

INDIAN ECONOMY AMIDST CORONA PANDEMIC: AN ANALYSIS OF GOVERNMENT RESPONSE

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Abstract

The Corona Pandemic has emerged as unprecedented crisis in human history in terms of its magnitude and impact. The crisis, at the moment, has left little options before the governments across the globe to contain the virus. In the name of remedy, masking and social distancing are the only prescription available presently and the extent and depth of the impact cannot be analysed. The crisis continues and so as the confusion to tackle it. The government response, in the initial stage, largely relied on the lockdown at the national level bringing to halt almost every economic activity but was relaxed in the later stage as the fear of collapse of economy dominated over the fatalities due to the pandemic. The government response at this stage rests upon saving the economy on the one hand and strengthening the healthcare system in the country on the other hand. The effectiveness of the responses cannot be measured accurately for the 'wait and watch' reason. The present paper looks into the magnitude of the problem and the relative effectiveness of the government responses.

Key words: Indian economy; Corona Pandemic; government response.

Introduction

The world, even after nearly eight months of its spread, still continues to struggle against the devastating consequences of corona pandemic. Even the superpowers, super scientists and super structures of world renowned hospitals and pharmaceutical companies and health institutions like WHO have any clue to fight this tiny, unknown virus. The entire world is in a state of shock and the economic and social movement of the entire human population has come to standstill. This is unprecedented crisis perhaps in human history. The magnitude of the crisis can be known from the statistical profile of the pandemic. As per the weekly Operational Update of Covid – 19 released on November 3, 2020 by World Health Organization, the total number of corona – infected confirmed cases is 46.5 million and the total number of deaths is 1.2 million. In case of India, the total reported cases are 8.27 million and the number of deaths, as on 3.11.2020, is 1.23 lakhs. While looking at the regional levels, the Americas and the Europe are most seriously affected than other regions of the world. This trend has sent shockwaves across the world mainly in terms of short and long-term consequences for world economy.

Crisis in India

The crisis arising out of spread of Corona virus has implications beyond the geographical and health considerations. It is not only the increasing numbers of infected people and deaths but the overall management of the health infrastructure and the task of putting in vast economic resources to neutralise the devastating effects of the crisis. A Report released by World Bank titled "Beaten or Broken? Informality and COVID – 19" highlights how India's record on the COVID – 19 front is lagging sharply behind seven other countries in South Asia on several counts (EPW, October 31, 2020: 7). With 87 plus million confirmed cases and 1,28,668 deaths (as on 13.11.2020), India is second largest affected country in the world (www.who.int). The high mortality rate is attributed to two main reasons. First, routine health services have been massively displaced by COVID-19. So far, COVID-19 infections were heavily concentrated in large cities located in India's more prosperous states: Delhi, Mumbai, Chennai, among others. The preparedness of the health system is much higher there than elsewhere. But recorded cases are now rising fast in India's poorer states, where health services are very fragile. As the COVID-19 crisis absorbs their meagre resources, many public health centres have stopped providing routine services. Even child immunization has been discontinued for months in many states. The other reason for a possible mortality spike is that India's prolonged national lockdown (from late March until unlock phases began in June, 2020) has destroyed millions of people's livelihoods (www.scientificamerican.com/)

On the economic front, India's 23.9 per cent fall in the GDP I April-June 2020 was more than double the average 11.6 per cent decline in GDP in 60 countries publishing quarterly GDP numbers (EPW, October 31, 2020:7). The "World Economic Outlook" brought out by IMF notes that the sharp compression of consumption and the collapse of investments had badly hit India's GDP growth and also pushed up inflation due to supply bottlenecks and increase in food prices. It is estimated that around 12.2 crore people have lost their jobs due to the Covid-19 pandemic. Employment in Micro, Small & Medium Enterprises (MSMEs) and unorganized sectors are said to be the worst hit. This has left hundreds of thousands of migrant workers stranded across the country. Almost 75% of the 12.2 crore people were small traders and wage-labourers. (www.indiatoday.in) The major sectors of the economy that are badly hit by the pandemic are Food service, Travel, Retail, Door to door sales, Recreation, Fitness, Wellness, Real estate etc. As per the observations of the Centre for

Monitoring Indian Economy, the number of salaried people who have lost their jobs amid the Covid-19 pandemic has now surged to 18.9 million, and about 5 million jobs were lost in July, 2020 alone. On the other hand, the number of non-salaried, informal jobs has increased. This shock to the Indian economy will lead to a market shift: Larger companies will gain market share, will rely less on labour, and the small and medium companies will wind up(www.business-standard.com)

The Indian agriculture too has born the brunt of the pandemic which caused a serious blow to the Indian economy. The supply chain system in the rural areas was disrupted due to the heavy lockdown. The sowing and harvesting of plants due to the unavailability of merchandise along with seeds, tractors, ancillary assist, drugs for crop protection were put off due to lock down. There was nearly complete shut- down of exports that included exports of agro-based products.

Response to the Crisis

The World Health Organization (WHO, 2020) defines the crisis in four stages of the spread of COVID – 2. In the first stage there are no cases at all. In the second stage there are isolated cases linked to travel abroad or contact with someone who is infected during travel abroad. The third stage comprises of clusters of cases in time, location and/or with an identifiable common source; and the last stage refers to the community spread with no identifiable common source. The occurrence of the pandemic in different stages requires to formulate different strategies for different stages. In actual, the response of the government suggests a common road map for all the stages that, in turn, causes considerable amount of confusion and uncertainty while dealing with the pandemic effectively. The handling of the situation in its present format may further deteriorate or complicate the outcome of the pandemic.

The responses forwarded and implemented by the government in the form of policies and planning indicates two broad approaches – first, to suppress the disease in its initial stages restricting strictly the spread of virus and the infected people outside the specific geographical area. Secondly, intensive medical efforts in the affected areas to contain the disease at the earliest.

Response in the form of Lockdown

The first and the instant response that came from the government was in the form of lockdown that put the entire physical movement of man, material and services – of all kind – to a complete halt. The nationwide lockdown was clamped in four phases. The phase one – from 25 March to 14 April, 2020 (21 days) limited the movement of 1.3 billion population of India as a preventive measure to check the spread of the virus. The lockdown was extended, on the insistence of many state governments from April 15 to May 3, 2020 as a part of second phase of the lockdown that remained in operation for 19 days. The lockdown was further extended in the third phase from May 4 to May 17, 2020 (14 days) in order to contain the number of infected people. The Government divided all the districts into three zones based on the spread of the virus—green, red and orange—with relaxations applied accordingly. Another phase of nationwide lockdown was clamped by the government in the fourth phase that continued for 14 days from May 18 to May 31, 2020(www.wikipedia.org)

The outcome of the four-phased lockdown proved very disastrous for the economy and soon the argument that ‘economic concerns cannot be altered while fighting the pandemic’ gained acceptance at the government level. This argument formed part of the future strategies adopted by the government and now, in its new format, the process of ‘unlock’ was started to live with the pandemic while carrying on the normal economic activities. This approach had its own pitfalls and risks and, which proved true as well. With each unlock period, the number of infected cases got increased along with the increase in the number of deaths. The unlock period saw six phases ranging from June 1 to November 30, 2020 where gradual relaxations were given to the movement of people, material and services so as to bring in a normal life with certain precautions like social distancing and putting the mask in the public spaces.

It is debatable whether the lockdowns helped to contain the gravity of the pandemic or the unlocking of the lockdown revived or recovered the ailing economy. The application of lockdown in the past in the similar pandemic situations did not result in significant gains. For example, the analysis of the 2009 H1N1 pandemic in the UK had shown that there is little to gain by a massive lockdown, since the natural herd immunity is interrupted, the public health services are engaged in the tracing and isolation efforts rather than attending to the ill, and the disruptions caused their own suffering (DHS-UK, 2011)The gains are more difficult to assess in case of India where the health care system lacks efficiency and management, inadequate access of majority of the people to the quality healthcare and the availability of the vaccine is not in the immediate reach.

This approach of ‘economic recovery-pandemic control’ has yet to come out with desired positive results. It was only during the unlocking period that the country saw the peak of the corona cases touching to 97,570 cases on 12.9.2020(www.bing.com) making India the second highest country in the world in number of corona cases in one day. However, the number of daily cases has come down in the average range of 40-50 thousands per day in the month of November, 2020. But still it is difficult to declare the strategies as successful one as the success parameters are yet to be evolved and evaluated.

The complete lockdown and currently the ongoing partial lockdowns have both demand-side and supply-side effects on the Indian economy. On the supply side, the restrictions of movement of goods, services and personnel affect the production networks. The sink in economic activities and overall output growth leads to employment loss. The supply shocks will further create demand-side effects by reducing the economy's disposable income, savings and giving rise to unwanted uncertainty. COVID-19 pandemic has impacted the Indian economy when it is at its lowest point of growth trajectory over last 6 years due to lack of aggregate demand. It is believed that India's GDP may shrink in the range of 3-5 per cent in current year 2020. Manufacturing sector will slow down due to exports slowdown owing to lockdown across countries and slowdown of global economy. Manufacturing constitutes more than 60 per cent of India's total exports, and the import contents in India's exports are very high. Therefore, lockdown affecting imports used for manufacturing will severely affect India's exports. Since India's two-fifth of exports and one-third of imports is with European Union, USA and China – the worst affected regions, it is going to severely affect its trade. There is less possibility of rise in exports amid falling rupee as these countries may face recession and experience significant fall in aggregate demand.

Response in the form of Economic Packages

1. Aatmanirbhar Bharat Abhiyan stimulus package

The mega package of Rs. 20 lakh crore (US\$ 275 Billion package) equivalent to 10 per cent of GDP announced by the Prime Minister is the second largest package in the world after Japan where the concerns of almost all sectors of the economy – formal and informal – were tried to be addressed. The package was explained in five tranches the details of which are given in the following table:

Total value of the stimulus provided under “Aatma Nirbhar Bharat Abhiyan”:

Tranche 1:

S. No.	Item	(INR crore)
1.	Emergency W/C facility for businesses including MSMEs	3,00,000
2.	Subordinate debt for stressed MSMEs	20,000
3.	Fund of Funds for MSME	50,000
4.	EPF support for business and workers	2,800
5.	Reduction in EPF rates	6,750
6.	Special liquidity scheme for NBFC/HFC/MFIs	30,000
7.	Partial Credit Guarantee Scheme 2.0 for liabilities of NBFCs/MFIs	45,000
8.	Liquidity injection for DISCOMs	90,000
9.	Reduction in TDS/TCS rates	50,000
Sub total		5,94,550 (USD 78.5 Bn)

Tranche 2:

S. No.	Item	(INR crore)
1.	Free food grain supply to migrant workers for two months	3,500
2.	Interest subvention for MUDRA Shishu loans	1,500
3.	Special credit facility to street vendors	5,000
4.	Housing CLSS-MIG	70,000
5.	Additional emergency working capital through NABARD	30,000
6.	Additional credit through KCC	2,00,000
Sub-total		3,10,000 (USD 40.5 Bn)

Tranche 3:

S.no.	Item	(INR crore)
1.	Food Micro Enterprises	10,000
2.	Pradhan Mantri Matsya Sampada Yojana	20,000
3.	TOP to TOTAL: Operation Greens	500
4.	Agri Infrastructure Fund	1,00,000
5.	Animal Husbandry Infrastructure Development Fund	15,000
6.	Promotion of Herbal Cultivation	4,000
7.	Beekeeping initiatives	500
Sub-total		1,50,000 (USD 19.5 Bn)

Tranche 4 and 5:

S.no.	Item	(INR crores)
1.	Viability Gap Funding	8,100
2.	Additional MGNREGS allocation	40,000
Sub-total		48,100 (USD 6.5 Bn)

Overall:

S.no.	Item	(INR crore)	USD (approximately)
1.	Part 1	5,94,550	78.5 Bn
2.	Part 2	3,10,000	40.5 Bn
3.	Part 3	1,50,000	19.5 Bn
4.	Parts 4 and 5	48,100	6.5 Bn
Sub-total		11,02,650	145 Bn
1.	Earlier measures including PMGKP	1,92,800	25 Bn
2.	RBI measures (actual)	9,94,403	130 Bn
Sub-total		9,94,403	130 Bn
Grand Total		20,97,053	275 Bn¹

(Source: www.investindia.gov.in)

2. Atmanirbhar Bharat Abhiyan 3.0 Stimulus

The government rolled out another stimulus package worth Rs. 1.19 lakh crore on November 12, 2020 as a booster dose to the Indian economy that primarily focussed on job creations, fertilizer subsidy to the farmers to the tune of Rs. 65,000 crores, some income-tax relief for the salaried taxpayers, infrastructure development by allocating Rs.18,000 crores for urban housing, Rs.1.1 lakh crore for infra projects by 2025 etc. In the words of Finance Minister, the total stimulus package given so far by the government comes to Rs. 29,87,641 crores which is 15 per cent of the GDP (The Hindu, November 13, 2020)

DISCUSSION

The developing countries like India are facing double-edged repercussions of the pandemic – one, the damaging impact on the internal economy of the country and, secondly the shrinking of economic options in the globalized world economy. The impact is quite extensive as well as intensive. The implications may not end with the making of a vaccine for Corona but shall be realised for a longer period.

Economically, India is struggling hard at two levels – one, to deal with immense economic pressure of the virus on the healthcare system, organizations etc. The government has already planned to borrow Rs 4.2 trillion more compared to the budgeted amount of Rs 7.8 trillion as its expenditure to fight the impact of Covid-19 rises and revenues fall due to the lockdown. Expenditure by the health and family welfare ministry due to the corona virus (Covid-19) outbreak surged to almost Rs 13,000 crore in April this year. This is three times the Rs 4,327 crore incurred in the same month of last year. (https://www.business-standard.com/article/current-affairs/health-ministry-s-expenditure-trebles-in-april-amid-coronavirus-outbreak-120061601182_1.html). Secondly, the economic resources getting exhausted in compensating losses to industry, MSMEs, agriculture and other sectors of the economy.

The magnitude of the economic loss is much more than anticipated. According to a recent report by State Bank of India, states would face a 16.8 per cent drop in their gross domestic product (GDP) on an average in 2020-21. The national GDP

is expected to reduce to the tune of Rs 38 lakh crore. This loss will translate to an annual income loss of Rs 27,000 per capita. Nearly three-quarters of the reduction may be from 10 states, which account for around 80 per cent of India's COVID-19 caseload. Nearly 14 per cent of the GDP loss is expected to be in Maharashtra, but the per capita loss may be severest for Goa — Rs 1 lakh. Delhi may be close by with a loss of Rs 90,000. More than 18.9 million Indians have lost their jobs since April, five million of them in the last month alone, the Centre for Monitoring Indian Economy (CMIE) recently estimated.

Moreover, the crisis has exposed the deficiencies in the health sector which are under tremendous pressure to respond to the corona crisis. The poor health infrastructure mainly in the rural areas, inadequate testing and lab facilities, less trained manpower, poor finances, shortage of beds and ventilators are few of the serious ailments being faced by the health sector in India. The situation has come to such an alarming level that the doctors in the hospitals of national capital are not getting the salaries on time. Even the proper kits for the safety of the health workers are not available and, as a result, around 573 health workers lost their lives up to August, 2020. More investments in the health care system are need of the time. In the 2019 Global Health Security Index, which measures pandemic preparedness for countries based on their ability to handle the crisis, India ranked 57, lower than the US at 1, the UK at 2, Brazil at 22, and Italy at 31, suggesting it is more vulnerable to the pandemic than countries that have seen a high number of fatalities so far (www.ghsindex.org/country/india/). India's investment in the health sector, dedicating only 1.3 per cent of its GDP, is now making it vulnerable to COVID-19. It contrasts with other developing countries like Brazil, which spends 7.5 per cent of its annual GDP on health; Bhutan, which has allocated 3.6 per cent; and Bangladesh, which dedicates 2.2 per cent. Among developed nations, South Korea has kept its healthcare expenditure at a whopping 8.1 per cent, Japan 10.9 per cent, and the US at 8.5 per cent (www.downtoearth.org.in). In the absence of a vaccine, the only ray of hope is mask and social distancing – the only remedy available to counter this monstrous virus of 21st century developed world.

IMPLICATIONS OF THE STUDY

The study examines the response of the government in handling the Covid pandemic and observes that there exist gaps at various levels that immediately need intervention at policy level. The intervention should come in the form of integration and coordination of various agencies – directly and indirectly, involved in the fight against the pandemic including the states and Centre. It will help the government to make best use of the resources available in the country. Secondly, heavy investments to strengthen the health infrastructure and system are need of the time and must be addressed at the priority basis. The study also explains that the various economic packages announced by the Central government are primarily aimed at strengthening the supply side that lays emphasis on the increased production. In the absence of demand, such measures shall have limited impact. It would have been making a greater and more pragmatic economic sense if the packages are used to generate the demand.

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