

31.COVID - 19: IMPACT ON THE INDIAN ECONOMY

Mrs. A. KAVITHA, Ph.D Research scholar, of Department of Economics, Quaid E Millath Government College for Women (Autonomous), Anna salai ,Chennai- 02

Dr.J.MAHESWARI, Assistant Professor of Department of Economics, Quaid E Millath Government College for Women (Autonomous), Anna salai,Chennai- 02

ABSTRACT

The onset of COVID-19, the global economy is set to undergo a sharp double-dip recession. As many international agencies have already forecasted, the global growth could be -3 per cent in 2020, which is a decline of about 6 percentage points from the baseline projection of positive 3 per cent growth with no pandemic. Such swings in growth forecasts are unprecedented, and this is due to both health scare with lots of deaths and infections and also due to the lockdown of a major part of the global economy. Added to this, the pandemic appears to be more severe in the industrialized economy. While the forecasts for 2021 suggest a sharp rebound, the trends suggest that the world may need to endure this for a longer period than expected. Unlike the global economy, Indian economy was already in a slowdown phase before the pandemic affected and there were expectations that the economy is on a recovery path. But, with the COVID-19 such hopes are not only dented rather down turn turning out to be much deeper. There are various forecasts that suggest a sharper slowdown. Some forecasts even suggest a negative growth, which was not heard in the past five decades. With the lockdown and with increasing infections, the uncertainty in the economy has increased manifolds. There are also discussions about the shape of the recovery – V or U or W.

But, in our view, the most probabilistic recovery could see an elongated U shape.

INTRODUCTION

COVID-19 pandemic, which as of end April,2020,has affected 210 countries and territories around the world and infected more than 3 million people, of which more than 0.2 million people have died, is spreading like a wild fire with such a fury that has compelled the government across the world to revoke autarky as well as shut down of the national economy in order to save their citizens from this contagion, The strategy of isolation at all levels – local, regional, national, towards the containment and mitigation of COVID – 19 . As the crisis depends, two important realizations, inter alia, have come to the fore.

OBJECTIVES

- 1, There are also early signs in India to suggest that it is quite close to 'flattening of the curve', which has become an important objective in these fights against COVID-19.
- 2, There is a need to reprioritize, recalibrate and frontload the expenditure lines especially if they are meant for rural, agriculture, and informal sector.
- 3, The government must come forward with innovative long term

tax concession schemes on the value of sub-contracts given to the MSME sector.

4, One way to finance the discrepancy in cash balance position is to release the GST compensation fund in advance to the needy states and this part could be monetized by the RBI.

POLICY OPTIONS

What are the policy options that India has in order to overcome such uncertainty?

Has India done enough to address this? Based on the recent decisions, the answer is mixed and India may need to a lot more to overcome the distress that the pandemic has created across the sections of the society. Indeed, India was relatively fast in declaring national lockdown, and rightly so, and took quick precautionary measures compared to most of the countries that are reeling with exponential growth of the infections. There are also early signs in India to suggest that it is quite close to 'flattening of the curve', which has become an important objective in these fights against COVID-19. While this should minimize the loss of lives, there are concerns that there could be severe second round impact through its adverse impact on livelihoods. The Government and the RBI have taken various measures on a regular basis not only to ensure liquidity in the financial markets but also transferring money to Jan Dhan accounts to partially mitigate the income losses to the poor and daily wage earners. The government has already announced a fiscal support of Rs 1.7 lakh crores, which is in addition to the support measures that other state governments have taken so far. However, as it might turn out, the measures taken till now may not be sufficient enough if the lockdown is extended further or for the post-lockdown economy. This is more so to the sectors such as MSMEs that are already struggling with two major shocks in the form of demonetization and messy GST implementation. There are also demands for distribution of free food grains to poor and destitute and some have further argued for

Universal Basic Income (UBI) type of support as was declared in the US (10 per cent of GDP) and other Scandinavian countries. Does India have such fiscal space to go for such mega fiscal support? Or, what India should do to ensure both lives and livelihood and help post-pandemic economy recovery? It is also important to understand what needs to be done to revive the trade sector as well, which is the backbone of not only for economic growth but also for employment.

FOCUS OF RECOVERY PLAN

India is no exception with various estimates suggesting a rise of unemployment to unprecedented high levels along with a fall in real GDP growth to a record low level of less than 2 per cent in 2020. The government has income forward with economic packages to transfer income to the poorer segments in the economy along with complementary liquidity enhancing measures of monetary authority. But, one must note that these are short term economic measures to keep the demand reasonably high along with an incentive to the MSME sector to carry on investment. Though these are necessary steps in the right direction (and need additional support in the coming days), one cannot expect such policies to continue indefinitely by recourse to deficit financing. One needs long term planning to sustain the growth. The advantage of involving MSMEs is to create concurrent jobs in related services like transport, sales, repair, telecom, travel and tourism, finance, etc, without confronting difficult labour laws. The other important policy is to invest heavily on infrastructure like power, roads, ports, water, etc.. India has successfully controlled the transmission of COVID-19 till date, thanks to our well-coordinated steps to tackle the Corona pandemic. India's prowess in pharmaceuticals and health science; mass public awareness with the help of digital systems; and a central command with strong participation of states; among others, indeed helped in containing the spread so far.

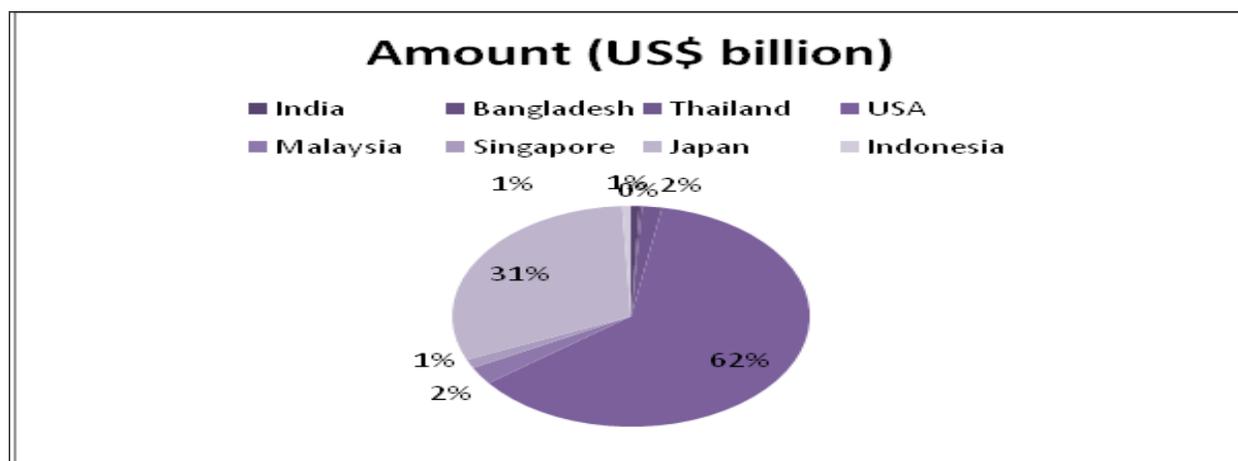
Table 1: Fiscal Stimulus Packages Announced

Country	Amount (US\$ billion)	Share of GDP (%)
India	24	0.8
Bangladesh	8	4
Thailand	58	2
USA	2000	11
Malaysia	84	0.7
Singapore	42	2
Japan	990	20
Indonesia	26	2.6

As on 30 April 2020

Source: several secondary sources

Chart 1: Fiscal Stimulus Packages Announced



South and Southeast Asian countries have been following a similar approach in containing the COVID-19. All of them have introduced stimulus packages, particularly to support the heavily affected people, MSMEs, agriculture, exports, health, rural community, informal sector, etc. For example, Bangladesh has introduced over US\$ 8 billion stimulus package, India US\$ 24 billion, Thailand US\$ 58 billion; to mention a few (Table 1).

REGIONAL COOPERATION INITIATIVES

While each of the South Asian countries has undertaken drastic measures to save its nation from COVID-19-driven pandemic, regional cooperation is felt important to effectively handle the common challenge. For example, a full

house of SAARC leaders met through a video conference on 15 March 2020 to discuss the scope and possibility of a joint action. Among other decisions, South Asian leaders have decided to launch a regional fund to deal with the crisis. An electronic platform with health experts has been launched, and a follow-up video-conference of senior health officials was organised thereafter, where countries have discussed several important issues ranging from specific protocols dealing with the screening of goods and people at entry points and contact tracing to online training capsules for emergency response teams. Steps are also proposed to foster technical cooperation, training and capacity building, among others. While the

need to fight the pandemic is vast, this regional effort is a good beginning not only to share the responsibilities but also to reactivate the SAARC process. Few days later, the leaders of G20 countries had an online summit and pledged to infuse over US\$ 5 trillion into the global economy to minimise the economic and social impact of the COVID-19. India also had a teleconference with some of the Indo-Pacific countries on issues related to countering COVID-19. Indian diplomacy has responded brilliantly. However, the same initiative is yet to occur in case of BIMSTEC or between India and ASEAN. On the other hand, ASEAN and EU convened a high-level video conference on 20 March 2020 to discuss the COVID-19.

OPPORTUNITIES AND AN ACTION PLAN

The aftermath of the lockdown offers a unique opportunity. Due to lack of other economic activities, and lack of human traffic on roads, railways, and airways, suddenly the infrastructure space has become efficient in terms of goods movement. In spite of these there will be a cluster of poor families who may not be able to get any help. The Odisha model has shown the importance of direct cash-transfers and efficient mobilization of the public distribution system (PDS). PDS is a way to procure food grains from the farmers at the price higher than the market price and distributing the same at a lower price to the poor. As part of this welfare measure, Pradhan Mantri Garib Kalyan Yojana is clubbed with the PDS system, where the central government promised to give an additional 5 kg of food grains per person and 1 kg of pulse to a poor household family over the next three months, starting April 2020, Many market aggregators and leaders of worker unions are politically connected and donate generously to the party fund. For the State of West

Bengal, there are allegations that food is not reaching the target group with local counsellors and party leaders siphoning-off the food meant for the poor. At the time of COVID-19, the government (both central and states) should keep aside politics and focus on economics. The benefits are both immediate and long term.

EXPECTED LONGER RECOVERY

On the trade front, as WTO as already predicted, the world trade expected to decline by 13 to 32 per cent, the impact on India's trade sector is expected to be very devastating. As the empirics suggest, India's exports depend heavily on the external demand and much less on the domestic factors. While the external sector is expected to have a V-shaped recovery, this should also reflect on India's exports. However, the fear is that post-pandemic recovery may see the countries adopt stringent protectionist policies, thus restraining any recovery in the exports. One way to overcome this could be for domestic industries to focus more on improving productivity that strengthen India's competitiveness in the International markets. Further, focusing more on services and its exports could help recover some of the lost ground in merchandise exports. But if one looks at the other transmission channels, the overall external sector could face many more headwinds in the coming quarters. Many countries (recently by India also) started introducing de facto and de jure measures on foreign capital. There are risks on the invisibles and the last World Bank study says the remittances to India could drop by 22 per cent. And there are already capital outflows from India. Overall, unfortunately, it would take longer time for the external sector to recover. But then it majorly depends on how the global institutions are going to help improve cooperation coordination among the countries.

THE TRIGGER POINT

Even though the major symptom of COVID-19 is common-cold and flu-like symptoms, we are more concerned with its economic symptoms and impact. It does have the potential of slowing down not only the Chinese economy but also the global economy and the tremors are already felt. China has become the central manufacturing hub of many global business operations and a slowdown in Chinese production will naturally have repercussions in other countries. The intensity of such repercussions would obviously rely on how dependent the industries of other countries are on Chinese suppliers. We do some casual empirics to figure out the possible conduits and the extent, which is presumably worse than what we observed during the Great Depression of the 1930s. Here, we analyze nine countries. Except India, all these countries feature amongst top ten countries affected by the COVID-19 (excluding China). First, we check whether the outbreak has anything to do with the number of Chinese immigrants to those countries. And then we move to the dependence on Chinese imports.

SUGGESTED MEASURES

In the fight on pandemic, the states are the first line of defense. Here, there is a need for the Centre to ensure sufficient resources at the states/ districts. However, with the declining divisible pool as well as in GST collections, states may not be in a position to enhance expenditure for health. Although RBI has already suggested a 60 per cent hike in the ways and means advance to the states and also extended the overdraft time, it is still at a cost. Here, the Centre and the RBI need to observe the States' cash balance positions and accordingly handhold them with additional resources. One way to finance the discrepancy in cash balance position is to release the GST compensation fund in advance to the needy states and this

part could be monetized by the RBI. There is another source for the states to tap the resources. It is the local bodies (especially the rural local bodies) that are known for holding unspent balances especially after the recommendation of the 14th Finance Commission. Here, as the end to the pandemic is not sure, it may be wise for the governments to think of having a 'COVID Responsive Budgeting' so that it would not affect allocations for other sectors.

CONCLUDING REMARKS

Overall, COVID-19 has brought untold misery to a large section of low income individuals across the globe. The uncertainty about future looms heavily in the mind of both consumers and producers. But, the concerted action by the countries in the world will surely turn the tide. India has great opportunities in this context, especially looking at the composition of global value chains in the world trade. The MSME sector, especially in our competitive engineering goods manufacturing, provides great prospects for employment and growth in the economy. The need of the hour is to carefully chalk out plans for the future resurgence of economic activity in the nation.

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