# Post-pandemic Revival Strategy for India

**M. Govinda Rao**

## 1 Introduction

The impressive growth story of Indian economy was brought to an abrupt break when the COVID-19 pandemic struck in March 2020. The pandemic not only resulted in a sharp contraction in the economy but also caused untold misery to millions and made severe dents on the lives and livelihoods of the people. As the economy moved into the expansionary mode after the second quarter, the second wave struck in May 2021 causing severe setback in the revival and hardship to the people. Unfortunately, the setback to the growth process came on the economy which was already affected by structural problems resulting in the deceleration in both investment and growth. Reviving the economy from the impact of the pandemic and accelerating capital formation and economic growth are priority areas and these call for structural reforms. In fact, the crisis created by the pandemic provides an opportune climate for undertaking the reforms. The present paper attempts to identify the various reforms needed to take the economy back to the high growth scenario.

Indian economy had witnessed a steady acceleration in GDP growth after economic reforms in 1991. From the "Hindu" rate of growth of 3.7% during 1950–81, it accelerated to 4.9% during 1981–88. The steady acceleration after the liberalising reforms were implemented saw the economic growth pivot at 7.8% during the period 2003–18 (Table 1). Although the growth decelerated after 2018 until the pandemic struck in 2020 to 5.8%, it was believed that achieving double digit growth was within the realm of feasibility. Acceleration to the high growth regime was found to be an imperative not only to improve the living standards of the people but also to provide jobs to two million people joining the workforce every year and to lift those unfortunate from the morass poverty. The transition to the high growth regime required

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**Table 1** Phases of Indian Economic Growth

| Period | Growth in GDP (constant prices) | Growth in per capita GDP (constant prices |
|---|---|---|
| Phase I (1950–81) | 3.7 | 1.6 |
| Phase II (1981–88) | 4.9 | 2.8 |
| Phase III (1988–2003) | 5.7 | 3.7 |
| Phase IV (2003–18) | 7.8 | 6.4 |
| Phase V (2017–20) | 5.8 | 4.5 |

*Source* Estimated by the author

structural reforms which were explored by a number of economists. However, this not only requires significant increase in the volume of investment, but also enhancing productivity of investments through structural and governance reforms in land and labour markets, agriculture, fiscal reforms to control the deficit and debt and enhance public investment in infrastructure, tariff reforms to enhance export competitiveness, reforms in the financial markets, and the banking system. The crisis created by the pandemic was to be used as an opportunity to undertake these reforms.[1]

## 2 Aspirational Targets and the Setting for Reforms

Just a few months before the Coronavirus pandemic struck, that the Prime Minister of India set an aspirational goal of transforming into a five trillion-dollar economy target by 2024–25 from the present level of 2.9 trillion dollars. Of course, the target was more aspirational than real as it required sustained growth at over 9% (or nominal growth at 14%) at the prevailing exchange rate. To achieve this, the NITI Aayog had worked out the additional investment required at Rs. 108 trillion and 78% of this was supposed to be made by the Union and State governments equally and the remaining 22% was to be invested by the private sector. This also implied that the capital outlay of the Centre will have to increase from the prevailing 3.5 trillion (2019–20 RE) to Rs. 10 trillion by 2024–25 which required significant additional resource mobilisation through taxes and non-tax revenues and monetisation of assets including disinvestment. and compressing public spending on consumption expenditures, subsidies and transfers to release larger volume of resources for public investment.

[1] 1 Panagariya in his incisive book (2020) devotes as many as eight chapters (out of 13) to discuss specific policy reforms needed to achieve near-double digit growth trajectory.

Although the economy was decelerating since 2016–17, no one had an inkling that there would be an outbreak of pandemic with devastating effects in the economy. The severest lock down declared in response to the outbreak of the pandemic virtually brought complete halt to economic activities and threw the economic agents into terrible uncertainty. It caused enormous economic destruction and claimed more than 460,000 lives until November 22, 2021 according to official estimate and the actual number is estimated to be 5.8 times the official estimate.[2] There has been tremendous economic uncertainty and despite the stimulus measures taken by the government and the Reserve Bank of India. The aftereffects of the pandemic are likely to manifest in terms of a spate of bankruptcies, loss of employment, increased fragility of the financial system and tremendous uncertainty for both lives and livelihoods of the people.

The total lock down in the announced on March 24 initially for a period of 21 days was extended in phases until the end of May and the subsequent period saw selective relaxations. The severest impact of this was on the unorganised sector in urban centres which were the hotspots of the pandemic spread and the loss of employment. The loss of employment and the fear of contacting the virus in these epicentres of the virus caused massive reverse migration of the labourers to their moorings. The labour in the urban agglomerations who had migrated from the rural areas from far and near in search of livelihoods, suddenly were thrown into uncertain future. With little reserves to back them and with no social security, and with no public transport available, they walked back to their native places hundreds and in many cases, thousands of miles away. This turned out to be a humanitarian tragedy perhaps not seen since the partition of the country. The entire episode underlined the ugly underbelly of the economic system and brought out a glaring lacuna of lack of social security to a vast majority of population. With selective relaxations, after June 2020, even as the businesses started reviving, the supply side disruptions on the one hand and lack of labour on the other constrained the process.

It is not surprising that the first quarter estimate of GDP for 2020–21 shows the severest contraction in the economy seen in recent memory. At 23.9%, the contraction was the highest among the G-20 countries. The Gross Value Added (GVA) shrank by an unprecedented 22.8%. The severest contraction was in Construction (-50.3%), and Trade, Hotels, Transport, Storage and Communication (-47%). The manufacturing sector contracted by 39.4%. The only sector with positive growth seen was Agriculture (3.4%). All the engines of growth stuttered. The gross fixed capital formation declined from 32% of GDP in the first quarter of 2019–20 to 22.3% in the first quarter of 2020–21 and private final consumer expenditure declined to 54.5% of GDP from 56.4%. The constrained fiscal space did not permit increased government spending on consumption or investment. With exports too stagnant, all the engines of economic growth stuttered.

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[2] See, The Hindu, September 21, 2021. https://www.thehindu.com/data/excess-deaths-during-the-pandemic-in-india-was-58-times-the-official-covid-19-death-toll/article36405310.ece#:~:text=The%20%E2%80%9Cexcess%20deaths%E2%80%9D%20registered%20during,was%20accessed%20by%20The%20Hindu.

By end January, it seemed that the pandemic was under control and the economy was well on its way for recovery. The policy makers were self-congratulating for the controlling the virus and the Economic Survey declared, "India has been able to avoid the second wave while ably managing to flatten the epidemiological curve, with its caseload peaking in mid-September". It went on to state, "….The V-shaped economic recovery is supported by the initiation of a mega vaccination drive with hopes of a robust recovery in the services sector. Together, prospects for robust growth in consumption and investment have been rekindled with the estimated real GDP growth for FY 2021–22 at 11%". Addressing the World Economic Forum, the Prime Minister had stated, "…today, India is among countries that have succeeded in saving the maximum lives. The country, which comprises of 18% of the world's population, has saved the world from disaster by bringing the situation under control". Even in end March, we claimed India being a pharmacy of the world with the Foreign Ministry working on a plan to supply 160 million doses of COVID-19 vaccines to 60 countries which included 10 million doses in gifts focused on neighbouring countries in the first round.

However, the revival process was thrown off guard with the raging second wave of the pandemic. The lethal outbreak of the second wave with dramatically fast spread putting a break on the recovery process. The daily cases in the country jumped from 21,666 on March 11 to 424,443 on May 6. The outbreak created a dire situation and the lack of medical supplies including oxygen concentrators and ventilators, and limited human resources exposed the underbelly of poor capacity of the State to deal with the pandemic. It has not taken even a month to see a dramatic change in the mood to one of desperation and despondency. When the first wave of the pandemic broke, we had seen the humanitarian crisis with thousands of migrants with their families walking on in the summer heat from the cities to their villages after the most stringent lockdown for prolonged period. They were faced with severe uncertainties in the cities without jobs and with hardly any reserves to sustain them. The second wave brought out another type of humanitarian crisis with patients and their family members running from pillar to post in search of hospital beds, ventilators and oxygen cylinders. The situation turned to be pathetic with scores of dead bodies lined up in ambulances in front of crematoriums and burial grounds and for many, there was no dignity even in death! The unscrupulous took advantage of scarcity situation and there were instances of black markets for hospital beds, ventilators, oxygen concentrators and even for the ambulance service and cremation. Even after a year, the complacency reined. We had not created the basic health infrastructure needed because we thought we have won the battle when it was just starting. The sad commentary is that we have been moving from one emergency to another, there is hardly any time to put the healthcare system of the country in place.

The adverse economic impact of the pandemic in 2020–21 was the severest in living memory. The estimated contraction in the economy was 7.3%. Except agriculture and allied activities, all other sectors suffered contraction by varying degrees. Expectedly, the contraction was the highest in contact intensive sectors like trade, hotels, transport, storage and communication (18.2%) followed by construction (8.6%), mining (8.5%) and manufacturing (7.2%). All the engines of growth

have been stuttering. The gross fixed capital formation declined from 34.6% of GDP in the first quarter of 2019–20 to 24.4% in the first quarter of 2020–21 and Private final consumer expenditure declined from 56.8 to 55.4% during the same period. The constrained fiscal space did not permit increased government spending on consumption or investment and not surprisingly, public administration and defence and other services showed a negative growth of 4.6% during 2020–21. With exports too stagnant there was no engine to lift the growth of the economy.

After the first quarter of 2021–22, the recovery was well under way, and it was hoped that the country will register double digit growth this year. The official expectation is that the economy will register 10.5% growth in 2021–22 though the RBI has moderated its earlier estimate to 9.5%. Most credit rating agencies as well as and multilateral lenders including the IMF and the ADB have made downward revisions in the growth estimate for the year ranging from 9 to 9.5%. Although the new cases have been on the decline since June, the pandemic is still on the rage in some States, and it will take considerable time before some activities like travel and tourism can resume fully. Now, with the new variant of the virus, "omicron" with more than 30 mutations in spike protein with the possibility of bypassing the protection from the vaccines emerging, there are some concerns and uncertainties though, the impact is not likely to be as large as it was in the first two waves.

As mentioned earlier, the pandemic struck at the time when the economy was already slowing down. Both the investment (Gross Capital Formation) to GDP ratio and the growth rate of GDP have been showing a steady deceleration (Fig. 1). The growth of GDP declined from over 10% in 2020–11 to 4.2% in 2019–20, which was the lowest in the last 11 years. The quarterly growth trend since 2015–16 presented in Fig. 2 shows a steady decline in the growth to reach 3.1% in the fourth quarter of 2019–20 and this was the lowest in 44 quarters. Even as the economy gradually recovered from the shock of demonetisation to record 8% growth in the fourth quarter of 2017–18, the subsequent periods show a steady decline.

The steady decline in the growth of GDP is the reflection of declining saving and investment in the economy. The aggregate investment as measured by Gross Capital Formation (GCF) as a ratio of GDP (current prices) showed a steady decline from

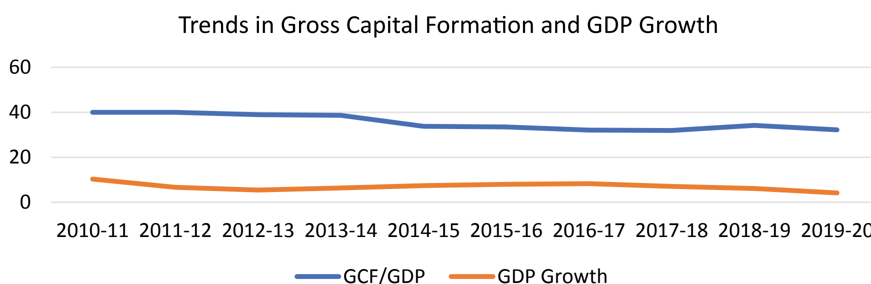


**Fig. 1** Trends in gross capital formation and GDP growth. *Source* Ministry of Statistics and Programme Implementation, Government of India

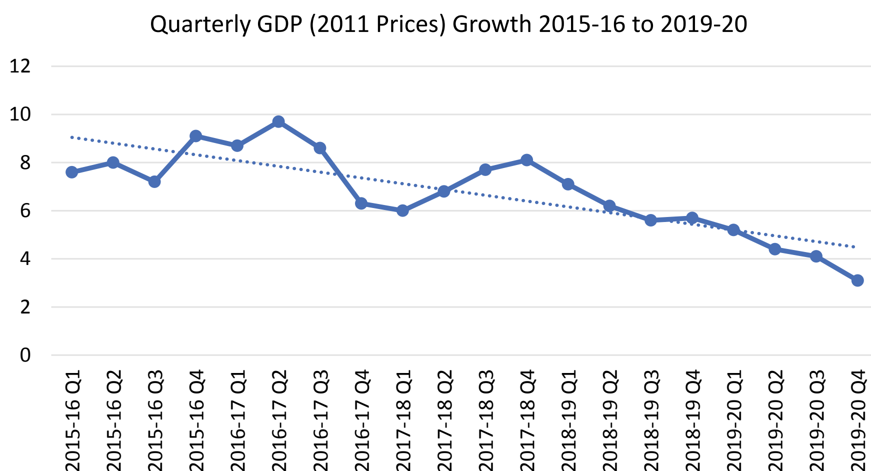


**Fig. 2** Quartely GDP (2011 prices) growth 2015–16 to 2019–20 *Source* Ministry of Statistics and Programme Implementation, Government of India

39% in 2011.12 to 32.2% in 2018–19 (Table 2; Fig. 1). Of the 8 points fall in aggregate GCF. 6.2 points (including valuables) were from households, 1.4 points were from corporates 0.3 point was from the public sector. Thus, the decline was witnessed in all the sectors, though a predominant proportion was by the households. Similarly, over the period 2011–12 to 2018–19, the percentage of gross domestic saving to GDP declined by 4.5% points and the entire fall was due to decline in household sector's physical savings.

**Table 2** Sectoral investment trends (percent of GDP at market prices)

| Years | Households | Valuables | Private corporate | Public | Errors and omissions | Total |
|---|---|---|---|---|---|---|
| 2011–12 | 15.90 | 2.90 | 13.26 | 7.54 | −0.64 | 38.95 |
| 2012–13 | 14.73 | 2.75 | 13.63 | 7.23 | 0.34 | 38.69 |
| 2013–14 | 12.61 | 1.44 | 12.90 | 7.08 | −0.25 | 33.78 |
| 2014–15 | 12.14 | 1.68 | 13.36 | 7.09 | −0.74 | 33.52 |
| 2015–16 | 9.57 | 1.48 | 13.49 | 7.58 | 0.00 | 32.11 |
| 2016–17 | 10.36 | 1.09 | 11.57 | 7.16 | 1.78 | 31.95 |
| 2017–18 | 11.19 | 1.28 | 11.48 | 6.87 | 3.39 | 34.21 |
| 2018–19 | 11.50 | 1.06 | 11.91 | 7.24 | 0.50 | 32.20 |
| 2011–12 minus 2018–19 (% points) | 4.41 | 1.84 | 1.35 | 0.30 | −1.14 | 6.75 |

*Source* Rangarajan and Srivastava (2020)

In fact, GCF in 2019–20 the ratio of GFCF to GDP showed a sharp decline from 32% in the first quarter of 2019–20 to 28.8% in the last quarter. The private final consumption expenditure was slowing down, and exports were declining. In 2020–21 too, the only engine of growth that kept the growth rate ticking was the Government consumption expenditure, and with significant contraction in revenues and the reluctance of the government to expand fiscal deficit, even that is likely to be a casualty. In the first quarter of 2021–22, while the private consumption expenditures and Gross Fixed Capital Formation and exports showed an upward trend, the Government final consumption expenditure actually declined even in absolute terms as compared to the first quarter of 2020–21.

## 3 Economic Contraction and Fiscal Impact

The lockdown brought the economy to a grinding halt and the contraction in the economy drained the tax revenues. Even after the relaxations in many restrictions, with continued spread of the pandemic, full-fledged recovery has not been possible because of continued restrictions on many sectors requiring social distancing. The fast spread of the virus has made it imperative to impose restrictions on economic activities by varying degrees by the States. Besides, supply chain disruptions (partly due to restrictions on the imports from China) and unavailability of skilled migrant labour have continued to constrain full scale recovery. The RBI was quick in announcing a slew of measures immediately when the first wave broke out mainly to ease supply side constraints in terms of ensuring liquidity, regulatory forbearance, and moratorium and initiate some additional measures to advance loans and extend regulatory forbearance during the second wave as well. However, the fiscal stimulus by the government has been tepid, less than 1.5% of GDP in the first phase and less than one per cent during the second. The most important measure by the government has been the distribution of free food grains to the vulnerable sections has avoided starvation deaths. The fiscal measures announced include additional allocation to Mahatma Gandhi National Rural Employment Guarantee Rs. 400 billion, front loading the Kisan Samman Nidhi which was already in the budget and providing 2% of GDP additional borrowing space to the State governments.

The ability of the government to provide significant stimulus was constrained by the lack of fiscal space. The budget presented by the finance minister on 1 February 2021 shows that the shortfall in tax revenue to the Centre in the revised estimate from the budget estimate was Rs. 2.91 trillion and from non-tax revenue, Rs. 1.74 trillion. Of the estimated disinvestment proceeds of Rs. 2.1 trillion, only Rs. 320 billion could be realised. Thus, there was a large gap of Rs. 5.43 trillion in revenue and non-debt capital receipts. On the expenditure side, however, although in the initial months, government had been austere, after October, public spending has gathered pace. The revised estimate of expenditure for 2020–21 showed an increase of Rs. 7.64 trillion (28.4%) over the actuals of 2019–20 and Rs. 4.08 trillion (13.4%) over the budget estimate. While the revenue expenditure was estimated to increase by

28.1% over the previous year, the increase in capital expenditure was estimated at 30.8%. Not surprisingly, the fiscal deficit for the year was estimated at 9.5% and the primary deficit at 5.5%. Although a substantial part of the off budget liabilities arising from the NSSF loans to the Food Corporation of India had been included, when the remaining part is added, the fiscal deficit works out to 10.1%.

The 2021–22 budget estimates assume that the economy will register a nominal growth of 14%. Revenues are estimated to increase by 15% over the revised estimate of 2020–21. In addition, the disinvestment proceeds are estimated at Rs. 1.75 trillion. The growth of aggregate expenditure is contained at less than one per cent. While the revenue expenditure is proposed to be compressed by 2.7% while the capital expenditure is budgeted to increase by 26.2%. The fiscal deficit for 2021–22 is estimated at 6.8% and the primary deficit at 3.1%.

The progress in budget implementation in the first seven months of the fiscal shows that the government has exercised restraint in the first quarter limiting the fiscal deficit at 18.2% of the budget estimate. However, by the end of seven months, the revenue collections are 70% of the budget estimate registering 34% growth over the corresponding period last year. Higher revenue collections have helped to increase expenditures in the second quarter and by the end of seven months, it was 53.7% of the budgeted and capital expenditure was 45.7% of the budgeted even as the latter registered 28% increase. The fiscal deficit at the end of October was 36.3% of the budget estimate which is possibly the lowest in recent years. Despite this, with large additional expenditure commitments expected in the remaining part of the fiscal, the government may miss the budget fiscal deficit target of 6.8% though not by a large magnitude. Extension of free food grains distribution to vulnerable sections until end March 2022 would require an additional expenditure of about Rs. 550 billion and overall food subsidy is likely to be higher than the budget by 1.47 trillion. Fertiliser subsidy is also likely to increase by a significant amount. In addition, there is a heavy demand for MGNREGA work and the outlay is likely to increase by Rs. 200 billion. The higher revenue buoyancy is likely to yield an additional Rs. 1.8 trillion and there may be some shortfall in disinvestment receipts. Even if the government exercises restraint on other expenditures, it is likely to miss the fiscal deficit target marginally and may end up with 7% of GDP.

In the case of the States, the aggregate deficit will depend on the permission given to them to borrow. Although their FRBM allows them to borrow up to 3% of their respective GSDP, the aggregate fiscal deficit of the States has been around 2.3–2.5% of GDP in recent years. However, in 2020–21, because of the pandemic, as a part of the stimulus, the Centre allowed the States to borrow an additional 2% of GSDP. Their borrowing from 3% of GDP to 3.5% is without any conditions. However, additional one per cent of GDP borrowing will be permitted only on fulfilling 4 reform conditions, each giving additional quarter per cent. The reforms to be undertaken are: (a) One nation, one ration card which requires linking Aadhar number into ration cards and installing point of sale machines in all fair price shops; (b) improvement in ease of doing business which requires (i) district level assessment of ease of doing business as Department of Promotion for Industry and Internal

Trade norms, (ii) automatic renewal of State industrial, commercial licenses to business and (iii) making randomised inspections with prior notice and full transparency; (c) Power sector reforms which entail reducing aggregate technical and commercial (AT&C) losses, direct benefit transfers to farmers instead of lower tariffs and reducing the gap between average cost and average revenues; and (d) Urban local body reforms requiring the States to notify property tax floor rates according to circle property values and notify water and sewer charges. If at least three of the four reform conditions are satisfied, the States can borrow the remaining half a per cent of GSDP.

There are questions on whether the Centre should have imposed conditions for borrowing at a time the States are faced with severe fiscal distress. Of course, Article 293 (4) states that "A consent under clause (3) may be granted subject to such conditions, if any, as the Government of India may think fit to impose". It must also be admitted that the four reform conditions are important. However, this is for the first time in the history of the country that conditions have been stipulated for the market borrowing by the States. Perhaps, instead of imposing conditions when the States are facing a fiscal distress situation, the Government of India could have had discussions with them and found appropriate ways to implement these reforms. In any case, some States like Punjab and Tamil Nadu have decided not to undertake reforms in sensitive areas like power sector reforms and forgo a part of the borrowing space.

The revised estimate of total gross fiscal deficit of the States in 2020–21 was 4.7% of GDP as against the budget estimate of 3.2% and the revenue deficit for the year turned out to be 3.2% as against no deficit budgeted for the year and the revenue deficit was 2% of GDP as against the zero deficit budgeted for the year. The increase in deficits were mainly due to sharp decline in the revenues estimated at 3.6% of GDP in provisional actuals as compared to the budget estimate. This has resulted in the compression of revenue expenditures from 16.9% of GDP in the budget estimate to 15%, a clear 1.9% point reduction in revenue expenditures and the capital expenditures declined from 3.3 to 2.5%. Thus, the overall reduction in revenues was 3.6% of GDP and decline in expenditures during the year amounted to 2.7%.

The above discussion leads us to make important inferences on the fiscal consequences caused by the COVID-19 Crisis. First, the combined fiscal deficit of the Centre and States is estimated at likely to be about 14.2% of GDP and the corresponding debt is likely to be over 90% of GDP. However, household sector saving is expected to be higher due to the precautionary motive and forced demand compression due to the restrictions. Besides, as the commercial lending by the banks has continued to be subdued, there is no immediate fear of financial crowding out of private investments. However, there has been a surge in foreign portfolio investment requiring the RBI to purchase the and this has added substantially to the liquidity in the economy. This requires careful monitoring of the price situation.

## 4 Need to Fast Track Reforms

Crisis is good opportunity to initiate reforms and it is important that the opportunity should not be wasted. Structural reforms are needed not only to revive the economy but to take it to the trajectory of higher growth. In the short term, the government will have to substantially increase public spending even in the resource constrained situation prevailing at present. Faced with hard budget constraints, some of the State governments have embarked on an ambitious programme of monetising residential and commercial land in urban centres and selling of leased land to the lessees to shore up their finances. Hopefully, they will start correcting the historical mistake of not spending adequately on public health, particularly on preventative healthcare by strengthening the wellness Centres. A strong system of wellness centres will minimise curative healthcare through hospitalisation. In this connection the special grants to urban local bodies recommended by the 15th Finance Commission is important particularly as it is directed at strengthening the wellness centres and hospital infrastructure.

As mentioned earlier, sharp decline in revenue collection following the GDP contraction is likely to increase the aggregate fiscal deficit to 14.2% of GDP. Nevertheless, with the economy estimated to contract by 7.3% in 2020–21, there was considerable expectation of significant reform signals in the budget not only to revive the economy from the adverse impact of the pandemic but to address the structural problems. The Economic Survey has estimated the GDP growth for 2021–22 at 11% mainly on the back of 7.3% contraction in 2020–21. The Survey estimates that if the economy growth at 6.5% in 2022–23, it will still be only about 90% of the trend level of output in 2023–24. In contrast the RBI has estimated the growth for the 2021.22 at 9.5% and most other agencies which had projected the growth in double digits have revised it downwards after the second wave of the pandemic to 9–9.5%.

The Fifteenth Finance Commission has recommended the roadmap for fiscal consolidation to reduce total outstanding liabilities of the Government should reduce the liabilities from 62.9% of GDP to 56.6% and the States are required to marginally reduce the level from 31.1 to 30.5%. In order to achieve this, the Commission has recommended the road map where the fiscal deficit of the Union government should be reduced from the Commission's estimate of 7.4% in 2020–21 to 4% in 2025–26 and the States are required to reduce the fiscal deficit from 4.2% in 2020–21 to 3% in 2023–24 and maintain that level thereafter. In its Explanatory Memorandum, the government has stated that it accepts the recommendation in principle the recommendations relating to the borrowing ceilings of the States and stated that other recommendations (including those relating to the central roadmap) would be examined separately. In the budget speech, the finance minister has also indicated that fiscal deficit will be reduced to 4.5% by 2025–26 which is in variance with the roadmap set by the Finance Commission.

The demonetisation of Rs. 500 and 1000 currency notes in 2016 had plunged the economy, particularly the cash transacted informal sector into chaos and the implementation of suboptimal GHST has further caused hardships to business and industry.

The problem was compounded by the unprecedented lockdown when the pandemic struck resulting in not only loss of incomes but also loss of employment. The Union government was not able to inject significant fiscal stimulus for want of fiscal space. However fast tracking economic revival requires that the government should generate resources by monetising the assets including disinvestment and privatisation and fast track capital expenditures to augment the much-needed physical infrastructure in the country.

The central government has initiated reforms in a number of areas and that should help to improve the economic environment in the medium and long term. Merging of 24 central labour laws into four codes is an important reform to impart greater flexibility to the labour market and ending the inspector raj. This has been talked about for long without much progress. The Industrial Relations Code allows the manufacturing units up to 300 workers to hire and fire without the Government's approval and for those with more than 300 workers, approval is needed but if the labour department does not respond within the time frame, the approval is deemed to have been received. Unfortunately, the three new legislations enacted in the farm sector have been withdrawn due to the prolonged agitation by the farmers' associations. They could have provided flexibility to the farmers to sell their products anywhere. The amended Essential Commodities Act would have deregulated production, storage, supply and distribution cereals, pulses, potato, onion and oilseeds and enables the private sector to play important role in these activities. The Farmers' (empowerment and protection) Agreement of Price Assurance and Farm Services Act, would have allowed the small farmers to enter into agreement with corporates for contract farming. However, the enactment of the three legislations without properly communicating their benefits to the farmers and their enactment without discussion in the Parliament were contentious and the farmers unions, after agitating for about a year forced the government to withdraw them. Perhaps, a fresh attempt could be made to enable the States to rule by the ruling coalition at the Centre to pass these laws in their respective States and if this brings in demonstrable benefits, it would convince the farmers in the agitating States to come on board.

Two recent books and painted the grim picture of the Indian banking system and chinks in its regulation (Acharya, 2020; Patel, 2020). The problems confronting the financial system in general, and banks in particular are systemic. Acharya (2020) has persuasively argued that fiscal dominance has adversely impacted financial stability in a variety of ways and Patel (2020) has alluded to the constraints in regulation due to government's ownership of banks. The balance sheets of the banks continue to be stressed. In addition, the fear of investigative agencies on lending decisions had turned the public sector bankers to be risk averse. The Non-banking financial company (NBFC) crisis beginning with the failure of IL&FS and followed by DHFL, Reliance Capital and Altico deepened the malice. These developments have adversely impacted on corporates, infrastructure financing and liquidity availability for the small and medium enterprises. The NBFCs crisis worsened the stressed balance sheets of the banks further.

The most important factor the government must address is the issue of governance in public sector banks. Although the Financial Stability Report shows easing

of the NPA situation and many of the public sector banks have turned around in terms of their profitability, the commercial lending is still at a slow pace. We have a peculiar situation where the corporates are deleveraging and moving on a slow lane in borrowing and the banks are unwilling to lend. This shows that new investments are not taking place at the level required. The decision to privatise two public sector banks is important and it is hoped that this will change the culture of banking, but it is important to initiate reforms in the governance in public sector banks on the lines recommended by the Nayak committee.

The Insolvency and Bankruptcy Code (IBC) has been hailed as a landmark reform, but there have been problems of implementation. The two important problems plaguing the system are the enormous delays in resolution and huge haircuts the lenders take. It is important to ensure that the insolvency resolution process timely, effective and reasonable. The delays are caused by the promoters succeeding in gaming the system and acute capacity constraint of the resolution professionals to manage the National Company Law Tribunals. There have been enormous delays in the admission of the application under the resolution process itself. The immediate need is to strengthen the information utility (IU) system under the Insolvency and Bankruptcy Code (IBC) which in fact was conceptualised to ensure faster admission. The delays have also resulted in low recoveries and the lenders taking very high losses.

Another important reform in the budget is the ambitious programme of privatisation and strategic disinvestment. The privatisation of Air India is a high point and will go a long way in assuring that the government is keen to vacate the areas where it has not role. The budget has promised to privatise other companies such as, Container Corporation of India, Shipping Corporation of India, Bharat Earth Movers Limited, Bharat Petroleum and Chemicals Corporation and the IDBI Bank. It has also stated that two more public sector banks will be privatised. Movement in this direction will assure that the government is keen to extricate itself from the shackles of activities which are truly in the domain of the private sector, and the interventions.

An important measure undertaken recently to assure the foreign investors that the government will ensure certainty and stability and tax policies is the withdrawal of the retrospective amendment on the tax on capital gains on companies making transactions outside the country. The amendment done in the wake of the Supreme Court decision striking done the levy of capital gains tax on Vodafone for the transaction between Vodafone and Hutch in Hong Kong 11 years ago had shaken the confidence of the foreign investors and the withdrawal of the retrospective amendment will help to restore their confidence.

Since 2017, the government has slipped into the protectionist mode although the history of this country clearly shows that this would be self-defeating. Right from 2017, the import duties have been increased and differentiation between tariff rates on inputs and outputs has changed the effective rate of protection on various imported commodities in unintended ways. History has shown the futility of pursuing import substitution strategy. Progressively opening the economy since 1191 has helped increase exports and achieve greater competitiveness. Excessive protection will not only hurt trade but also foreign investment as well. The "Atmanirbhar Bharat" will

not help the country to achieve competitiveness but will only add to the protectionist stance. The announcement of reducing the list of exemptions in tariff list in October will only add to protectionism. Myopic view of giving protection and subsidising some sectors through PLIs is like creating scaffolding rather than building walls and it is important to shun such an approach and having seen its devastating impact on competitiveness and economic growth.

## 5 Concluding Remarks

The government has initiated a number of reforms in earnest, particularly to infuse flexibility to land and labour markets, regulatory systems in education and healthcare, and has made additional borrowing to the States conditional on undertaking power sector reforms, property tax reforms and improving the ease of doing business. However, implementation of these reforms holds the key for their effectiveness. There is considerable urgency in the reform of the banking sector to ensure smoother credit flow to productive sectors. The moratorium and restructuring done during the pandemic is likely to subject them banks to severe stress as revealed by the stress test conducted by the RBI in its financial stability report. It is important to fast track the privatisation programme and use the proceeds to provide the much-needed investment in infrastructure. Also, reforms in sectors like police and judiciary are overdue for the basic incentive for investment decisions is to protect the life and property of people and enforce contracts to improve the ease of doing business in the country.

One of the areas which requires immediate action is to reverse the protectionist stance the government has increasingly been adopting during the last four years. There have been across the board increases in important duties and non-tariff barriers. The decision not to join the Regional Comprehensive economic Partnership (RCEP), a 15-member free-trade block of ASEAN countries along with China, Australia and New Zealand is retrograde. There are signs of the country going back to the import substitution regime that existed prior to 1991 despite bi-partisan efforts to dismantle protection since then. Experience has shown that the policy of important substation hurts the competitive strength of the country.

The most important reform needed in the country today is judicial reforms to ensure that the basic duty of the State, of ensuring property rights and enforcing contracts effectively in a timely manner is accomplished and that is the most important factor in the ease of doing business. The last three years have seen a steady creeping of protectionist stance in the government and the pandemic and the stand-off with China has raised the pitch for more protection. This is self-defeating as the history in this country has shown. Denying the benefit of goods at international prices to the consumers to protect the producers has only helped them not to be competitive and ask for more protection. Hope the government will reverse the trend quickly and make the economy export oriented.

The time is opportune to initiate structural reforms in a number of areas which would help the economy to move towards higher growth potential. The Insolvency

and Bankruptcy Code enacted is a great reform, but the implementation is stuck for several reasons and they need to be removed to hasten the resolution process. It is also important to reverse the protectionist tendency that has crept into the policy regime in the last three years to impart greater competitiveness. There are still large infrastructure gaps that need to be bridged and substantial investments are required to be made. One of the most important and urgent call should be on judicial reforms. Protecting life and property of the people and enforcement of contracts is the basic public good that the government must provide. Long judicial delays result in most people being denied justice and the powerful sections resorting informal and illegal means to secure justice. Incentive to invest and grow depends on ensuring speedy and efficient resolution of the disputes.

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