Domestic savings must be used efficiently for infrastructure development

Industry expert suggests a two-step approach the government could adopt to help the business remain solvent during the pandemic.

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The only method to fight the COVID-19 pandemic is social-distancing and self-isolation. India is following a lockdown to break the chain of infection. I see this tough, but necessary, move as the top priority to tackle this crisis and would describe this phase as "Protection".

The fight to "flatten the curve" and stop the spread of this pandemic disease will have a negative impact on businesses, individuals and livelihoods at a scale that has not been experienced in over a century. Factors include: (i) several crucial industries simultaneously experiencing a zero or almost-zero revenue situation; (ii) revenue losses lasting for an extended period, as lock-downs move across important economic centres around the world; (iii) supply chain and trade routes disruptions hampering the ability to respond to recovering demand once health aspects stabilise. Governments and Central banks are doing what they can to get ahead of the economic challenge, but the end of this uncertainty is still not visible.

As this challenging situation unfolds, here is an effort to put some structure around a possible policy response with a two-step approach:

Preservation – to ensure that good companies continue to function, and good projects continue to be built so that jobs and livelihoods may be preserved. At this stage, as in other countries, the government will have to bear the burden and deploy all possible tools at its disposal – monetary, fiscal and financial, to help existing businesses weather the massive liquidity squeeze and remain solvent without laying off staff and defaulting to suppliers and lenders.

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At normalcy, shift policy focus towards the second objective, Resumption – to restart investment-led growth, focusing on critical sectors, particularly physical and social infrastructure. This is the stage at which commercial funding can resume its role in the investment cycle. While over the last few years, international investors have dominated large investments in India, it might be incumbent on domestic capital to play a bigger role in the next phase. India's domestic savings must be used efficiently for infrastructure development in the country. Homegrown institutions will play an anchoring role, and we at NIIF look forward to being an important part of that effort.