



COVID-19 in India: Need for new LPG like reforms

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Abstract

The COVID-19 pandemic has created a large scale human havoc and economic emergency. It has compelled the world political leaders for announcing social distancing and national lockdown as there is no vaccine to this pandemic yet. Amidst this global crisis, India must see this as an economic opportunity to go for comprehensive economic reforms to correct domestic financial crisis and external shocks. It is true that Indian government has announced a major economic relief package as an immediate measure but for long term purpose, India should go for 1991 like reforms.

Keywords: COVID-19, LPG, pandemic

Introduction

The outbreak of novel corona virus (COVID-19) has created an unprecedented shock to human existence and an economic impairment in more than 190 countries of the world. There is a huge pessimism around the world for reduction in international trade and business, slowing of global growth more than that happened during last economic recession of 2008-09. The numbers of new infections and death tolls have been increasing day by day. Most of the developed countries of Europe and America have been greatly affected by this pandemic. India is not aloof of this massive pandemic.

On 24th March 2020 our Prime Minister declared a 21-day nation-wide curfew-like lockdown (up to 14th April 2020) across the country, in a bid to contain the spread of COVID-19. According to the Union Ministry of Home Affairs (MHA), all commercial and private establishments shall be closed, except for those dealing in essential goods and services such as food, groceries, pharmaceuticals, banks, ATMs, etc. Coincidentally, the crisis has come at a time when India's economy was struggling in the midst of one of the worst slowdowns with GDP growth at below 5% per annum. In such times, a lockdown in a country where 70 crore people live at subsistence-level, with a very little savings to fend for their families for a month without income, will exacerbate the pains of slowing economy.

Economic impact of COVID-19 on India

Today, the economic impact of COVID-19 on India can be traced through declining external demand; reduction in domestic demand; supply disruptions, job losses, financial market disturbances and trade imbalances.

1. The corona virus has hit majority of the countries world over. The developed countries are also the sufferers. As their economies slow down, demand for imported goods will go down which indeed will impact India's exports.
2. The Prime Minister announced the lockdown for a 21-day period. People were requested not to leave their houses unnecessarily. As people are not going out, buying less, shops stock less which is affecting the

production as there is less demand. As a result, retail units will be the first to be affected and they will in turn transmit this to the production units.

3. Supply disruptions can occur because of the inability to import or procure inputs. The break in supply chains will be severe. It is estimated that nearly 60% of our imports is in the category of 'intermediate goods'. Imports from countries which are affected by the virus can be a source of concern. Domestic supply chain can also be affected as the inter-state movement of goods has also slowed down.
4. Serious concerns have been expressed about people who have been thrown out of employment. These are mostly daily-wage earners and non-permanent/temporary employees. The unorganized sector, which constitutes a large proportion of the working population in India, would be the most affected, given the loss of livelihood opportunities and lack of social security measures. The laying off of non-permanent employees has already started. The automotive sector which was already hit by slowing demand is shutting down its factories due to the pandemic and this puts at risk the incomes of around a million people employed in this sector. Job losses lead to lesser disposable income in the hands of the people and subsequently, consumption drops and overall demand collapses.
5. Financial markets are the ones which respond quickly and irrationally to a pandemic. The entire reaction is based on fear. The stock market in India has collapsed. The indices are at a three-year low. Foreign Portfolio Investors have shown great nervousness and the value of the rupee in terms of the dollar has also fallen. When businesses close down, they default on their commercial obligations to their financiers and suppliers. This freezes up credit flow in the economy and also affects related sectors.
6. Trade constitutes a considerable proportion of the Indian economy. The reduced trade due to stringent clampdown measures would affect the growth in the Indian economy. Given the global nature of the crisis, it

is not even possible for India to import and export its way to recovery.

Apart from this there are fears of a global recession given that the two largest economies of the world, China and the U.S. have been affected by the pandemic. The large and developed economies are expected to not merely slow down, but to contract and experience negative growth. It is said that the economic devastation will be much more painful and longer than the health impact of the pandemic. The melt down of the major stock exchange indices is an indication of the uncertainty and fear in the global economy.

Some Important Estimates and Narratives

Several research houses, economists and brokerages have slashed the country's GDP growth estimates against the backdrop of the Covid-19 outbreak as several sectors of the economy have been hit hard and businesses have come to a grinding halt due to the 21-day lockdown. The Indian economy was already facing a slowdown and the government had unveiled a series of measures to boost growth but the impact of the virus outbreak has prompted the government to unleash more measures to reverse the slowdown and help the poor and business. Before the outbreak, the government had estimated growth to slow to an 11-year low of 5% in 2019-20 and the economic survey had forecast it to recover to 6% to 6.5% in 2020-21. But now Government has to downgrade the forecast.

It is estimated that India's jewellery sales are set to plunge to the lowest in a quarter of a century in the wake of corona virus outbreak in the country. Majority of stores across of the country will be closed for three weeks at least until further advisories from the government. According to the All India Gem and Jewellery Domestic Council Purchases are estimated to plummet 30 per cent in 2020 from the 690 tons last year. The industry is seeking an extension for repayment of loans and a reduction in the import tax on gold.

On the other hand, Air India is expected to incur losses of Rs.300-350 million per day following the suspension of operations in the wake of corona virus pandemic. Many countries have barred international flights in their territory amid COVID-19. India has also announced a temporary ban on flying till 14th April 2020.

India's real estate sector is also likely to face working capital pressure as order execution and/or receivable collections are likely to be impacted amid the Covid-19 outbreak. Weak business sentiment and some issues on labour availability can derail execution of real estate projects. Extended impact would hit construction primarily led by non-availability of people and lockdown. Sales in real estate, specifically, the mid and high category could be impacted as consumer sentiment remains weak. Commercial real estate demand could also decline.

UBS Securities has revised India's real GDP growth projection for 2020-21 downwards to four per cent from 5.1 per cent amid fears around the corona virus outbreak. Growth projection for 2019-20 is estimated at 4.8 per cent. UBS has placed India under the severe pandemic scenario because of increased risks of a global recession and recent mobility restrictions and social distancing measures. It has pitched for a direct consumption stimulus in form of cash transfers or indirect one by giving sector-specific incentives to industries to avoid large-scale job losses.

Former Reserve Bank of India (RBI) Governor Bimal Jalan believes that corona virus pandemic may result in downsizing India's economic growth rate by one per cent. He highlighted that country's macroeconomic situation was already troublesome and the growth would be impacted further due to corona virus outbreak, which may also result in job losses. The former RBI Governor has called for a fiscal stimulus package to overcome the crisis situation.

According to estimate released by the group chief economic advisor of the country's largest lender State Bank of India, the impact of the COVID-19 pandemic and the consequent 21-day countrywide lockdown will push India's GDP growth to 2.6% for FY21, lowest in nearly three decades, while ratings agency Crisil slashed its forecast to 3.5% from the earlier 5.2%. The total cost of the ongoing lockdown will be at least Rs 8 lakh crore in nominal terms, an income loss of Rs 1.77 lakhs crore and a loss in capital income of Rs 1.7 lakhs crore. Estimates showed that over a 60-year period, global GDP declined only once annually in 2009 by 1.7%. If global GDP declines at nearly a similar rate in 2020 and given India's share in global GDP at 3.5%, it implies a contraction of 2% of real GDP in FY21 due to India's integration with the global economy through trade and social consumption channels. They have estimated another 1.7% impact on real GDP because of the 21-day lockdown in FY21 resulting in at least 70% of the economy at a standstill. Thus, has pegged FY21 GDP estimate at 2.6%, with a clear downward bias, with first quarter of FY21 GDP numbers witnessing a contraction.

According to Dun & Bradstreet (D&B), Corona virus will impact India's economic growth severely as the COVID-19 lockdown is causing significant disruption across multiple sectors including manufacturing, oil, financial, among others. It expects India's GDP growth to moderate further from the earlier estimate of five per cent for 2019-20 and the index of industrial production (IIP) to remain subdued by 4-4.5 per cent during February 2020. Consumer price index (CPI) inflation is likely to remain in the range of 6.5-6.7 per cent and wholesale price index (WPI) inflation in the range of 2.35-2.5 per cent during March 2020. The slowdown in demand and production activities, a sharp fall in the global price of crude oil and price decreases in other major commodities are expected to exert downward pressure on inflation.

According to All India Manufacturers' Organisation (AIMO), over 60-odd million MSMEs are in real danger as their domestic sales have contracted year-on-year by 92 per cent and exports have seen a 100 per cent drop. The MSME owners are unable to pay wages to staff due to lack of revenue and production. MSMEs employ over 121 million people in the country. The AIMO has requested the government to instruct banks not to make entrepreneurs' NPAs for not paying interest till 31 December 2020.

International Monetary Fund (IMF) is projecting a global recession in 2020 due to corona virus pandemic. According to IMF Managing Director Kristalina Georgieva, it could be worse than the global financial crisis that led to extreme stress in global financial markets and banking systems between mid-2007 and early 2009. Georgieva further stated that 80 countries have requested emergency IMF help. The IMF is also considering to deploy all its USD1 trillion lending capacity and was replenishing the Catastrophe Containment and Relief Trust to help the poorest.

According to Moody's Analytics, COVID-19 has created a worldwide economic tsunami. They have warned of more financial pain to come and have noted that economies around the globe are shutting down and the sudden halt to business is resulting in serious economic and financial damage. They stated that the governments' responses to the outbreak will dictate the extent of the damage in future. Moody's had projected the global real GDP growth of 2.6 per cent in 2020 before the Covid-19 pandemic. But with the virus now shutting down travel, trade and many businesses, the global economy is expected to suffer with real GDP falling by 0.4 per cent.

Barclays has revised India's growth forecast for 2020-21 downwards by 170 basis points to 3.5 per cent. It has estimated the cumulative cost of lockdowns due Corona virus at US \$120 billion or four per cent of GDP. Of this, US\$ 90 billion is attributed to the recent 21-day lockdown announced by the Central Government and the balance has been attributed to the lockdowns announced by various state governments earlier.

As per experts of Economic Times, with two of the three-week shutdown falling in April 2020, India's real GDP growth is set to contract during April-June 2020. India's economy, which expanded 4.7 per cent during October-December 2019, has not seen a contraction in at least two decades. Its economy had contracted 5.2 per cent on an annual basis in 1980.

According to ING, India's economic growth during April-June 2020 could shrink to about five per cent and has revised its GDP growth forecast for 2020-21 to 0.5 per cent from 4.8 per cent. Deutsche Bank also expects five per cent y-o-y contraction during April-June 2020. Pronab Sen, Chairman of the Standing Committee on Economic Statistics, estimates that around 60 per cent of the Indian economy is in a shut down. As per a report in Economic Times, his estimate is based on the assumption that only essential services will continue in full force. Economic survey, tourism survey and multi-indicator surveys have been called off for now which might affect government policy making and corporate decisions.

Auto industry body SIAM said the closure of manufacturing plants by various automakers and component manufacturers due to corona virus pandemic would lead to a revenue loss of over Rs.23 billion per day. All major automakers have announced temporary shutdown of plants.

To deal with this sudden decline in economic activity, Government of India has set up a task force under the Finance Minister to assess the economic impact of the pandemic and suggest economic recovery measures. Finance Minister, on 24th March 2020 has announced slew of relaxation measures related to tax compliance and regulation, in view of the corona virus pandemic. She announced a Rs 1.70 lakh crore relief package named Pradhan Mantri Garib Kalyan Yojana on 26th March 2020, to mitigate the hardship caused by the 21-day lockdown imposed by the government. The package uses existing government welfare channels to get relief in cash and kind across to more than half the country's population.

India has an opportunity for Comprehensive Reforms like 1991

In order to stabilize the macroeconomic crisis, major economic reforms were introduced in July 1991. These reforms were introduced, first as a part of the stabilization

policy and later to bring in structural changes. These reforms ranged from the measures encompassing the areas of trade, exchange rate management, industry, public finance and financial sector. Fiscal correction, exchange rate adjustment, monetary targets and inflation controls, insurance reforms, financial markets, tax reforms constituted the immediate measures for macroeconomic stability.

Stabilization, particularly fiscal stability, is necessary to overcome a crisis but assumes special importance if structural reforms are also introduced in consonance with it. Appropriate and timely fiscal measures can promote growth by setting efficient and effective use of scarce resources and by creating the right incentive signals.

Justification for the Argument that Why Indian economy need New LPG Reforms in 2021

1. Declining GDP during last five years
2. Continuous Depreciation of Rupee
3. Low savings and investments
4. Impact of Global Trade War between USA and China
5. Increase in Gold and Crude import costs
6. Not sufficient rise in exports
7. Haphazard implementation of GST and badly affected small industries
8. Lapses in GST collection
9. Increase in Income Inequality
10. Rise in fiscal deficit
11. Impact of new global pandemic (Covid-19)
12. No vital impact of demonetisation
13. Agricultural distress
14. Increase in Unemployment tremendously

Right now India is at an extremely critical stage in its fight against corona virus and economic emergency. Prime Minister while announcing 21-day lockdown acknowledged about economic cost. Corona virus can cause cascading effects on economic consequences. There is an economic hardship for addressing economic contraction which may result in economic recession. As precipitated by public health crisis over the world, many countries are facing the problem of "flattening the curve" of corona pandemic infections. In such situation, the fiscal deficit is bound to go up substantially. Inflation can flare up. The government needs to be mindful of this. Therefore, the government must focus on continued surveillance, prompt diagnosis and adopt robust treatment modalities to reduce morbidity and mortality.

Given the inevitable economic crisis, it is prudent to take necessary actions immediately. It is true that India needs a recovery package that will first cushion the economic shock and then help the economic recovery. But the year 2021 is a year of big opportunity for new comprehensive reform measures to boost Indian economy just like we did in 1991. The destruction of jobs, incomes and consumption can be addressed through a direct cash transfers but at the end we must think for long term economic push up. The Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) must be expanded and restructured into a public works programme, to build much-needed hospitals, clinics, rural roads and other infrastructure. This can be achieved by integrating MGNREGA with the Pradhan Mantri Gram Sadak Yojana and the roads and bridges programme.

Service sectors like airlines, tourism, hospitality, entertainment and logistics have been disrupted due to the clampdown in place. The government must consider appropriate incentive scheme for these sectors that have been devastated. Similarly, India's exports predominantly in textiles and leather which are labour intensive sectors have been disrupted due to the sudden drop in global demand and the restrictions on trade. Sector specific incentive schemes and government support for such critical sectors should be considered. The total incremental expenditure for the recovery package would be between Rs.5 lakh crore to Rs.6 lakh crore for FY2021. The government had budgeted more than Rs.4 lakh crore in capital expenditure for FY2021. Given the extraordinary situation, it is important to reprioritize the expenditure plan in the near term.

The fiscal deficit of India will rise driven both by increased expenditure by the government and shortfall of revenues from the slowing economy. Hence there are concerns on the possible fiscal implications of a stimulus package of this scale. However, given the *impending* crisis, this is not the time for fiscal conservatism. There is a need to think big, bold and radical to pull the Indian economy out of the inevitable crisis. This is India's moment for the equivalent of the "New Deal" that U.S. President Franklin Roosevelt launched in America after the Great Depression of 1929.

Conclusion

The uncertainty of the pandemic calls not for small packages but in the long run, it demands for large scale reforms as it affects every sector of the economy. In this coming 21st year of the 21st century, it is the perfect time for India to initiate and go for rebuilding the economy in a sustainable way by combining digital infrastructure using AI, machine learning and block chain technology. The time has come to redouble our efforts at development, especially sustainable development, so that the country will realize its full destiny in an unfettered manner, to protect people's livelihoods, facilitate business continuity, and prepare for the future of work, and to mobilize cooperation and business support by strengthening supply chains.

India must take advantage of this crisis to turn it into an opportunity to remove the economic suffocation. According to Guy Ryder, Director General of International Labour Organization (ILO), "the effectiveness of our response to this existential threat may be judged not just by scale and speed of the cash injections, or whether the recovery curve is flat or steep, but by what we did for the most vulnerable among us.

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