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Economy, Pandemic and the Uncertainty: Challenges for India

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In the last century, people on earth battled few pandemics like the Spanish Flu in 1918 and Influenza in 1957—at a time when medical facilities, research and technology were still evolving and were not well equipped, thereby leading to huge losses of human lives.[1] The Covid-19 pandemic is no different. It came as a surprise and led to an increasing mortality rate, even with the advanced medical infrastructure available. However, the progressive outbreak led to the lockdown/shutdown of all major economies with limited movement of goods, since the early months of 2020.[2]

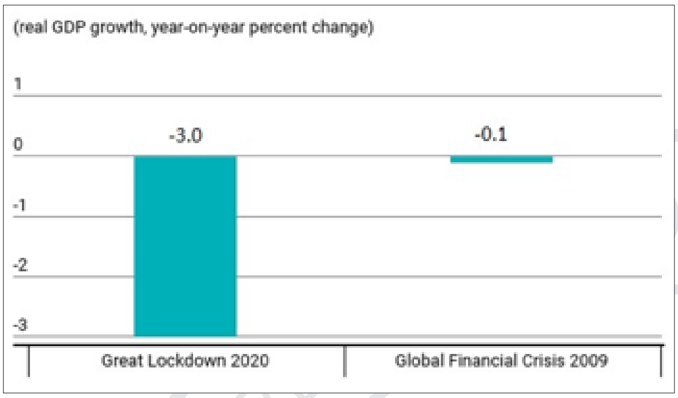
The slowdown also led to a sluggish international market and many experts assert that the global economic crisis has moved into a recession, having a more severe impact than the Financial Crisis of 2008 (Figure 1) and the Great Depression of the 1930s.[3] There is a substantial amount of uncertainty about how far this pandemic will affect the livelihood of the people globally. This depends on various factors including nature and structure of the virus, the development of vaccines, the effectiveness and efficiency of the containment and social distancing measures, mental health

Key Points

- The progressive outbreak of the Covid-19 Pandemic led to the lockdown/shutdown of all major economies with limited movement of goods, since the early months of 2020.
- The global economic crisis caused by the pandemic has moved into recession—having a more severe impact than the Financial Crisis of 2008 and the Great Depression of the 1930s.
- The stagnation in trade, interconnectivity and disruptions in global supply chains would directly impact the overall sluggish international markets, rendering high unemployment rates and lower aggregate demand.
- The Indian economy would also be affected as major losers would be the manufacturing, industrial and informal labour sectors.
- The increasing inequality among high-income groups and low-income groups along with the limited supply, makes the economic environment in the country more volatile.

Economy, Pandemic and the Uncertainty: ...

Figure 1: Global Gross Domestic Product (GDP) Growth Levels during 2008-2009 and 2020



Source: IMF, *World Economic Outlook*, April 2020, https://www.imf.org/en/Publications/WEO/Issues/2020/04/14/weo-april-2020.

of the population and cooperation among countries to open their economies as well.

Interestingly, this pandemic has urged and revolutionised economies globally, to depend on technology to sustain—realising, promoting and adapting to new procedures of work with the help of technology in every possible sector. This applies mostly to those countries whose economy is technologically equipped and those having enough infrastructure in place for a planned execution during this crisis. However, the developing and underdeveloped countries have already been affected by the crisis due to lack of proper medical and healthcare facilities including shortages of masks, test kits and Personal Protection Equipments (PPEs).[4] Adding to this, countries with larger middle class population are faced with multiple crises, predominantly medical and financial crises.[5] It has also been observed that due to the worldwide slowdown, the global supply chains have also been impacted. The economic crisis in the agrarian and industrial economies would also get affected due to less production activity in the last few months, leaving these countries to revise and reform their economic policies.

Flattening the Curves—A Boon or a Bane?

The lockdown culture, during this pandemic, has urged nations to isolate and distance its population as a measure to flatten the curve. However, this has also flattened the growth curve, leading economies to a negative industrial sector growth. Although the governments are giving unprecedented support to households and financial institutions, as it is crucial for a 'not-so-bad recovery' given the current condition, the revival of the global economy in the long run seems blurry.

As compared to the Financial Crisis of 2008, the Covid-19 pandemic has brought the world into stagnation leaving behind the functioning of all the major economies including China and India, which were the only nations to sustain a positive growth during the 2008 crisis.[6] According to the International Monetary Fund's (IMF) *World Economic Outlooks's* Growth Projections in April 2020, India and China are expected to grow at 1.9 per cent and 1.2 per cent respectively in 2020 from 4.2 per cent and 6.1 per cent in 2019, whereas the United States and Germany would have a negative projected growth of –5.9 per cent and –7 per cent than 2.3 per cent and 0.6 per cent in 2019.[7] This indicates that the global economic crisis will last long and the recession will largely affect the advanced economies and the middle-income countries in due course.[8]

Along with this, the stagnation in trade, interconnectivity and disruption in global supply chains would directly impact the overall sluggish international markets, rendering high unemployment rates and lower aggregate demand. This is where the 'Keynesian economics approach' should be considered.[9] More government spending and reduced interest rates would be useful tools to revamp the economic cycle, which were effective during the great depression.[10] IMF's prediction of all the economies showing a positive growth in 2021 seems uncertain, considering the externalities involved, until the pandemic is under control.[11]

As Keynes said, "In the long run, we all are dead"—it is important that countries take harsh steps at an early stage, but maximum government spending would be a stabiliser in the short run, rather than cutting its expenditure.[12] With regard to maintaining the economic stability, certain countries are taking harsh measures and one such country is Saudi Arabia, wherein the kingdom has decided to increase the Value Added Tax (VAT) from 5 per cent to 15 per cent and is expected to cut spending on major projects by US$ 26.6 million (100 billion riyals) to deal with the post-Covid impact.[13]

Adding to it, in the month of April 2020, the oil prices of the West Texas Intermediate (WTI), went negative as ships with large amounts of oil were stranded in the oceans with no one to purchase.[14] This was due to an oil price tussle between Saudi Arabia and Russia, leaving the Brent crude oil prices to the lowest, post-Gulf War of 1990, at US$ 31 per barrel.[15] Being one of the largest importers of oil, this was an opportunity for India to purchase more oil to fill its reserves. However, the capacity of the reserves had already been filled as the nation was on a lockdown since March 22, 2020.[16] Over the next few weeks, the global lockdown harshly affected the oil dependent economies, especially Iraq, as their major revenue is generated by selling the strategic commodity.[17]

Assuming a probable economic shift—while the world witnessed the second largest economy being hit by Covid-19, as an epicentre of the outbreak, a few companies decided to relocate their bases from China to other neighbouring countries like Vietnam, Taiwan, Thailand and India.[18] This can be seen as an opportunity for countries like India, which has cheap labour market—both skilled and unskilled labour. But this is possible only once things return to normal, which seems to be 'uncertain' currently. According to the International Labour Organisation's (ILO) April 2020 report, around 436 million enterprises (employers and own account workers) in the badly hit sectors, are on the verge of serious disruption globally.[19] Apart from this, the report also asserts that around 1.6 billion workers in the informal labour market will be highly impacted and this would result in an estimated decline of 60 per cent in their earnings globally.[20] This will also lead to a larger gap in income inequality which eventually will increase the relative poverty levels.

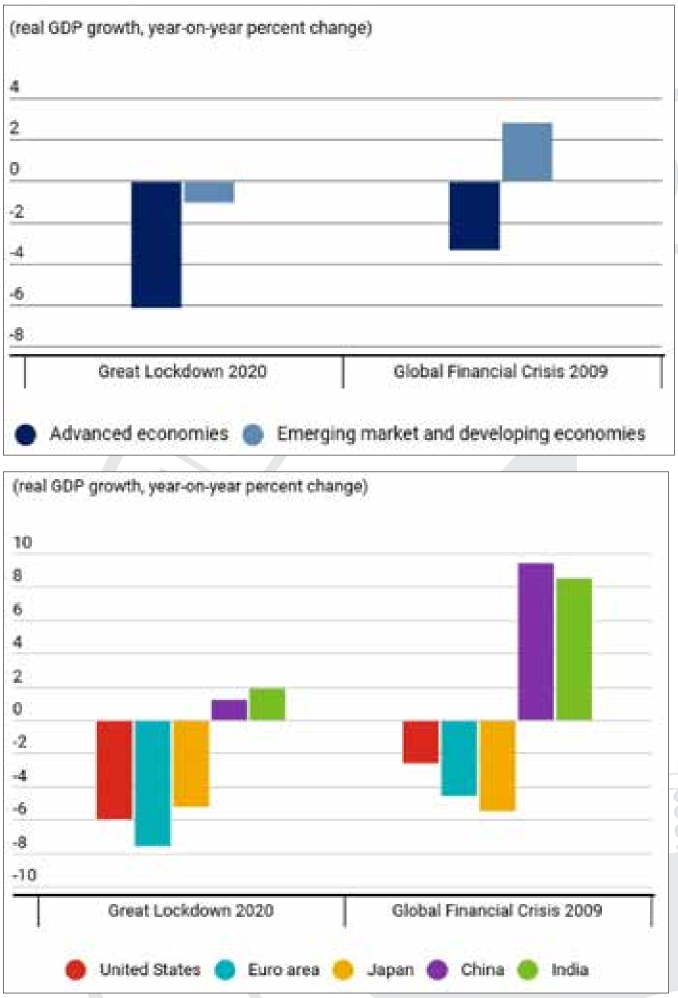
Interestingly, the United States' unemployment rates increased to 14.7 per cent in April 2020, which is the highest since the Great Depression.[21] This may be replicated in Europe and Asia as well, with companies increasing layoffs daily, thus implying negative growth levels. In India, according to a report by the Centre for Monitoring Indian Economy (CMIE), around 27 million youths falling in the age group of 20-30 years have lost their jobs during April 2020.[22] Along with this, the repatriation would also affect the Indian subcontinent, with a large number of emigrants already having lost their jobs in the Middle East and in other parts of the world.[23] Therefore, the global apprehension for an economic plunge exists.

The Indian Scenario—Interest Rates, Migrant Workers and Challenges

In the last two years, the Indian economy has not been performing well and the growth levels are less, considering the projected estimates of the past. Since India and China were the only nations to sustain positive rates of growth during the Financial crisis of 2008-2009, it could be possible that these two nations might emerge with positive growth rates once the lockdown is lifted across the globe—even though the reasons behind the two scenarios may be different, the economic situation seems alike. As per the IMF, the great lockdown due to the pandemic might create more fiscal issues than the financial crisis of 2008-2009 (Figure 2).

The reasons for the disruption of the world economy might be inversely related, but the roadmap for recession seems to be similar with the markets fluctuating and the lockdown measures creating a total chaos in the economies worldwide. The Indian economy would also be affected as the major losers would be the manufacturing, industrial and informal labour sectors; the service sector would face high risks of shutting down start-ups and investments being withdrawn, due to a downsliding of market value and less revenue generation to pay salaries which would therefore turn into a phase for layoffs.

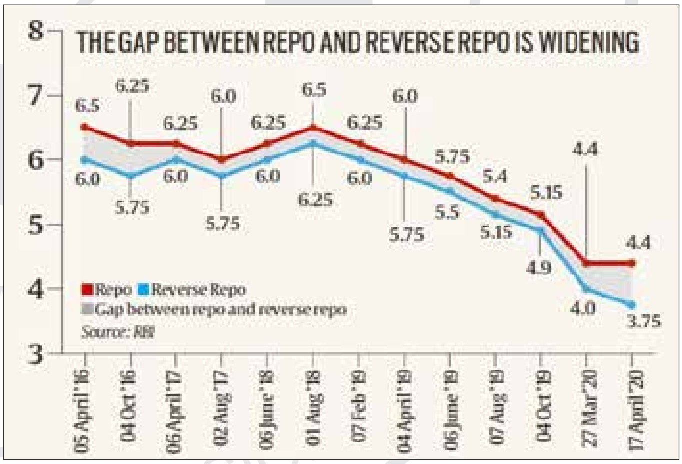
Figure 2: Comparison of Gross Domestic Product (GDP) Growth—Lockdown 2020 vs Financial Crisis 2008-2009



Source: IMF, *World Economic Outlook*, April 2020, https://www.imf.org/en/Publications/WEO/Issues/2020/04/14/weo-april-2020.
Note: For India, data and forecasts are presented on a fiscal year basis, with FY2020/2021 starting in April 2020. India's growth is 0.5 percent in 2020 based on the calender year.

Considering that India acted promptly with the countrywide lockdown to tackle the pandemic, it is also important that the policymakers utilise the time to draw the fiscal policies, while giving importance to healthcare systems and tax relief in certain sectors. Surprisingly, the central bank of the country, the Reserve Bank of India, on April 17, 2020 announced that it has reduced 25 basis points of the reverse repo rate from 4 to 3.75 per cent; RBI also announced Rs 50,000 crore Targeted Long-Term Repo Operation (TLTRO 2.0) to further address the liquidity distress in banks and microfinance institutions.[24] This comes at a point when the lockdown seems to be extended and all businesses are hesitant about taking loans from the commercial banks. However, it is observed that since August 2018, the apex bank in the country has been reducing the basis points (BPS) of both the repo and reverse repo rates and there is a widening gap between both as well (Figure 3). This was mainly done because the Indian economy was not performing as well as it was during the first half of the decade. Further, a check on the inflation rates and the need for larger outflow of cash into the economy has led the apex bank to reduce 25 basis points in less than 20 days' time. From Figure 3, it is evident that these short-term rate changes are usually done once in a quarter but from October 2019 to March 2020, there was a reduction of 90 BPS, thereby denoting that the economy was slowing down during that phase.[25] This concern has been addressed only to an extent and further deliberations regarding the monetary policy would be expected in the coming quarters.

Figure 3: Repo and Reverse Repo Rates (2016-2020)



Source: Reserve Bank of India; *The Indian Express*, https://indianexpress.com/article/explained/coronavirus-rbi-how-reverse-repo-rate-became-benchmark-interest-rate-in-the-economy-6369999/.

Apart from the monetary policy changes, it has also been observed that internal migration has been disturbed as labourers are losing their jobs and returning to their hometowns due to the lockdown, thereby incurring a loss to their income, as majority of rural India sustains on daily wages. The respective state governments and the Centre have been announcing various schemes to help such labourers.[26] More importantly, the emigrants returning from the Gulf would add to India's quandary. The return migration would not only affect the resident state's economy but also the overall structure, adding to the already high unemployment rate. The most disruptive fact is that the remittances would decline by 23 per cent from US$ 84 billion in 2019 to US$ 64 billion in the coming financial year.[27] Therefore, the increasing inequality among high-income groups and low-income groups along with the limited supply, makes the economic environment in the country more volatile.

Recently, in May 2020, the Central Government announced an economic relief package—the "Atmanirbhar Bharat Package" of Rs. 20 lakh crore (10 per cent of the GDP) for countering various challenges created by the pandemic; the most notable inclusion in the package was the allocation of Rs. 40,000 crore for Mahatma Gandhi National Rural Employment Guarantee Act (MNREGA).[28] Nevertheless, the real question to be addressed currently by the policymakers would be the effect of the migrant worker displacement on the economy.

Conclusion and the Way Forward

The lockdown might help to flatten the curve but would not be able to eradicate the virus from society until effective vaccines are developed. This might take time and the state cannot be reliant on the lockdown for long. The disruptions in the supply chains, increasing unemployment and dropping revenues are serious concerns for the whole country. Revival of the Tourism industry is crucial, once the economy reopens, as it would be a challenge for the state, given the decline in its revenue earnings; the worldwide effect on the airline industry would also hit India in the coming year as well. Apart from these, the real estate sector has also been hit; allocation of defence budget (excluding pension, 1.5 per cent of the GDP) for the next financial budget might also decrease from the previous year given that there is a fall in marginal increase of the outlay for the past two years.[29] However, it is imperative that the government realises the aftershock affect to mitigate these issues when the economy emerges from the pandemic, even though the uncertainty still persists.

There can be a few pre-emptive measures that, in fact, not only the Indian government can initiate but could be useful for other developing and middle-income nations as well. One, a tentative phase-to-phase opening (4 stages) of the economy to be released state-wise and nationwide with 25 per cent functioning of the industrial sector per phase; two, special packages for minimum wage enrolment and free rations until the lockdown is lifted for the informal sector workers so as to feed their families until the lifting is implemented; three, an early or emergency budget session while revising and reforming active fiscal policies with more welfare-oriented programmes (policy revision in Public Distribution Systems) in place than before; four, regulations regarding accommodative monetary policies and joint pacts regarding work visas with countries from where the citizens have returned due to the pandemic; and five, special packages for all states and union territories for medical and health infrastructure and equipment acquirement with immediate effect. This is not just a war against the virus but also a war for the survival and welfare of humanity.

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