



POLICY
BRIEF

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Government Response to Covid-19 and its Economic Impact

Niti Ayog, Virtual Meeting May 18, 2021

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With timely actions and sound policies, India can turn the COVID-19 pandemic—one of the greatest economic and social crises of our lifetime—into an opportunity to transform its economy and society. The unprecedented nature of the crisis has exposed the limits of the current development model, thereby providing an occasion to think differently and to rebuild the foundations of a more inclusive, resilient, and prosperous India. This Note highlights some of the key policies that could save lives, protect livelihoods, and expand the economy, which together constitute the first instalment in a series of policies that will be needed to build back a better India.

I. Saving lives

A virtual War Room for COVID-19 response. This entity, to be comprised of members from Center, States, and industries, should monitor and deploy critical COVID-19 related health equipment and health professionals across India. Their immediate task would be to solve transportation and logistics of liquid oxygen, concentrators, cylinders, ventilators, and hospital capacity across the country. NASSCOM and other industry bodies can provide platforms of data and information for effective coordination. The officials in charge of the War Room should be given special dispensation to speed up decision making without going through the normal steps of procurement and government policies. Their decisions should not be subject to subsequent CAG audits questioning them with hindsight. They should meet every day and issue a communication at the end of each day.

Vaccination on a war footing. The procurement, distribution, and application of vaccine for all citizens must be done on a war footing in mission mode. The vaccine arithmetic and timeline must be clearly explained. Vaccines should be centrally procured, as in the past, and provided free to all citizens, recognizing that this is a public good. There needs to be special focus on rural areas where the public health infrastructure is very thinly spread and poor. India needs to draw upon its protocols and experience in earlier largescale vaccination programmes such as polio where over a hundred million were vaccinated in a day, including in the remotest parts of the country.

II. Protecting livelihoods

Safety net for the poor and small businesses. There should be adequate funding to meet the increased demand for shelter, food and health support for migrant workers and families since there is no MNREGA in urban areas. The small businesses that closed during pandemic need support—a mix of loan forbearance, tax deferments and subsidized credits—to start over as

¹ This Note has been prepared by a team of economists from ICRIER including Pramod Bhasin, Ashok Gulati, Deepak Mishra (Director Designate), Alok Sheel and Nisha Taneja.

soon as demand returns through. These actions would no doubt be a challenge in view of the tight fiscal situation, but there is scope for temporary increase in public spending and for further quantitative easing.

Building Agriculture Value chains for efficiency, and as a safety net for jobs. As the pandemic is forcing many migrants to go back to villages, they are largely falling back on family farms to survive. Even though agriculture is already overcrowded,, building efficient and inclusive value chains, from farm to fork, can offer opportunities for better and high income jobs closer to their homes. In any case, in post-pandemic period, consumers are expected to demand more healthy and hygienic food, which will further provide jobs and incomes from these agri-value chains. These trends should boost demand and diversify agricultural products. In turn, they will require greater investment in supply chains, more competitive markets, and more jobs in the sector. Private sector can play an important role in building these value chains, provided the state governments create an enabling environment with liberal farm marketing laws.

More than doubling of public health spending. The combined spending by Centre and States on health needs to immediately increase from the current paltry level of 1.3% of GDP to 3% of GDP as recommended by the National Commission on Macroeconomics and Health. The new funding should be used to upgrade and expand India's weak public health infrastructure, especially outside the large urban centres. Private sector can be invited to put in their CSR funds to upgrade Primary Health Centres (PHC) in rural areas, with a major say in the management of these. Reorienting food and fertilizer subsidies towards direct cash transfers can lead to large savings which can be invested in upgrading health infrastructure in rural areas.

Prioritization and streamlining of public expenditure. There is a need to cut down non-essential expenditure to fund higher spending on health and social assistance. For example, key ministries could be asked to allocate 15 percent of their 2021-22 budget amount for covid related expenditure. Resources of State governments need to be augmented immediately, including through enhanced borrowing limits.

Rebuilding financial and external buffers. The pre-COVID crisis in India's banking system needs to be resolved expeditiously to improve the potency of monetary policy and to revive growth. The RBI's Financial Stability report of January indicates that if no steps are taken, COVID will lead to a jump in NPAs. Beyond the clogged transmission channels, monetary policy at the current juncture faces two additional challenges. The conflicting objectives of growth and inflation would need to be balanced going forward as RBI expects inflation to remain in the upper range of its target of 4% +/- 2%. While its price-stability worries are unlikely to diminish any time soon, the other monetary policy headache that India needs to be prepared for is how to respond to possible large capital outflows arising out of a strong US recovery. The fall out on India could be particularly severe as its macroeconomic parameters are currently worse than most of its emerging market peers.

III. Growing the economy

Healthcare and pharma as engines of growth. India has well known competitive advantage in the health care and pharma sectors as evidenced by its ability to invent and produce COVID-19 vaccine at a global scale. To build on this momentum, the government can be a prime mover, crowding in private investment. A specially designed policy package comprising of reduced regulations, improved intellectual property protection, lower cost of trade and doing business along with targeted fiscal stimulus can be funnelled to makes these sectors engines of growth.

Aiming for a trillion dollar of exports. India's exports are only one-seventh of China's and a declining share of its own output. With booming external demand and reduced domestic demand due to COVID-19 recession, there is a window of opportunity for India to export its way out of the pandemic. A strategy to boost exports to one trillion dollars in five years could be announced, comprising of slew of policies to reverse recent increase in custom duties, signing of FTA with European Union, USA, UK and Australia, attracting more foreign investment in high-skilled sectors, as well as stronger trade links with neighbouring countries in South and South East Asia. India would also need to diversify its supply chains and play an active role in the Quad group in the Indo-Pacific region. As several other countries are looking to reduce their dependence on China, India offers an alternative investment destination. However, for this to become a reality, India would need to build more adaptable and resilient infrastructure and put in place coordinated border measures. On the services side, as some major IT companies are considering moving their back offices and operations, and software development out of India to mitigate concentration, a more resilient business environment and confidence building measures will be needed to retain such services in India.

Reviving the animal spirit in private investment. Private investment has seen a declining tendency, affecting growth. The confidence of the corporate sector needs to be restored by clearly articulating and adhering to a forward-looking policy roadmap. The overall environment for doing business is the critical factor, including the political, institutional and environment in civil society. Government needs to consult more with private investors to allay their concerns, stick to the privatization roadmap and assure them of a level playing field. Direct recruitment of experts with business managerial expertise in relevant economic ministries can go a long way in creating enabling business environment within the government bureaucratic system.

Leveraging technology to spur growth and development. Growth dividends of technology, especially in infrastructure deficit developing countries, are now well established. The government has already announced its goal of achieving a trillion-dollar digital economy by 2025. Digital technology and platforms found new meaning during the pandemic as a medium to deliver health, education and livelihood opportunities to communities at large.

Accelerated policy intervention for holistic growth of the sector including, deployment of communications infrastructure, skilling and digital literacy, research and development, etc. can collectively trigger productivity growth and enable inclusive development in the country. Finally, a focus on robust governance mechanisms and institutional capacity will protect the industry and the beneficiaries of emerging technologies from their downside risks, allowing for their ethical and responsible use.

Emphasizing Clean Energy Sectors for a Green Revival. In line with the PM's vision of creating an 'Atmanirbhar' India, the pandemic provides an opportune time for developing a roadmap for 'Atmanirbhar Urja Bharat' by promoting domestic manufacturing of both solar panels as well as battery storage systems. This would reduce our dependence on imported components especially solar cells and modules, 85%-87% of which are being supplied by China and other countries². States have been asked to identify parcels of land spanning an area of 50-500 acres for the purpose of setting up hubs for renewable energy manufacturing and export services.³ However, land unfortunately, continues to be a roadblock for the development of this sector. Creation of Special Purpose Vehicles such as 'Akshay Urja Vikas Nigams' as in the case of solar energy parks under the aegis of state governments could help identify and provide access to land and infrastructure needed for such manufacturing hubs.

A related issue to the rising share of Variable Renewable Energy (VRE) sources in India's energy mix is that of storage systems to manage the grid and ensure system flexibility and reliability. According to the study by Carnegie Mellon and NITI Aayog the high upfront costs of battery packs can be off set through domestic manufacturing of lithium-ion batteries.⁴ There are significant economies of scale that can be reaped in this context, as these batteries would find alternative usage in India's electric mobility plans as well. Improving recycling infrastructure of end-of-life batteries and urban mining technologies is key for tackling resource constraints related to critical minerals, and thus needs greater attention.

²Available at: <https://economictimes.indiatimes.com/small-biz/productline/power-generation/covid-19-need-to-focus-on-improving-domestic-solar-manufacturing-says-official/articleshow/75251737.cms?from=mdr>

³Available at: <https://www.saurenergy.com/solar-energy-news/mnre-to-promote-local-manufacturing-export-hubs-for-re-anand-kumar>

⁴ Available at: <https://www.hindustantimes.com/analysis/covid-19-india-needs-a-green-economic-stimulus-opinion/story-MnFm3MdZRWWv1pD5COFKzJ.html>



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