Policy Paper

14-point Recovery Plan

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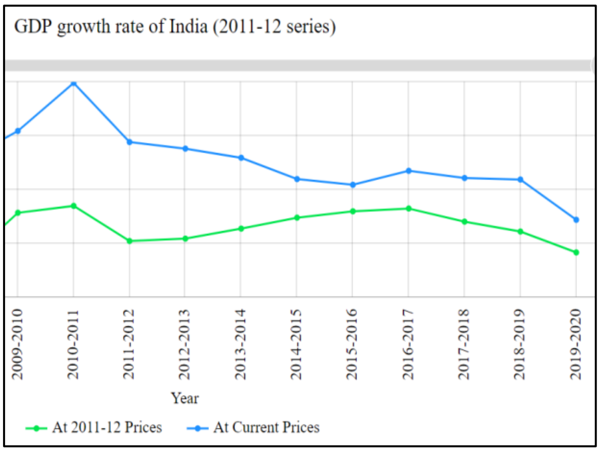
1. Executive Summary

1. **Full central government funding for construction of hospital beds to make good the shortfall**
    - **a.** India currently has about 0.5 beds available per 1,000 people.
    - **b.** Achieve a level of 1.5 beds per 1000 in 5 years.
    - **c.** Investment of about Rs. 4,95,000 crores.
2. **Creation of two Funds for speedy revival**
    - a. Fund to inject equity into firms in need and which were doing well before COVID
    - b. Fund to take over firms on sale through the IBC process and for which buyers at fair value are not being found.
3. **Complete Stalled Housing Projects. Takeover and Completion with government guaranteed debt**
    - a. Government to take over all stalled housing projects of developers across the country.
    - b. Guarantee fresh debt for completion of these projects.
    - c. Appoint an empowered CEO with the mandate to renegotiate existing contracts or award fresh ones.
4. **Tax incentive for replacement of old polluting vehicles**
    - a. 50% reduction in GST and other taxes for trade in of vehicle and purchase of similar new BS6 vehicle.
    - b. Traded in vehicle to be scrapped in a licensed state of art facility.
    - c. Complete replacement of all pre-BS-VI commercial vehicles by 2025.
    - d. Get Cleaner Air.
    - e. The potential stimulus could be as high as Rs. 60,000 crores per annum.
5. **Procurement of solar power from villages**
    - a. Introduce a feed in tariff for purchase of solar power in the kw range from villages by Distribution Companies
    - b. Private investment. Increase in rural incomes.
    - c. Faster achievement of 450,000 MW Renewable Energy Capacity.
6. **Procurement of briquettes from crop waste**
    - a. Procurement of all rice crop waste.
    - b. Convert waste to briquettes and use in thermal plants.
    - c. Solution to crop burning and air pollution.
    - d. Stimulus potential of Rs. 22,470 crore every year, Rs. 112,000 crores overall stimulus over five years
7. **Procurement of gas/electricity from cow dung**
    - a. Gas and Distribution Companies to assure procurement at attractive prices of gas/electricity made from cow dung.
    - b. Price Signal to trigger private investment and higher incomes in rural areas.
8. **Creation of electric vehicle charging infrastructure in cities**
    - a. Policy directive to the Electricity Distribution Companies to create charging infrastructure in cities
    - b. Power Finance Corporation to provide 100% financing for this
    - c. Surge in demand for EVs.
    - d. Reduction in Air Pollution.
9. **100% debt financing for Purchase of Electric Buses**
    - a. Provide debt for purchase of 50,000 buses for city bus service backed by state government guarantee,
    - b. Stimulus in the range of 35,000 to 45,000 crores
10. **Energy efficiency investments in MSMEs.**
    - a. Extend government guarantee debt for MSMEs to energy efficiency investments
    - b. Achieve 15% savings
11. **Double outlays in programs where money can be quickly spent**
    - a. Double budget outlays for the schemes such as PMGSY, Swachh Bharat Mission, Water and Smart Cities.
    - b. Stimulus of about Rs 2 lakh crores
12. **Accelerate implementation of the rental housing program for migrant labour**
    - a. 1.8 crore dwelling units need to be constructed
    - b. Total expenditure of Rs 4 lakh crore
    - c. Target Completion in 5 years.
13. **Increase duties selectively**
    - a. Increase import duties on goods where domestic production can rise to meet demand
    - b. Assist domestic firms to raise production
    - c. Extra revenue for stimulus expenditure
14. **Undo real exchange rate appreciation to create additional demand for value addition for the domestic and international markets.**
    - a. Undo Real Exchange Rate Appreciation
    - b. Real Exchange Rate Appreciation has same effect as lowering import duties across the board
    - c. 19% Real Exchange Rate Appreciation in a decade
    - d. Adverse effect on value addition and job creation

2. Pre-COVID Economy

2.1 According to the World Bank, the current pandemic has "magnified pre-existing risks to India's economic outlook[1]. Declining GDP growth, falling growth rates of industrial output and tax revenues were recorded before the lockdown.

2.2 The GDP growth rate of 4.2% in 2019-20 was an eleven-year low with growth in the last Jan-March 2020 quarter falling to just 3.1. The economy was experiencing high unemployment rates and demand slowdown.



India: Unemployment rate from 1999 to 2020

	Unemployment rate
2020	5.4%
2019	5.36%
2018	5.33%
2017	5.42%
2016	5.51%
2015	5.57%
2014	5.61%
2013	5.67%
2012	5.65%
2011	5.64%
2010	5.64%
2009	5.57%
2008	5.28%

Source: Statistics Times[2] and Statista.com[3]

2.3 The slowdown in the economy was reflected in the decline in power demand which fell by around 13% in October2019. Car sales fell by 23.3 percent between April to June 2019, according to the Centre for Monitoring Indian Economy. As per the "Key Indicators: Household Consumer Expenditure in India" survey conducted by the National Statistical Office (NSO), the average monthly spending by an individual fell to Rs 1,446 in 2017-18 from Rs 1,501 in 2011-12, down 3.7 percent[4]. The same survey also found that spending in rural India went down by 8.8 percent for the period.

2.4 The Centre's gross tax revenues fell by 3.4% in 2019-20 and the fiscal deficit increased to 4.6% of GDP. For the first quarter of 2019-20, the net exports stood at $46 billion. Similar to 2018 at $46.6 billion.

[1] https://economictimes.indiatimes.com/news/economy/finance/covid-19-causes-severe-disruption-to-indian-economy-says-world-bank/articleshow/75104474.cms?from=mdr
[2] http://statisticstimes.com/economy/gdp-growth-of-india.php
[3] https://www.statista.com/statistics/271330/unemployment-rate-in-india/#professional
[4] https://economictimes.indiatimes.com/news/economy/indicators/consumer-spending-declines-for-first-time-in-four-decades/articleshow/72069291.cms

3. Impact of COVID-19 on Economy

3.1 COVID-19 has been an unprecedented global shock that sent most economies across the world into a tailspin. The economic impact of the 2020 coronavirus pandemic in India has been particularly severe. The GDP showed an unprecedented dip of -23.9 per cent in the first quarter of 2020, the worst on record (Fig. 3).

3.2 India imposed a complete lockdown on 24th March 2020. The suddenness of the complete lockdown in March exacerbated human distress as it effectively shut down almost the entire economy. It rendered millions of people jobless. The lockdown precipitated a sharp economic downturn and hit the migrant workers in cities the hardest. The decline was extremely severe for the non-farm private sector which declined by approximately 30% in comparison to the 2019-20 Quarter 1 (Figure 4). The severe economic contraction, sharp reduction in consumption, approximately 27%[5], and steep drop in RBI's consumer sentiment index (Figure 5) led to investment collapsing. Capital formation fell below 20% of the GDP. Fortunately, agriculture was the only sector that experienced growth during the lockdown period. There was a rise in farm employment in rural areas by 14 million[6], driven by the migrant workers who returned to their villages.

3.3 A report by Asian Development Bank (ADB) and International labor organization (ILO) estimated that approximately 41 lakh youth jobs[7] were lost until August 2020, among which the construction and farm sector workers accounted for most of the jobs lost. According to the Centre for Monitoring Indian Economy (CMIE), the unemployment rate was 27.11%[8] in May, a spike from 7% before mid-March. The rate of unemployment became the highest at 29.22%. Salaried job holders working in urban formal sector jobs have also been hit hard. This had a multiplier effect in aggravating the downward spiral. The rate of unemployment in urban areas was higher than in the rural areas.

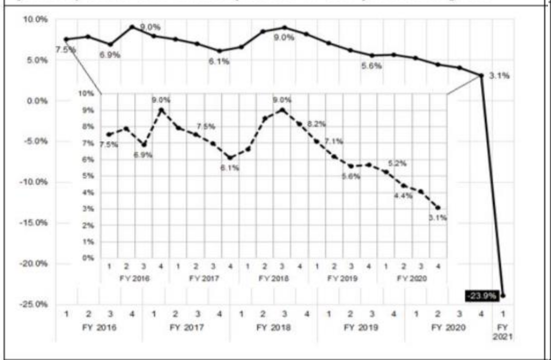
[5] https://cprindia.org/news/9190

[6] https://www.indiatoday.in/business/story/how-years-of-jobless-growth-have-come-back-to-haunt-india-during-covid-19-pandemic-1720748-2020-09-11

[7] https://economictimes.indiatimes.com/news/economy/indicators/41-lakh-youth-lose-jobs-in-india-due-to-covid-19-pandemic-ilo-adb-report/articleshow/77613218.cms

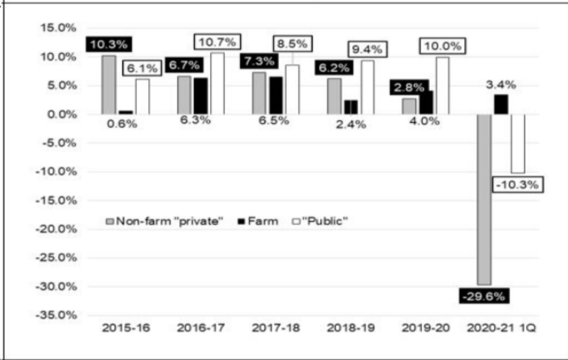
[8] https://www.thehindu.com/business/indias-unemployment-rate-rises-to-2711-amid-covid-19-crisis-cmie/article31511006.ece

Fig. 3 Change in quarterly GDP (constant 2011-12 prices) from the same quarter of the previous year



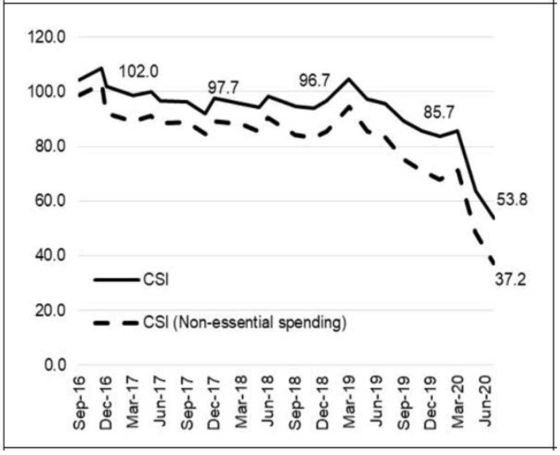
Source: NSO

Fig. 4 GVA Growth by Broad Components at constant 2011-12 prices (FY 2016 to 1Q FY 2021)



Source: NSO

Fig. 5 Consumer Sentiment Indices



3.4 The recession that the Indian economy has gone into has had a severe adverse impact on government revenues. The fiscal deficit has surged. During the first six months of the current financial year, the fiscal deficit was Rs 9,13,993 crores as per the data released by the Controller General of Accounts (CGA)[9]. It is likely to exceed 7% of gross domestic product[10] by the end of fiscal year in March 2021.

3.5 Compared to the June quarter of 2019, in 2020 the taxes collected from goods and services were reduced to half, collections under income tax fell by 36% and corporate tax fell by 23%[11]. If the nominal GDP growth falls by 4% point from 10% to 6% in 2020-21, net tax revenue loss could be about Rs 60,000 crore (2.7% of total revenue). The centre’s receipts also consist non-tax revenue which primarily comes from dividends and profits of public sector enterprises (PSEs) and the RBI. With a declining GDP growth these could also be expected to decline.

[9] https://www.businesstoday.in/current/economy-politics/india-fiscal-deficit-at-115-of-annual-target-during-h1-fy21/story/420336.html

[10] https://www.thehindu.com/business/Economy/indias-fiscal-deficit-may-exceed-7-in-current-fiscal-say-sources/article33522934.ece

[11] https://www.newindianexpress.com/business/2020/aug/09/covid-19-impact-tax-revenue-in-shambles-government-left-with-few-options-2180967.html

4. The Stimulus and Relief Measures

4.1 The government announced a 20-lakh crore COVID economic stimulus package in May 2020. The package relied more on monetary measures while the fiscal stimulus was modest. The package was announced in in 5 major tranches:

Tranches	Sum allocated
MSME, EPF Support and Reduction in rate, NFBC support, Power DISCOMs	Rs 5.94 lakh crores
Free food grain supply for migrant workers, Housing subsidy, Additional credit through Kisaan Credit Card	Rs 3.1 lakh crores
Agriculture and animal husbandry	Rs 1.5 lakh crores
Additional MNREGA allocation	Rs 48,000 crores
PM Garib Kalyan Package	Rs 1.92 lakh crores
RBI Stimulus Measures	Rs 8.01 lakh crores
Total	**Rs 20.97 crore**

4.2 Overall, the stimulus package aimed to provide distress relief to those hit hardest by COVID-19. It sought to support market participants, especially Small and Medium enterprises, to help them survive and tide over the crisis. There were also some short-term measures to boost demand for economic revival and recovery.

Distress Relief:

4.3 By distributing free food grains, free cooking-gas cylinders for the lower income families, one-time direct cash-transfers for senior citizens and poor women and increasing MNREGA provision by 48,000 crores , the effort was to provide immediate relief to those who had been hit the hardest, especially the migrant labour who had gone back home to their villages

4.4 Rs. 3,500 crores were provided to target 8 crore migrant workers who could receive 5 kg grains and 1 kg pulses per family free for two months under the “One Nation One Card” scheme. The government also provided Rs. 5,000 crores to support 50 lakh street vendors through a special credit facility of initial working capital. A significant chunk, Rs. 2 lakh crores, of the tranche was for the farmers through the Kisaan Credit Cards (KCC) at a concessional rate.

4.5 Rs. 1.92 lakh crore was provided under the Prime Minister Garib Kalyan Package (PMGKP). As part of the PMGKP, the Government provided free food grains and cash payment to women and poor senior citizens and farmers. Women Jan Dhan account holders received Rs. 500 per month for 3 months. Under the Pradhan Mantri Ujjwala Yojana (PMUY), 4.82 crore PMUY free cylinders were delivered. Government provided 5 kg wheat or rice per person benefiting 80 crore poor people and 1 kg pulses for free per household till November.

4.6 MNREGA wages were increased to Rs 202 a day from Rs 182. The package guaranteed Rs 2,000 to 8.7 crore farmers under existing PM-KISAN. For salaried individuals earning below Rs. 15,000 per month in businesses with less than 100 workers, 24% of monthly wages were to be credited into their PF accounts for next three months.

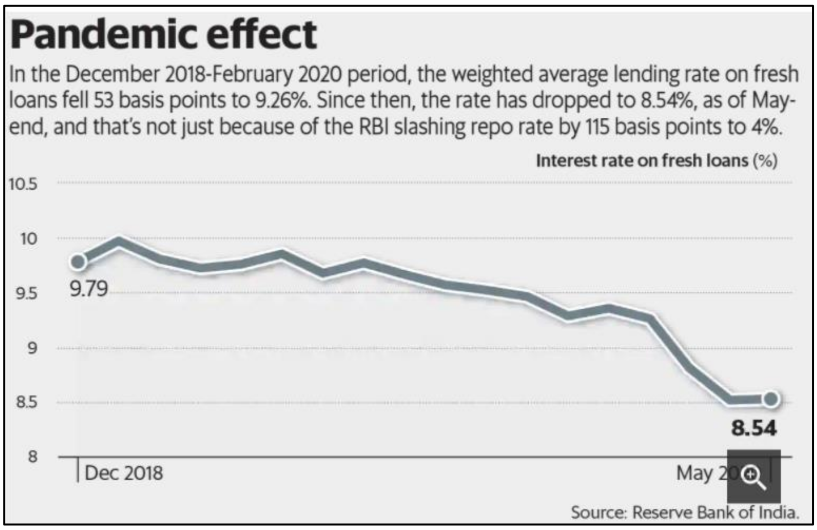
Relief for Enterprises:

4.7 The primary aim was to help save and restart work at the 45 lakh Micro, Small, and Medium Enterprises (MSMEs). Collateral free loan with government guarantee of Rs. 3 lakh crores was provided for them. The package included subordinate debt provision of Rs. 20,000 crores for around 2 lakh stressed MSMEs. The government also provided for equity infusion in MSMEs of Rs. 50,000 crore and Rs.10,000 crore via the Fund of Funds.

4.8 To relieve stress in the financial sector, a Rs. 30,000 crore special liquidity scheme for investing in investment grade debt paper of NBFCs, HFCs and MFIs, with full guarantee by the government was introduced. Another Rs. 45,000 crore partial guarantee scheme for NBFCs was allocated where the first 20% loss was be guaranteed by the government. Government also provided a one-time emergency liquidity injection of Rs. 90,000 crores against receivables of the DISCOMs with State's guarantee enabling them to pay their dues to power producers. While these were the big-ticket items in t, there was also significant contribution to EPF for salaried employees of Rs.9,000 crore and reduction in TDS/TCS rates (Rs. 50,000 crore)

4.9 For the agriculture and allied sectors including dairy, animal husbandry and fisheries, the government announced measures worth Rs 1.5 lakh crore to strengthen the overall farm sector.

4.10 The RBI provided additional liquidity of around Rs. 8 lakh crores into the financial system. After the lockdown it slashed the benchmark interest rate (repo rate) by a massive 75 basis points.



[12]

The RBI reduced the Cash Reserve Ratio (CRR) of all banks by 100 bps to 3 per cent from 4 per cent, with effect from March 28 for one year resulting in liquidity enhancement of ₹1,37,000 crores[13]. Government promulgated an ordinance suspending the operative provisions of the IBC for a period of six months. Fresh initiations of insolvency proceedings were been suspended up to one year from May 2020. Government intends to exclude COVID-19 related debt from the definition of "default" and a year-long moratorium by banks on debt repayment. The minimum payment default threshold for bankruptcy was raised to ₹1 crore from ₹1 lakh

[12] https://www.livemint.com/news/india/covid-19-helped-achieve-what-rbi-policy-could-not-11594571820864.html

[13] https://www.indiatvnews.com/business/news-cash-reserve-ratio-crr-banks-reduced-rbi-governor-shaktikanta-das-covid19-relief-package-601932

as the government insulates micro, small and medium enterprises (MSMEs) from bankruptcy on defaulting on loans.

4.11 The Reserve Bank of India recognised the need for a special dispensation to enable the restructuring of Bank loans. It has broadly accepted the recommendations of the KV Kamath Committee set up by it on the financial parameters to be considered in the restructuring of loans. The Committee has recommended financial ratios - Total outside liabilities/adjusted tangible net worth (TOL/ATNW), total debt/EBITDA, current ratio, debt service coverage ratio (DSCR), average debt service coverage ratio (ADSCR) – to be factored by lending institutions while finalizing a resolution plan for a borrower. Initially, banks restructured the loans of more than ₹10 lakh crore largely attributed to 5-6 critical sectors, including aviation, commercial real estate and hospitality, severely hit by COVID. Later in 2020, 26 sectors were added to the list. Indian banks could end up restructuring 7.7% of outstanding loan exposures, or nearly Rs 8.4 lakh crore, via the Reserve Bank of India’s restructuring window, according to India Ratings & Research[14].

Measures for revival

4.12 Finance ministry announced additional stimulus under the "Atmanirbhar Bharat 3.0” amounting to Rs 2.65 lakh crore in November 2021. With a multi-sector focus across the labour market, stressed sectors, social welfare, manufacturing, housing, infrastructure, exports and agriculture[15], the underlying theme of this package was job creation through demand generation.

Rs 145,980 crore	Atmanirbhar Manufacturing
Rs 65,000 crore	Support for agriculture as fertiliser subsidy benefitting 14 million farmers
Rs 18,000 crore	Housing for All under PMAY-Urban
Rs 10,200 crore	Industrial infrastructure, Industrial incentive, Domestic defence equipment
Rs 10,000 crore	Boost for rural employment
Rs 6,000 crore	Equity infusion in NIIF debt PF to boost infrastructure
Rs 6,000 crore	Allocated to Atmanirbhar Bharat Rozgar Yojana
Rs 3,000 crore	Boost for project exports
Rs 900 crore	R&D grant for COVID Suraksha (Indian vaccine development to Biotech)

4.13 Under Atmanirbhar manufacturing, government announced extension of production-linked incentive (PLI) scheme to 10 new sectors which will likely boost manufacturing over the medium term. The largest chunk of the incentives, at over Rs 57,000 crore, would go to

[14]https://www.bloombergquint.com/business/kamath-committee-sets-thresholds-for-debt-restructuring-across-26-sectors

[15]https://economictimes.indiatimes.com/markets/stocks/news/atmanirbhar-package-3-0-how-would-the-stimulus-impact-the-indian-economy/articleshow/79233416.cms

automobile and automobile components businesses followed by ACC battery at over Rs 18,000 crore[16].

4.14 100% credit guarantee scheme was extended to 26 stressed sectors identified by Kamath Committee with credit outstanding in the Rs 0.5-5 billion range. Additional credit to these firms can be up to 20% of outstanding credit, payable over 5 years.

4.15 Under Atmanirbhar Bharat Rozgar Yojana, FM announced incentives to create employment opportunities during Covid-19 recovery phase. To ease financial burden on companies for creating jobs, EPFO registered establishments with up to 1000 workers will receive 24% EPF subsidy from the government, i.e. 12% of the employee and 12% employer contribution would be borne by the government for a period of two years from the date of their employment between 1 October 2020 and 30 June 2021. It benefits new employees joining employment in EPFO-registered establishments on monthly wages less than Rs 15,000, and EPF members drawing monthly wage of less than Rs 15,000 who exited employment during March-September and employed on or after October 1. 95% of all (organised sector) establishments estimated to be covered under this scheme will have employees up to 1,000[17]. Central government announced additional subsidy on new employment.

4.16 Additional Rs 18,000 crore were provided over and above the Budget announcement to help start work on 1.2 million houses and 1.8 million houses be completed under the PM Awas yojana (Urban). To give relief to contractors in the construction and infra sectors, performance security deposit was reduced to 3% till Dec 31, 2021, for projects without any dispute. Also, there was a relaxation of performance security on contracts from 3% to 5% to support real estate and infrastructure.

4.17 Government announced the Special cash package equivalent of Leave Travel Concession Fare for Central Government Employees during the Block 2018-21 on 12th October 2020. Under this scheme, the employees can claim reimbursement for the purchase of any goods or services which attract GST of 12% and above qualifies for reimbursement[18]. The payment for such purchases has to be made via digital mode or cheque, demand draft, NEFT/RTGS. The purchase on EMI is also permissible under the scheme provided they have been bought after October 12 and have GST invoice. Until now, employees had LTC benefits on travels made or forgo amount[19].

[16] https://www.business-standard.com/article/economy-policy/govt-gifts-rs-1-45-trillion-incentive-for-10-manufacturing-sectors-120111200059_1.html

[17] https://www.livemint.com/news/india/fm-announces-epf-subsidy-scheme-to-boost-employment-11605173581247.html

[18] https://www.financialexpress.com/money/income-tax/will-emi-purchases-qualify-for-ltc-cash-voucher-scheme-find-out-as-govt-issues-2nd-set-of-faqs/2126972/

[19] https://economictimes.indiatimes.com/news/economy/policy/employees-can-buy-goods-in-family-members-name-under-ltc-cash-voucher-plan-finance-ministry/articleshow/79165419.cms?from=mdr#:~:text=Government%20on%20October%2012%20announced,demand%20draft%2C%20NEFT%2FRTGS.

5. State of Recovery

5.1 The second quarter contraction of 2020 at -7.5% has, however been marginally better than projections of most analysts who had expected the contraction to be well over 8%. In November 2020, Moody's revised its 2020/21[20] growth forecast to 8.9% contraction from its earlier forecast of 9.6%. Recent reports by World Bank[21] (January 2021) show a growth recovery of 5.4% in 2021 as the services and manufacturing recovery are gaining momentum. S&P Global Ratings in December 2020 raised India's growth projection for the current financial year to -7.7% from -9% estimated earlier on rising demand and falling COVID-19 rates. For the next financial year 2021-22, S&P projected growth to rebound to 10%. Fitch Ratings also revised its growth forecast for India to -9.4%, from -10.5%, on signs of economic revival, while the Asian Development Bank said the economy is likely to contract 8% as against the earlier forecast of 9% contraction, on faster recovery. Moody's upped India's growth forecast to -10.6% for the current financial year, from its earlier estimate of -11.5%[22].

5.2 India's gross domestic product (GDP) fell 7.5% in the July-September 2020 quarter, against a contraction of 23.9% in the April-June 2020 quarter. Manufacturing output was about 3.5% higher in October 2020 when compared to the year-ago period, while the output of consumer durables rose by almost 18%[23].

5.3 In December 2020, GST collections have been the highest since inception – Rs. 1,15,000 crores. On the custom duty front, in December 2020 Rs 16,000 crore was collected in comparison to Rs 8,300 crore in December last year (94% increase). In terms of the direct tax, corporate tax as well as the personal income tax collection, until the second quarter the collection was down by almost 22-23% in comparison with last year's numbers. However, by the end of the third quarter, the gap has reduced to 9.9% building the hope that by the end of the financial year this gap will be further reduced[24].

5.4 Recent reports by the Centre for Monitoring Indian Economy (CMIE), India's unemployment rate (UER) has improved to 6.51%[25] in November, however, by December 13th the overall unemployment rate climbed again significantly to close to 10%, revering the positive trend. The urban unemployment rate stood at 11.62%, while rural joblessness rose to 9.11%, indicating a poor demand for labor in the market. CMIE reports that the labour force participation rate (LPR) may be gradually increasing in December compared to the past few months signifying more employment seekers in the market[26].

[20] https://www.businesstoday.in/current/economy-politics/rbi-rate-cut-economic-recovery-covid-lockdown-crisis/story/422035.html

[21] https://www.business-standard.com/article/pti-stories/indian-economy-expected-to-contract-by-9-6-per-cent-in-2020-21-world-bank-121010501330_1.html

[22] https://www.indiatvnews.com/business/news-india-economic-growth-2021-22-s-p-global-ratings-gdp-latest-news-671593

[23] https://www.indiatvnews.com/business/news-india-economic-growth-2021-22-s-p-global-ratings-gdp-latest-news-671593

[24] https://economictimes.indiatimes.com/markets/expert-view/4-reasons-why-gst-collections-hit-record-high-in-december/articleshow/80099278.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst

[25] https://www.businesstoday.in/sectors/jobs/indias-unemployment-rate-falls-to-651-per-cent-lowest-since-september-2018/story/423513.html

[26] https://www.livemint.com/news/india/india-s-unemployment-rate-at-23-week-high-of-10-11607944134690.html

6. Learning from 2008 crisis and stimulus

6.1 When the country was hit by the global economic crisis in 2008, the Government of India announced a major package in December 2008. Instead of focusing on how much of the GDP should be allocated to the stimulus, the government prioritized increasing domestic demand for goods and services in the short term. The recovery was speedy, and the 2009-10 financial year saw the GDP growing at 8.6 per cent. A combination of fiscal and monetary easing measures, the package was designed in consultation with the representatives from major economic sectors. Firstly, to increase liquidity in the market, the RBI announced lowered the repo rate from 9 per cent to 5.5 per cent and the CRR from 9 per cent to 5 per cent. The excise duty was reduced by 4 percentage points across the board to increase demand with attendant multiplier benefits. The implementation of the Pay Commission recommendations provided an additional demand stimulus through the higher salaries along with arrears that civil servants received. Ongoing programmes, instead of starting new large-scale infrastructure projects, received priority. For example, grants were given for the purchase of buses under the Jawaharlal Nehru National Urban Renewal Mission for increasing city bus services. Interest subvention of 2 per cent was provided for exports. Small scale enterprises and the housing sector received special dispensation debt management[27].

[27] https://wap.business-standard.com/article-amp/opinion/revival-lessons-from-2008-stimulus-120012200029_1.html

7. **International experience and stimulus packages – United States, United Kingdom and Germany**

7.1 COVID-19 is a global shock that is impacting lives and economies across the world. This has been the worst downturn since the Great Depression of the 1930s. According to the IMF's World Economic Outlook, the expected reduction in GDP in the year 2020 for the world is 4.9 per cent[28]. The GDP of world's major economics shrunk by the coronavirus pandemic (Chart 1).

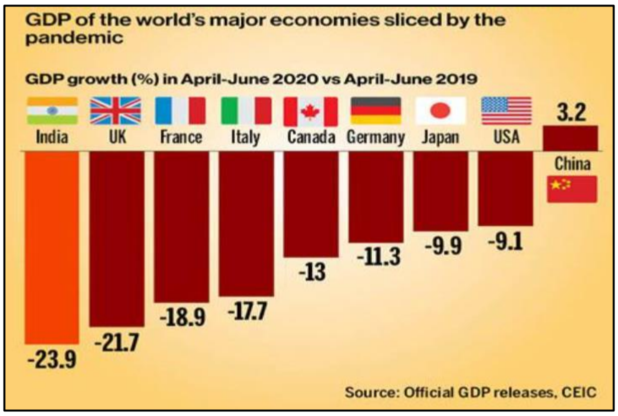
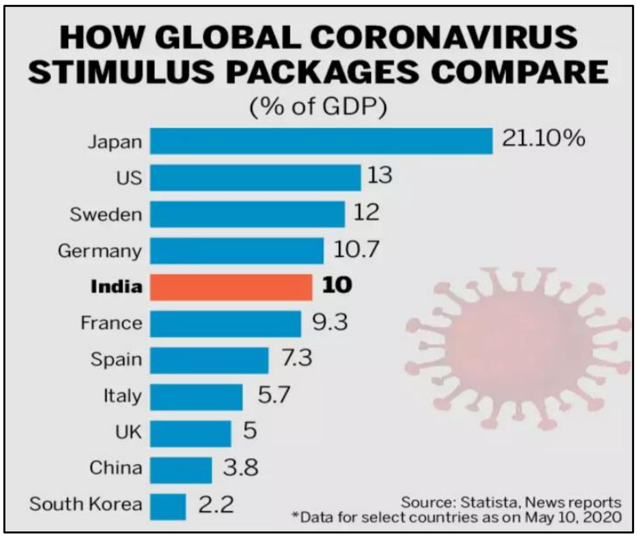


Chart 1: Business Today, September 2020[29]

7.2 Most advanced countries introduced relief packages early as the pain of the COVID induced lockdown and economic downturn gained momentum (Chart 2). be. It is useful to look at some of these. In this section, the key features of economic stimulus packages of United States, United Kingdom and Germany are summarised.



[28] https://www.nytimes.com/2020/06/24/business/imf-world-economic-outlook.html#:~:text=The%20International%20Monetary%20Fund's%20chief,the%20organization%20projected%20in%20April.&text=Compared%20to%20our%20April%20world,a%20slower%20recovery%20in%202021.

[29] https://www.businesstoday.in/current/economy-politics/which-top-economies-have-suffered-worst-gdp-fall-due-to-covid-19/story/414683.html

Chart2: Forbes May 2020[30]

United States

7.3 United States announced three phases of congressional stimulus packages by March 2020[31] committing approximately $2.7 trillion in total, 13.3 per cent of its GDP. US government has announced that they will pay cash to workers to survive. The eligible persons – who have lost their jobs, are sick or have to stay at home – can apply for a one-time payment of $1,200. Families would receive an additional $500 per child, in an attempt to create a safety net for those whose jobs and businesses are affected by the pandemic[32].

7.4 2.3% of GDP under this stimulus is dedicated towards the Paycheck Protection Program and Healthcare Enhancement Act. It aims to help businesses keep making payroll for eight weeks (mid-February up to June 30), despite orders to shut down because of the coronavirus pandemic. The US created a $500 billion dollar fund to bailout failing corporates unable to function and have become too big to fail due to the economic shutdown.

7.5 As unemployment benefits, the government promised to extend jobless insurance by 13 weeks and include a four-month enhancement of benefits. The program also included freelances, furloughed employees and gig workers like Uber drivers.

7.6 As early as March, 11 per cent of GDP was provided for the CARES (Coronavirus Aid, Relief, and Economic Security) Act in the$2 trillion stimulus. The US announced another 1 per cent in the Families First Coronavirus Response Act (FFCRA), which was created to expand paid sick and family leave from April 2nd, 2020 to March 31st, 2021.

7.7 The Federal Reserve also slashed the interest rate at the discount window — the rate at which banks borrow money directly from the Fed — by 150 basis points to just 0.25% in March[33].

7.8 Though the unemployment rate, at 7.9%, is down significantly from 14.7% at the start of the pandemic recession, it is still historically high. The economy is still roughly 10.7 million jobs short of recovering all the 22 million jobs that were lost to the pandemic[34].

7.9 On December 21st, 2020, the Consolidated Appropriations Act 2021 was announced as the Phase 4 Stimulus to further the federal government's response to the COVID-19 crisis. It included the expansion of the employee retention credit, an additional deferral of payroll taxes, additional economic impact payments for individuals, and a second round of the Paycheck Protection Program (PPP)[35].

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[30] https://www.forbes.com/sites/niallmccarthy/2020/05/11/how-global-coronavirus-stimulus-packages-compare-infographic/?sh=945b9b4ca52c

[31] https://www.isri.org/covid-19/u-s-senate-passes-phase-three-stimulus-package

[32] https://www.nytimes.com/2020/03/25/us/politics/whats-in-coronavirus-stimulus-bill.html

[33] https://www.cnbc.com/2020/03/15/federal-reserve-cuts-rates-to-zero-and-launches-massive-700-billion-quantitative-easing-program.html#:~:text=Facing%20highly%20disrupted%20financial%20markets,market's%20initial%20response%20was%20negative.

[34] https://www.livemint.com/news/world/us-economy-rebounded-to-grow-at-record-33-rate-last-quarter-11603975183615.html

[35] https://www.mondaq.com/unitedstates/employment-and-workforce-wellbeing/1020088/phase-4-stimulus-packagehighlight-of-certain-key-tax-related-provisions-in-the-phase-4-stimulus-package

7.10 The United States' real gross domestic product (GDP) grew at an annual rate of 33.1 per cent and 7.4 per cent sequentially in the third quarter of 2020, indicating a rebound of the economy from impacts of the coronavirus pandemic[36].

United Kingdom

7.11 United Kingdom announced a £100 billion package of immediate fiscal spending to fight COVID-19. UK has also announced several measures to protect businesses, both large and small, struggling to pay their employees during the lockdown. In March 2020, UK announced £12bn specifically to support businesses. Under the Coronavirus Business Interruption Loan Scheme (CBILS), SMEs with a turnover of less that £45m became eligible for a loan up to £5m for up to six years. The government would guarantee 80 percent of each loan and cover interest payments for the first 12 months.

7.12 The government has extended the Self-Employment Income Support Scheme for additional 3 months. Under the Coronavirus Job Retention Scheme (CJRS), the government has provided grants covering up to nearly 80 per cent of the salary of workers if companies kept them on their payroll, up to £2,500 per month.

7.13 The finance minister also announced a £3 billion ($3.8 billion) green investment package, which could help support around 140,000 jobs through grants for homeowners to make green improvements to their homes and money to make public buildings more energy efficient. To boost demand in hospitality and tourism, meals at participating restaurants, cafés or pubs were discounted. About £5.8 billion ($7.3 billion) was provided for new on construction projects.

7.14 In December 2020, the GDP rose 0.4% on the month after expanding 1.1% in September according to the Office for National Statistics. This was the weakest growth since output collapsed in April during the first lockdown[37].

Germany

7.15 Germany introduced the largest relief packages relative to GDP in the developed countries. It announced a €750 billion stimulus package, which is 10.7 per cent of their GDP. In addition, they announced a supplementary budget of 4.9 per cent of GDP focusing on providing short-term work and preserve jobs. Germany is also using government guarantees to increase credit volume by at least 23 per cent of GDP. The State government packages are over and above this allocation.

7.16 Germany made a provision of €100 billion for purchase of stocks to save firms, such as Lufthansa, which were earlier doing well. This is in addition to support for payment of wages to enable firms to retain their employees.

7.17 GDP of Germany grew 8.5% in the third quarter of 2020 compared to the previous quarter[38]. IFO expects the economy of Germany to shrink to plunge by 5.1% for 2020 as a whole[39].

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[36] https://www.businesstoday.in/current/world/us-real-gdp-grows-at-unrevised-331-rate-in-third-quarter-of-2020/story/423015.html
[37] https://economictimes.indiatimes.com/news/international/business/uk-gdp-growth-slows-to-six-month-low-as-covid-hit-hospitality/articleshow/79659184.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst
[38] https://countryeconomy.com/gdp/germany
[39] https://www.reuters.com/article/germany-economy-ifo-idUSKBN28Q152

8. The Way Forward for India

8.1 Government has been assessing the unfolding situation and announcing relief measures. COVID-19 is going to stay for some more time though the roll out of vaccination has increased optimism. Till it is there, major segments of the economy such as travel, tourism, hospitality, restaurants will remain subdued. Even shops other than those catering to essential needs would continue to see fewer footfalls. Further, consumer spending would be moderated by the actual loss of incomes in urban areas as well as uncertainties and anxieties about economic prospects. The objective should naturally be to get the economy back to March 2020 levels as soon as possible and then to sustained growth rates of over 8%; reversing the declining growth rates in the pre-COVID period. This paper explores feasible options for accelerating the return to March 2020 levels and regaining a higher growth momentum

8.2 Prior to COVID-19, government had been on the path of fiscal prudence. It had been trying to gradually reduce the fiscal deficit and be in compliance with the spirit and the letter of the FRBM (Fiscal Responsibility and Budget Act). Inflation had also been low. The stimulus measures have had a relatively modest fiscal component. They have increased liquidity in the system substantially. Offtake of credit has however not yet shown any significant increase. The government has guaranteed loans to small and medium enterprises to help them tide over these difficult times. Due to the sharp economic contraction, revenues have fallen, and the fiscal deficit has been rising.

8.3 There is a strong case for increasing the fiscal deficit now to revive the economy through demand creation. Earlier revival would lead to increase in tax revenues and consequent moderation in the rise of the fiscal deficit. Revival would naturally be viewed favourably by international investors and rating agencies. There is considerable merit in the argument that government should be willing to raise the deficit to the extent needed to increase demand to get the economy back to normalcy which means pre-COVID March 2020 levels. Thereafter the fiscal deficit should be brought down to normal levels. This was not done after return to high growth after the 2008 financial crisis leading to high inflation. A clear policy announcement that once normalcy returns the fiscal deficit would be brought down would send the right signals to the market and to rating agencies. For the signal of a temporary sharp rise in the deficit to get the economy back to normal and its reduction thereafter to be credible, it would be necessary to design the specifics of the stimulus in such a way that it can be rolled back without difficulty

8.4 A step by step way to proceed would be to see where the device of a loan guarantee, which is being used to help MSMEs survive, can be used to generate demand.

8.5 Then to see how regulatory and other measures could be used to generate additional demand. Another option would be to see where tax incentives would be an effective stimulus measure.

8.6 Finally, actual fiscal expenditure to create demand should be considered. Proposed measures should meet the test of generating demand in the next few quarters so that the impact is seen within a year. It should also not lead to very large long-term fiscal commitments so that it is not difficult to lower the fiscal deficit quickly after recovery. The objective should be to get the economy back to normal, March 2020 levels, in the next financial year rather than in 2022-23 which is what many analysts are expecting.

On this basis the following 14-Point Economic Recovery Plan is suggested for consideration:

1. **Full central government funding for construction of hospital beds to make good the shortfall in underserved districts. Target completion in five years.**

   8.7.1 Even before the COVID-19 crisis, there has been a growing body of opinion which had been highlighting the need to increase public expenditure on health to 3% of GDP from the existing levels of a 1.1%. One of the first measures announced by government was the provision of additional 15,000 crores for health care for COVID-19. The COVID-19 crisis has driven home the inadequacy of hospital bed capacity sharply in the country. India has 0.53 beds available per 1,000 people. There is also huge disparity among states and districts with the metros being relatively well provided.

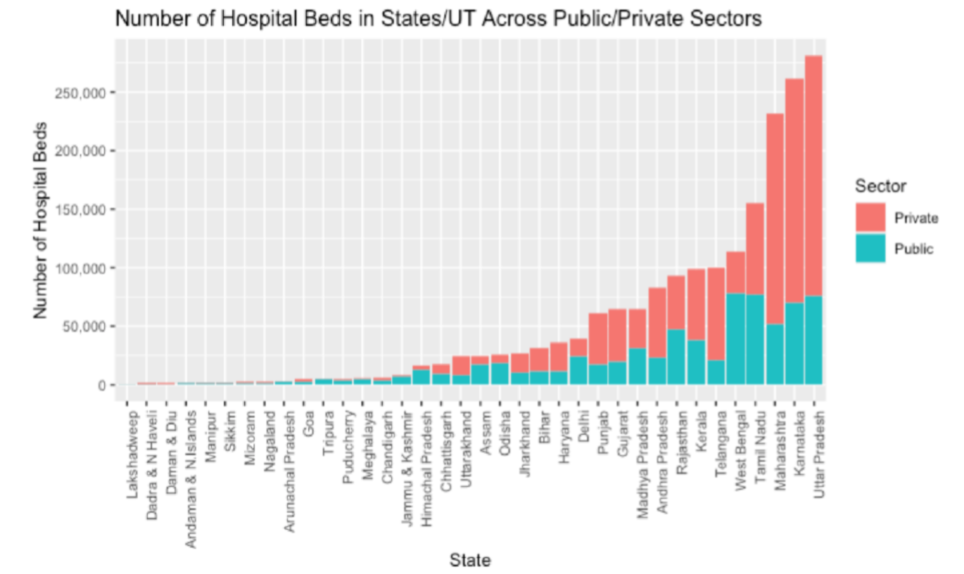

Figure 1: Number of hospital beds in both public and private sector, where private sector numbers are estimated values. States/UTs have been arranged in increasing order of total number of hospital beds. Height of column represents total number of hospital beds in that State.

Source: Kapoor, G. June 2020[40]

   8.7.2 Apart from lack of sufficient hospital beds, data collected in the Rural Health Statistics 2018-2019 shows that about 28,000 sub-centres don't have water supply, 40,000 don't have electricity, and 30% of PHCs and CHCs did not have any oxygen cylinders. In addition, PHCs and CHCs are also together short of about 3,600 doctors, 12,000 nurses, 15,000 lab technicians and 9,000 pharmacists.

   8.7.3 A national program to raise health care infrastructure in the country to a minimum level is called for. This needs to be funded by the central as well as state governments. A major pillar of this should be the provision of the minimum number of hospital beds in each district. The Central government should provide full funding for construction and equipment for district wise projects and the State government should accept the responsibility of providing staff and meeting operational costs of these district wise

[40] https://www.researchgate.net/publication/342287597_State-wise_estimates_of_current_hospital_beds_intensive_care_unit_ICU_beds_and_ventilators_in_India_Are_we_prepared_for_a_surge_in_COVID-19_hospitalizations

projects The state governments should have flexibility in managing these by themselves fully as well as with varying degrees of private partnerships. A national program for provision of hospital beds could be launched immediately.

8.7.4 India currently has about 5 beds available per 10,000 people which is total 6,76,300 beds. To achieve at least 1 bed per 1000, the country needs to fulfil the unmet demand of around 6,76,300 beds. This would require an investment of Rs. 2,47,977 crores. To achieve a level of 1.5 beds per 1000, the country needs to fulfil the unmet demand of around 13,52,600 beds requiring an investment of Rs. 4,95,953 crores over a period of 5 years. Such a program launched now would take many months for district level projects to be prepared and sanctioned. It would be in a position to absorb substantial expenditure in the second half of the next financial year. Bu then government revenues should be back to normal. Commitment of this level of expenditure should be feasible.

INDIA HAS 8.6 DOCS PER 10,000

Countries/ categories	Hospital beds per 10,000	Doctors per 10,000	Countries/ categories	Hospital beds per 10,000	Doctors per 10,000
Very high*	52	31.2	Myanmar	10	6.8
High*	31	17	Bangladesh	8	5.8
Medium*	7	7.9	Pakistan	6	9.8
Low*	5	1.9	Afghanistan	4	2.8
China	43	19.8	Nepal	3	7.5
Sri Lanka	42	10	India	5	8.6
Bhutan	17	4.2			

*Development

8.7.5 Investment in such a large hospital bed construction program would also provide a substantial demand stimulus to the economy. Investment in construction of hospital beds and healthcare facilities creates demand for labour, cement, steel etc with a huge multiplier effect and benefits.

2. **Creation of two Funds to facilitate revival.**

8.8.1 A number of good firms which were healthy and profitable in March are now in difficulty. Many are in sectors of tourism, travel and hospitality where revival of demand may still take quite some time. Once the restructuring of debt along the lines recommended by the Kamath committee of the RBI has been done and the moratorium on debt repayment and initiation of bankruptcy proceedings ends, some of these firms may still be in serious difficulty. In the developed countries such firms have been given relief by government funding some of their wage costs. Germany made a provision for equity infusion in their relief package.

8.8.2 To save such intrinsically healthy firms, the government could create a Special Fund to inject equity if necessary, into firms which were strong and doing well before the COVID induced crisis. Public sector banks can be brought together in a consortium or an institution promoted by the government such as the India Investment and Infrastructure Fund could create such an Equity Fund. This Special Fund would help the firms to survive, borrow, and be poised to grow well after conditions come back to normal in their sector. Right now, it is difficult to say when full pre-COVID level of normalcy would return. Over the medium term this would be the least cost option. Otherwise, the losses to the lenders and the cost to the economy could be much higher. Depending on the momentum of the recovery after normalcy, these equity investments could even be profitable for this Fund.

8.8.3 Even before COVID-19, there were a large number of firms undergoing bankruptcy proceedings. Once the IBC process resumes after the present period when it has been kept in abeyance, the number of cases for bankruptcy would further rise. In a worst-case scenario, the RBI sees Bank NPAs rising to 14.8%. Even prior to COVID, it was turning out to be difficult to find buyers for bankrupt firms. Getting fair value as assessed by resolution professionals was proving to be more difficult. The overall economic health of private firms is being adversely impacted in this COVID induced downturn. It would therefore be realistic to expect weaker investor response to the offers of sale of bankrupt firms. To reduce the losses of the Banks as well as the adverse impact on the economy as a whole, the government could steer the creation a Fund in a similar manner which could be used to take over the firms which are up for sale through the IBC process and for whom there are no buyers at a fair value. The resolution process has already arrived at a fair value for these enterprises. These firms can then be run as professionally Board managed companies. This investment should give reasonable returns over time as these firms turn around. Banks would get closure on their NPA accounts. These firms would become active and contribute to the recovery process. India could see the emergence of Board managed companies without promoters. Historically, similar transitions from promoter run to Board managed companies happened in the US during the recovery from the Great Depression in the 1930s and in Germany during the economic recovery after the World War II resulting in strengthening of both these economies.

3. Complete Housing Projects by taking over incomplete projects followed by government guaranteed debt

8.9.1 The housing sector is a major demand generator with a huge multiplier effect and considerable employment potential. It generates demand for a range of products, ranging from cement to steel to paint to electrical fittings.

8.9.2 There are several incomplete housing projects with developers in difficulty/bankruptcy even before COVID. In August 2019, the overall value of all stalled housing projects was estimated to be more than Rs 1.77 lakh crores.

8.9.3 In September 2019, Finance Minister Nirmala Sitharaman announced a ₹25,000 crore fund (Alternate Investment Fund AIF) to help complete over 1,600 stalled housing projects to complete 4.6 lakh flats across the country. The government committed ₹10,000 crore and the remaining was to be contributed by government-owned Life Insurance Corporation (LIC), State Bank of India and other financial institutions.

Progress has however been slow. There were issues with the fine print of the sanction orders. In January 2020, it was reported that nearly 2.2 lakh housing units, worth Rs 1.56 lakh crore, launched in 2011 were yet to be completed by real estate developers. As many as 2,18,367 housing units valuing Rs 1,55,804 crore were delayed [41].

8.9.4 A radical out-of-the-box measure would be for the government to take over all stalled housing projects of developers across the country, guarantee fresh debt for completion of these projects, appoint an empowered CEO with the mandate to renegotiate existing contracts or award fresh ones, and have construction restarted at the earliest. A czar could be designated to get actual work started within 90 days of take over, and target completion within 18 months of the commencement of work. This one measure alone could begin to change market sentiment. Those who had booked flats would be delighted. The developers have land banks which would see value appreciation after recovery. This would not need budgetary outflows. As the economy recovers and demand for housing picks up later, then the land bank with the developers would become high value liquid assets and debt may become comfortably serviceable.

4. Tax incentive for replacement of old polluting vehicles

8.10.1 The increasing air pollution in the nation can now be characterized as a national health emergency. It is estimated to be responsible for over 1.2 million deaths every year. Vehicular transport accounts for about 25% of the total air pollution. During the complete lockdown air quality improved dramatically and in Delhi clear blue skies were seen after a long time.

8.10.2 To take care of pollution from automobiles, BS 6 standard fuel, the equivalent of contemporary Euro 6 standards, is now being provided at all petrol stations in the country. Automobile manufacturers are now making only BS 6 vehicles. But the earlier vintage, BS 4 and lower vehicles will keep running and polluting for another decade.
An incentive-based scheme for the phasing out of all BS 4 and earlier vintage vehicles in five years would make a huge impact on air quality. The phasing out of commercial vehicles should be taken up first. An incentive-based trade in and scrappage policy is needed. A scheme for providing a 50% reduction in GST and other taxes if an older similar vehicle is traded in and physically scrapped in a licensed state of art facility would provide an attractive incentive for replacement. This would increase demand substantially. The transition to lower pollution from vehicles and cleaner air would be accelerated.

8.10.3 The auto sector has a large supply chain and there would be a beneficial multiplier effect. After the global financial crisis, the US government's scrappage initiative — the $3 billion 'cash for clunkers' programme — pulled General Motors and Ford back from crisis, with sales spiking 30-40% in the quarter following the implementation. In Germany, such an initiative boosted growth to 40% and it cost the government $7.1 billion. Under those programmes, the US offered incentives of

[41] https://www.business-standard.com/article/pti-stories/rs-1-56-lakh-cr-worth-flats-launched-in-2011-and-before-still-incomplete-ncr-builders-top-drag-119081500393_1.html

$3,500-4,500 for scrapping an old vehicle, while in Germany, it was about 2,500 euros[42].

8.10.4 In addition to this carrot, there should be the stick of withdrawal of registration in a phased manner starting April 2022. The objective should be complete replacement of all pre-BS-VI commercial vehicles by 2025. With this, the demand in the auto sector would pick up substantially, giving relief not only to the auto industry but also to the components industry. The extra sales would generate additional revenue of 50 per cent of GST.

8.10.5 India will need a large number of environmental-friendly scrappage centres across the country to cater to the needs of each region. Authorised Vehicle Scrappage Facilities (AVSF) must be set up professionally based on the principles of reuse and recycle with proper procedures established to handle hazardous materials and their disposal. These centres should also have IT systems to issue scrap certificate and cancellation of registration of the vehicle linked to other government IT infrastructure[43].

5. Procurement of solar power from villages

8.11.1 India is well on its way to achieving more than its commitment under the Paris Agreement of having 40% of its power generating capacity from renewables. The national goal has been raised to having 450,000 MW of renewable power capacity. The renewable energy program has so far been based on large renewable projects awarded through repeated competitive bids on tariff. Solar power tariffs have been coming down and are now well below Rs 3 per unit.

8.11.2 A feed in tariff approved by the State Electricity Regulatory Commission for purchase of solar power in the kw range, below 1 MW, on a first come basis by the regional Power Distribution Company would trigger private investment for generating solar power in rural India. For instance, a Rs 4.50 per unit feed in tariff would be very attractive for private investors and would still save the Distribution Company about Rs 3 per unit as their actual cost of supply in rural areas is well over Rs7.50 per unit.

8.11.3 With 1MW of solar power generation in a village, India could get 600,000MW of solar power with private investment from its villages. This would not need any subsidies. Transmission investments for evacuating power would not be needed. Though strengthening of the rural Distribution infrastructure would be needed. This is more than the target of 450,000MW. This would increase incomes and jobs in our villages. Farmers could be given electricity in the day for irrigation. It would also be easier to provide round the clock reliable and quality power supply.

6. Procurement of briquettes from crop waste

[42] https://auto.economictimes.indiatimes.com/news/policy/the-rs-43000-crore-opportunity-buried-under-vehicle-scrappage-policy/74251208
[43] https://www.thehindu.com/business/time-for-incentive-based-scrappage-policy/article31681136.ece

8.12.1 The burning of residual crop waste after harvesting of paddy creates an air pollution crisis in Northern India every year. Attempts to end the practice of burning the crop residue in the fields through persuasion and coercion have not been succeeding. It is time to rely on the price signal and market forces to get the desired outcome.

8.12.2 NTPC has done a successful trial of using briquettes made out of the rice crop residue as a substitute for coal to the extent of 10% in their coal fired stations. Further the price at which they purchased the briquettes through open tenders did not add to the cost of power generation. In any case the price of fuel is a pass through for thermal plants in the rate at which they sell electricity.

8.12.3 If all the thermal power plants were directed to form a consortium and announce a procurement program for all the briquettes that could be made from crop residue in Northern India, then crop burning and the air pollution from it could become a thing of the past. The farmers would get a price for the crop residue and higher incomes as a result. There would be private investment in plants for converting crop residues into briquettes and employment generation for the supply chain in handling and transportation. This would solve the air pollution problem at no cost to the exchequer. It would generate demand for a very large number of small briquettes making plants as well as labour for the entire supply chain.

8.12.4 The annual procurement of 32.1 Mt of biomass briquettes at a purchase price of Rs. 7000 per tonne would result in a stimulus potential of Rs. 22,470 crore every year. The overall stimulus over five years is estimated to be over Rs. 112,000 crores.

7. **Procurement of gas/electricity from cow dung**

8.13.1 A similar approach of using the price signal to generate demand and private investment in rural areas could be adopted for converting cow dung into gas or electricity. With the Ujjwala programme clean cooking energy through the LPG cylinder and cooking stove is reaching every household in rural India. Cow dung which was being converted into cakes for cooking is becoming an energy resource which could be used for producing commercial energy. This energy would come from a renewable resource.

8.13.2 Through private investment cow dung can be converted into gas with organic manure as a by-product. This needs the trigger of assured procurement of the gas at an attractive viable price by aggregators. Such aggregators would need to be promoted by the Gas Companies. The aggregators would collect gas from the villages and then supply it in bulk to the Gas Companies who could then blend and sell it.

8.13.3 Alternatively, the gas can be converted into electricity in the village itself and the electricity purchased by the Distribution Company at a pre-announced commercially viable feed in tariff approved by the State Electricity Regulatory Commission.

8.13.4 These would generate demand for small robust gasifiers as well as generators for converting gas into electricity. No subsidies from the budget are envisaged. These policy measures would bring investment, demand for labour and higher incomes to our villages. It may be noted that India has the largest cattle population in the world.

8.13.5 The device of a viable feed in tariff for decentralised roof top solar power generation was successfully used in Germany which became a global leader in solar power as a result. India could target the conversion of all the cow dung produced in the country into clean energy with private investment and no subsidy from the government.

8. Creation of electric vehicle charging infrastructure in cities.

8.13.1 The reason electric vehicles are not yet getting higher market share is the absence of charging stations. Without the charging infrastructure running electric vehicles appears daunting and so very few electric cars are being sold. As very few cars are being sold, setting up the charging infrastructure is not a commercially attractive investment. Consumer confidence in electric vehicles needs a critical mass of the network of public charging stations as well as charging facilities in all multi-storey apartments and office complexes.

8.13.2 This can be created only by public policy intervention. The practical way would be for the government to give a policy directive to the Electricity Distribution Companies to create the critical mass of the charging infrastructure in the next twelve months and to simultaneously direct the State Electricity Commissions to consider this investment as being eligible for return at par with other capital investments for distribution in this regulated business.

8.13.3 The Power Finance Corporation could then provide 100% financing for these investments once the policy directions have been given by the state governments. This investment would provide an immediate demand stimulus. As demand for electric vehicles picks up this would generate profits through the additional sale of electricity. Increase in the demand of electricity would also benefit the power sector where generation capacity utilization needs to go up.

8.13.4 With the charging infrastructure in place, the demand for electric vehicles would surge as they are now cheaper to run. To the extent electric vehicles gain market share in cities air pollution would decline. The UK has recently decided that from 2030 they would permit the sale of only electric vehicles.

9. 100% debt financing for Purchase of Electric Buses

8.14.1 Electric buses do not pollute the air as they run. Their introduction for city bus services would lower air pollution. Air pollution is a national health crisis with India having 14 out of the fifteen cities having the highest air pollution in the world.

8.14.2 While the initial capital outlay for electric buses is higher than that of conventional vehicles, the lower fuel and maintenance costs mean that the life cycle costs of electric buses is lower. LBNL report estimated that electric buses would be able to pay back the extra upfront investment in about 3 years, while the life cycle savings per electric bus would range between Rs. 67 lakhs and Rs. 132 lakhs (Khandekar, Rajagopal, Abhyankar, et al. 2018).

8.14.3 Government could provide credit guarantee for purchase of buses to meet the shortfall of public transport in the country. Delhi, for example, had only 5700 buses against a sanctioned strength of 11,000. The central government should finance this procurement of additional buses fully to bridge the gap through government guaranteed loans backed by a guarantee from the state government. For cities with an air pollution problem it may be stipulated that all inner-city buses be only electric.

8.14.4 This is in the nature of a conventional fiscal stimulus. With a government guarantee, these buses could be purchased entirely on debt and so no immediate outgo from the budget would be required. Assuming that the nation-wide shortfall in public transport capacity is of 50,000 buses, which would possibly be a significant underestimate given that even Delhi has a shortfall of almost 5000 buses. Making up the capacity shortfall would provide a stimulus in the range of 35,000 to 45,000 crores[44]

10. **Full government guaranteed debt for energy efficiency investments by MSMEs. Program to be coordinated by EESL**

8.15.1 Green and More competitive MSMEs: The government loan guarantees for small and medium enterprises in the existing stimulus package can be extended to finance investments in the MSME sector for enhancing competitiveness through energy efficiency. India has around 700,000 registered factory sector manufacturing enterprises. Achieving an average of 15% savings through energy efficiency technologies and best practices in energy intensive units would result in estimated savings of Rs. 15,000 crores every year.

8.15.2 This would lead to investments for lowering energy costs and improve competitiveness. It would generate demand for a wide range of goods such as energy efficient boilers, pumps and motors. GST revenues would rise. Market sentiment would improve. India could achieve more than its Paris Agreement commitment on reducing energy intensity of the economy.

8.15.3 EESL (Energy Efficiency Services Limited) has done extraordinary work in getting the transition to the use of energy efficient LED bulbs in the country. It may be tasked to coordinate and steer this program.

11. **Enhance outlays in programs where money can be quickly spent.**

8.16.1 An increase in the fiscal deficit and increased government expenditure would be optimal if it were undertaken in sectors where projects can be quickly started and completed. The impact of additional demand creation should be felt within a few

[44] A FISCALLY RESPONSIBLE GREEN STIMULUS, Ajay Shankar and TCA Avni, 2020

quarters. The government needs to identify programs where money can be spent quickly and double the financial outlays for quicker economic recovery.

8.16.2 On this basis schemes like Swachh Bharat Mission, Water and Smart Cites appear suitable for much higher expenditure. We suggest that the budget outlays should be doubled for the following schemes[45]

Schemes	Current	Recommended
Swachh Bharat Mission	Rs. 12,300 crore	Rs. 24,600 crore
AMRUT and Smart Cities Mission	Rs. 13,750 crore	Rs. 27,500 crore
Road Transport and Highways	Rs. 91,823 crore	Rs. 1,83,646 crore
National Rural Drinking Water Mission	Rs. 11,500 crore	Rs. 23,000 crore
Housing and Urban Affairs	Rs. 50,040 crore	Rs. 1,00,080 crore
PMGSY Rural Road Programme	Rs 19,500 crore	Rs. 39,000 crore
Total	Rs.1,98,913 crore	Rs. 3,97,826 crore

This would provide an additional fiscal stimulus of about 1% of GDP. This is affordable. It would make a substantial impact.

12. Accelerate implementation of the rental housing program for migrant labour

8.17.1 In July 2020, the Government of India launched the Affordable Rental Housing Complex (ARHC) Scheme to provide access to affordable rental housing to urban migrants.1.08 lakh vacant houses built under JnNURM and Rajiv Awas Yojana are to be used as rental housing. Public-private entities would be incentivised to develop rental housing on their vacant land. Nearly 75,000 vacant, government-funded housing complexes have been identified that would be converted into affordable rental housing complexes, or ARHCs, in the first phase of the scheme. The AHRC scheme was approved in July, at an estimated cost of around Rs 600 crore. The scheme aims to cover nearly 3,00,000 beneficiaries [46].

8.17.2 It is estimated that there are 10 crore inter-state migrant workers and about 50 lakh to 90 lakh workers migrate annually in search of employment opportunities. Delhi and Mumbai alone are home to around 70 lakh migrants and 99 lakh migrants, respectively. The objective should be to provide for all of them.

8.17.3 In 2012, the Ministry of Housing and Urban Poverty Alleviation estimated 1.9 crore houses[47] were required. Out of this, only 32 lakh houses have been delivered to

[45] https://www.prsindia.org/parliamenttrack/budgets/union-budget-2020-21-analysis
[46] https://www.hindustantimes.com/india-news/first-batch-of-houses-for-migrant-workers-likely-to-be-ready-by-april/story-y3FqOl8JGsZN8pO76VZbAL.html
[47] https://www.orfonline.org/expert-speak/rental-housing-scheme-must-avoid-predictable-pitfalls/

the beneficiaries under the PMAY Scheme, started in 2015. Around Rs 4 lakh crore[48] are required to fulfil this unmet demand for rental housing in urban cities for the migrant workers. The goal should be to ramp up construction and complete construction to clear the backlog in 5 years

8.17.4 To create rental housing and manage them, the pre-1991 role of State-level development authorities and housing boards may have to be revived. They need to assemble land, build and rent at affordable rates. The accommodation so created should also be suitable for dormitory use, as many migrant workers are single. 100% government guaranteed debt for rental housing projects may be the optimal way to scale up construction rapidly. The advantage would be that a large number of projects could be started across the country in the coming months. The systems for managing these properties can be evolved simultaneously. The private sector could be considered for partnerships in maintenance and rent collection. These would pose complex challenges going forward.

8.17.5 Provision of land for rental housing projects is the key to scaling up the program. Land can be provided from what is available with public bodies. This would need a radical change in the mindset and a firm political decision to price land at nominal rates and not ask for market rates. The Central government could set an example by getting the Delhi Development Authority, the Railways and its public sector undertakings to offer land for such projects. It may be recalled that the Council Housing programme in London was highly successful in providing affordable rental housing to working-class families

13. Increase import duties to create additional demand for similar goods already being made in India

8.18.1 According to many the rapidly growing trade with China has been having the effect of deindustrialising India. Much of what is being imported from China was being, is being made or can be made in India.

8.18.2 In the short run if import duties were raised for finished goods and intermediates that are being imported from China and where domestic production can be quickly ramped up, this would act as a major demand stimulus for the economy. The Chinese are our largest trading partner in goods. Raising import duties across a range of products after a careful assessment of the potential as well as other support needed for raising domestic production to satisfactorily meet demand would be the right way forward. Electrical appliances and fittings, for instance, are a good candidate for such an approach. A special dispensation for speedy financing may be needed. The Quality Council and other agencies could be tasked to assist in improving quality

8.18.3 In addition, the import duties would give the government additional revenues that it can use as a fiscal stimulus for increasing demand for domestic goods and

[48] https://www.thehindubusinessline.com/economy/narayana-hrudayalaya-plans-to-set-up-100-low-cost-hospitals/article20429315.ece1

services. It would also serve the strategic imperative of reducing our economic dependence on China.

14. **Undo real exchange rate appreciation to create additional demand for value addition for the domestic and international markets.**

8.19.1 India is unusual in experiencing real exchange rate appreciation without any commensurate increase in productivity in the economy. This is primarily due to the growing remittances from our expatriate population. Foreign Portfolio investments aggravate this trend.

8.19.2 The impact of a 10% real exchange rate appreciation is the same as an across the board 10% lowering of import duties. This decreases the business case for value addition and job creation in India. The real exchange rate appreciation of 19% over almost a decade was one of the major factors behind the low industrial growth in recent years.

8.19.3 There is need for a consensus between the government and the RBI that real exchange rate appreciation has to be prevented and that the appreciation that has occurred in the last few years should be gradually undone. This would make the production of traded goods on the aggregate more competitive in the domestic as well as the export market. Demand would rise for domestic value addition and production.

8.19.4 This would be a major growth stimulus across sectors. It may be recalled that a large depreciation was part of the standard World Bank and IMF conditionalities for relief to an economy in distress. This depreciation led to a spurt in growth. The RBI needs to intervene in the market and buy dollars to reverse the artificial appreciation caused by capital inflows from FIIs and Remittances from abroad. The Chinese following Korea and Japan have built up huge reserves to gain competitive advantage through an artificially depreciated currency. The least that we can do is to prevent artificial appreciation which reduces our competitiveness

15. Conclusion

9.1 This is the right time for a short term major fiscal stimulus to generate additional demand for domestic goods and services to take the Indian economy to a higher growth trajectory. Without a major state driven demand stimulus through policy and fiscal measures of the kind suggested in the paper it is quite likely that the recovery may be tepid. Even before COVID the limits of consumption led growth was becoming apparent. Many analysts are expecting India to go into a period of more moderate growth after recovery and that it should reconcile itself to having more modest ambitions. This, in our view, would be inappropriate. While maintaining low inflation the state can use a range of instruments to try and get to an 8 plus growth rate and sustain it for a couple of decades to catch up. The successful East Asian economies have done this in the earlier decades. India should be able to do the same.