greater encouragement of FDI.
- India's globally competitive pharmaceuticals industry was found to be too dependent on critical imported inputs with supply lines that can be easily disrupted. Hence, an effort is being made to bring some of the input production back to India.
- A big effort is being made on digitisation of records, the use of online applications and the rationalisation of defunct government bodies.

INDIA'S MONETARY POLICY

- Monetary policy is all about balancing the desirable and the feasible.
- Ensuring macroeconomic stability as reflected in low and stable prices is its biggest contribution to strong, sustainable and inclusive growth in India.
- Its main objective is to ensure that an economy grows steadily along a path in which all available resources such as labour and capital are gainfully employed, or in other words, along its potential.
- When the economy grows at a faster pace, it tends to overheat. Demand races ahead of supply, prices rise much more than people can tolerate, financial markets go through large fluctuations.
- In these conditions, the task of monetary policy is to cool down the economy.
- On the other hand, when an economy is falling below potential, problems like unemployment, unusually low and un-remunerative prices, depressed financial activity, and deficiency in resource use develop.
- In such a situation, monetary policy has to boost the economy and revive it so that it returns to its potential.
- MP can achieve its goal by changing the availability of money — in times of overheating, it reduces the supply of money while in times of depressed activity, and it expands money supply. It can also achieve the same result by changing the cost of money, which is the interest rate.

- India has joined 40 other countries in implementing FIT, and significantly, there has not been a single back slide in the country experience. CPI inflation between September 2016 and March 2020 has averaged 4.2 percent.
- With the Covid- 19 pandemic, however, supply disruptions and panic mark-ups have caused inflation to deviate substantially and breach the upper tolerance band since June 2020.
- There is also evidence that the volatility of inflation or its variability came down during the new framework's operation. This period also came to be associated with sizable capital inflows from abroad, indicating robust investor optimism, and a strong external position of the country.

NEW FRAMEWORK FOR MONETARY POLICY

- Since 2016 India's moderate policy framework underwent a change and a new framework described as flexible inflation targeting (FIT) was instituted. Under this framework the primary objective of monetary policy is to achieve an inflation rate of 4 %, while keeping in mind the objective of growth.
- The inflation rate is defined as year on year changes (in percentage) in the consumer price index (CPI). In view of the fact that the Indian economy is subjected to frequent supply shocks, a tolerance band has been prescribed around the inflation target of 4 percent.
- A lower tolerance limit is set at 2 percent and an upper tolerance limit is at 6 percent. The target and the tolerance limits are specified by the GOI providing an example of monetary-fiscal coordination as the GOI and the RBI then share a joint responsibility in setting achieving the goals of monetary policy.
- The CPI measures prices paid by consumers at the retail level. Thus, it captures prices that the common person faces on a regular basis and by doing so, it relates the conduct of monetary policy to everyday life.
- For people working in the organized sector, their salaries and wages are 'indexed' to the CPI so that whenever the CPI increases by a specified amount, they are given dearness allowance. By keeping CPI inflation at the target, monetary policy contributes to the welfare of the lay person.
- It has been ensured that the lay person can easily judge whether or not monetary policy is working for the betterment of the people of India. This is the second important element of FIT transparency.
- Under the new framework, clear rules of accountability have been laid out. If there is a continuous deviation of actual inflation from the target's tolerance bands for three consecutive quarters, the RBI has to write a letter to the GoI explaining the reasons for the deviation, the actions that will be taken to correct the deviations.
- So far, it was the Governor of the RBI who was the sole decision-maker in respect of monetary policy actions and stance. Under the new framework, the decision has to be taken by a six-member committee called the Monetary Policy Committee (MPC).
- The Governor is the Chairperson, and the Deputy Governor and an office the RBI are appointed as ex-officio internal members of the MPC. Three other members are external, selected by the GoI.
- Each member has a single vote, with the Governor exercising a casting vote in the case of a tie. The MPC is required to meet at least once every quarter.

REVIVAL OF ECONOMY

- In India, with the pandemic situation still evolving, the growth forecasts by all the agencies have been negative with the median forecasts at close to -10%. The RBI expects the GDP to contract by 9.5% 'with risks to the downside.
- The GDP growth was already in a slowdown phase even in 2019-20. It has registered a growth of 4.1%, which was the lowest in over a decade.

- The fiscal situation was even more precarious with the Central Government invoking the escape clause in the FRBM (Amendment) Act of 2018 for two consecutive years that allows the governments to run 0.5% more fiscal deficit than specified in the Act.
- On the part of state governments, most of the studies suggest that the fiscal position at the states only deteriorated since 2015-16 despite higher devolution to the states.
- In a way, the government entered this pandemic phase with weak global prospects. The first quarter of 2020-21 registered the sharpest decline of -23.9%.

ACTIONS TAKEN

- The RBI has reduced the policy interest rates sharply and also pumped in more liquidity to the market.
- It has also introduced loan moratorium and other measures such as increasing Ways and Means Advances (WMA) to the state governments, Credit Guarantee Schemes, among many other sectoral interventions.
- The central government outlined Rs. 20 lakh crore stimulus packages with accompanied large scale structural reforms as part of Atmanirbhar Bharat Package.
- Under the package the aim is to make India a manufacturing hub for the world. The package talks of 4 Ls: Land, Labour, Liquidity, Laws, with structural reforms in all these areas.
- The PM also suggested five pillars of this package and they are: Economy, Infrastructure, System, Vibrant Demography and Demand.
- The Atmanirbhar Bharat Package includes wider-ranging interventions such as DBT, food security, rural jobs under MGNREGS, Credit Guarantee schemes for MSMEs and Kisan Credit Card (KCC) scheme.
- In a way, while this measure does not put additional fiscal cost in the short term, this can help in reviving investments in the sectors that are hard hit not only due to pandemic and the subsequent lock-down, but also due to successive shocks such as demonetization and GST implementation.
- Further, this would also help banks that are struggling with NPAs and provisioning can be done to business in these crucial sectors.

RECOVERY OF INDIAN ECONOMY

- There are discussions about the shape of the recovery. Whether it would be 'V' or 'U' or 'W' or any other shaped recovery is something that is important for investors.
- While the government feels that there could be a 'V' shaped recovery, most analysts feel that the recovery may not be that sharp.
- While the slowdown was sharp due to sudden lockdown, the recovery is expected to be prolonged and that depends heavily on the implementation of fiscal monetary packages.
- The recovery could look like a 'smoking pipe' shape with a sharp dip in the beginning and a prolonged recovery at the later stage. There are few green shoots already visible in the economy that suggests a gradual recovery.
- Indicators related to credit off take to MSMEs, rural development expenditures, electricity demand, etc., suggest pickup in economic activities across the sectors.
- At the state level, while the expenditures due to pandemic has increased manifold, the revenues have dwindled largely due to decline in the revenues under GST.
- This has led to large gap between the actual and the promised 14% increase in the GST proceeds to every state government.

- Here, it is important for the Centre to help the states by borrowing from the market directly so that the interest burden on the states could reduce.
- Going by the present trends, one could be optimistic that these measures should help the economy to revive, although the extent of revival could also depend on how the pandemic situation is going to evolve In the Coming months

FACILITATING SELF-RELIANCE

- India's Industrial Policy has evolved over the years, and relevant changes have been introduced based on the exigencies of time.
- At the time of independence, development was to be led by the public sector, to create a sound industrial base for the future.
- The Industrial Policy 1991 was in response to a challenge, and appropriate changes were introduced to facilitate the transition from a state-regulated economy to a liberalised and globalised economy.
- Overtime, the thinking that started dominating policy circles was that the government, instead of directly intervening in sectors, must play the role of a facilitator to ensure competition and efficiency.
- The National Manufacturing Policy was released by the Government in 2011. The main objectives of the Policy were increasing the manufacturing sector growth to 12-14 percent over the medium term, increasing the share of manufacturing in GDP to 25 percent by 2022, creating 100 million additional jobs in the manufacturing sector by 2022 and increasing domestic value addition and technological depth in manufacturing.
- Industry should be encouraged to drive formulation and development of voluntary standards, by using industry driven standards setting bodies, if needed.
- Regular participation of identified experts in international standards setting bodies such as International Organization for Standardization (ISO), International Electrotechnical Commission (IEC) and Codex.
- Enhancing testing, inspection and certification infrastructure domestically, with private-sector participation.
- Ease of doing business (EoDB) is another key area which requires reform.
- There should be an institutional mechanism for regulatory impact assessment, which will provide an objective evaluation of new regulations.
- Technological advancement of industry in India has not kept pace with that of many other manufacturing nations. There is a strong need to encourage Indian industry to upgrade to advanced technologies and ease transfer of technology from global and Indian innovators to Indian industry.
- India's share in global value chains (GVCs) is low vis-a-vis other comparable economies. The above measures encompassing infrastructure development leading to supply chain resilience, PMP and PLI schemes in a number of products, promoting Make in India and the sustained drive towards quality and boosting domestic capacity will pave the way for India to make its mark in GVCs in the times to come.

AGRICULTURE: SAVIOUR OF ECONOMY

- Covid-19 pandemic battered national economies world over. Among peer nations, Indians suffered the most with a significant shrink of 23.9 percent in GDP in the first quarter of FY 2020- 21.
- However, one sector Agriculture and allied activities-emerged as the only bright spot clocking a 3.4 percent GDP growth at constant prices.
- Supply chains related to agricultural goods and services were allowed to function and operate with protective measures in place. Government soon launched and implemented farmer-friendly schemes, reforms and financial incentives.

- Efforts paid the dividends; a sharp increase of 5.7 percent in area coverage of kharif crops was registered as on September 18, 2020. Amid good monsoon and adequate water storage in reservoirs for winter crops (Rabi), the Government set an all-time record food-grains production target of 301 million tonnes for 2020- 21.
- Government rolled out a slew of immediate economic benefits to protect interests of small farmers and migrant labourers. Government quickly released advance payment of Rs. 2,000 to bank accounts of farmers under PM-KISAN scheme.
- Wage rate for workers engaged under National Rural Employment Guarantee Scheme (NREGS) was revised with enhanced allocation for the scheme.
- Pradhan Mantri Garib Kalyan Yojana, was launched to take care of vulnerable population during distress period. Cash and food assistance to persons engaged in informal sector, mostly migrant labourers, was also arranged out of PM-CARES fund.
- NABARD is extending an additional refinance support of Rs. 30,000 crore for crop loan requirement of Regional Rural Banks and Rural Co-operative Banks.
- Nearly 25 lakh new Kisan Credit Cards (KCC) were sanctioned with a loan limit of Rs. 25,000 to gain access to institutional credit at a concessional rate of interest. Fisher folks and animal husbandry farmers have also been included in KCC scheme.
- Interest subvention and loan moratorium of three months was availed by over three crore farmers.
- The timely credit stimulus package helped farmers to meet post-harvest requirements of the 2019 rabi crops and take care of costs of current kharif 2020 sowing season.
- Earlier, farmers were legally bound to transport their produce to Agricultural Produce Market Committee (APMC) regulated mandis and sell the produce. Unfortunately, these mandis soon transformed into local monopolies where farmers were generally duped by middlemen through various tricks.
- Government of India promulgated three ordinances that have now become legislations after due parliamentary process.
- The Farmers Produce Trade and Commerce (Promotion and Facilitation) Act, 2020 removes all barriers for intra and interstate trade in agricultural produce. The legislation is likely to end the monopoly of traders and will also support seamless electronic trade across online platforms.
- The other legislation, Farmers (Employment and Protection) Agreement of Price Assurance and Farm Services Act, 2020 allows farmers to tie-up with large buyers, exporters and retailers as part of contract farming. Thus, farmers will have assured price before sowing and the market risk is transferred from farmer to sponsor.
- The Essential Commodities (Amendment) Act, 2020 removes cereals, pulses, oilseed, edible oils, onion, and potatoes from the list of essential commodities to open-up their trade for increasing profitability of farmers and traders.
- It also does away with imposition of stock limit except under rare conditions, such as war, famine, etc. This provision is likely to attract private investment in cold storage, warehouses and processing facilities.
- Government has assured safeguarding interests of farmers at ground level and continuation of mandis with procurements on Minimum Support Price (MSP).
- With reference to contract farming, the legislation provides the framework for resolution of any dispute which may arise between the farmer and the trader.
- The 'One Nation, One Market' would help ' farmers to increase their revenues and small farmers will get benefit from the competitiveness.

CONCLUSION

- The world has just experienced the biggest shock since World War II. The immediate response is well underway.

- Based on a "barbell strategy", India's economic and health response has been somewhat different than that of other countries in terms of sequencing and emphasis of various measures.
- The cycle has not yet fully played out but, as the economy gets fully unlocked, the emphasis will shift towards stimulating demand using infrastructure investment.
- The long-term response, however, is aimed at making the Indian economy more resilient and flexible in order to deal with the opportunities and problems of the post-Covid world.
- Recent reforms in agriculture, labour markets and the financial system should be seen in this light. This is also the context for Aatmanirbhar Bharat.
- Of course, many other areas also need change but arguably the administrative and legal systems should now be the focus of next generation of reforms.

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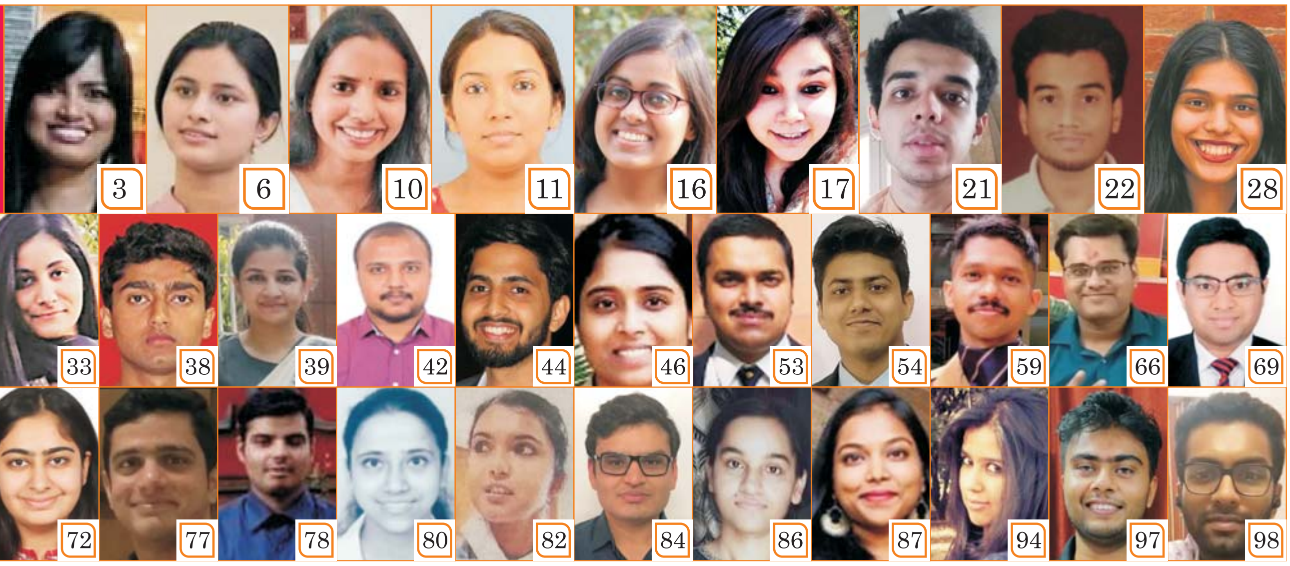
CSE RESULTS

TOP 100 ALL INDIA RANKING CSE 2019



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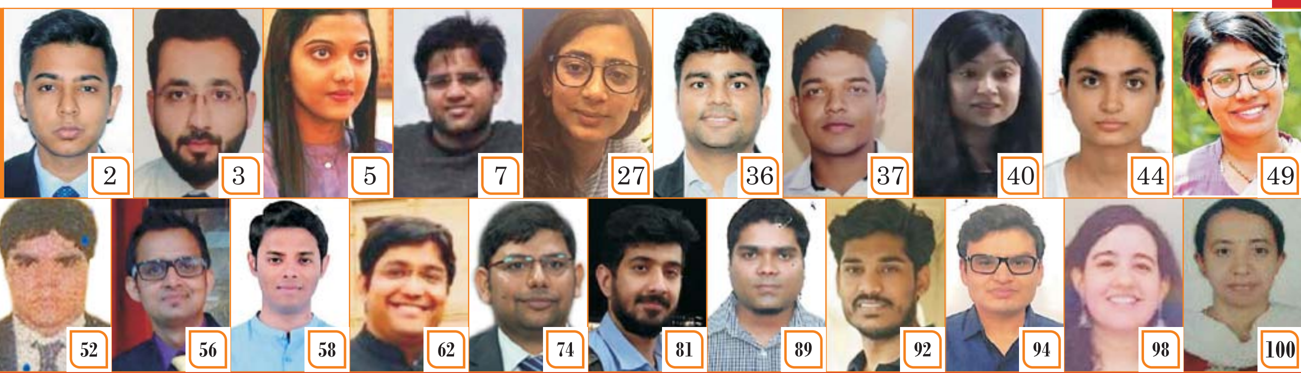
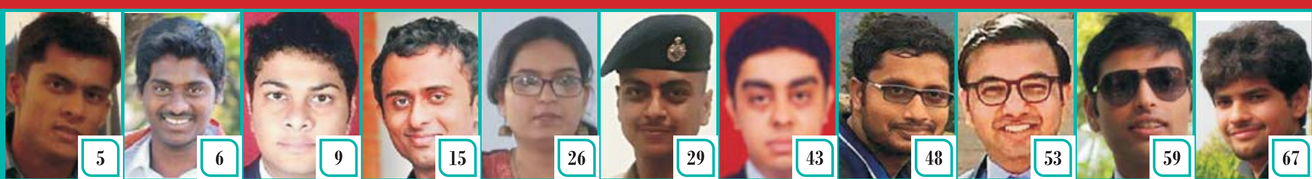
TOP 100 ALL INDIA RANKING CSE 2018



TOP 100 ALL INDIA RANKING CSE 2017

TOP 100 ALL INDIA RANKING CSE 2016



TOP 100 ALL INDIA RANKING CSE 2015