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A shift in Macro Economic Policies post COVID-19

Pawanjeet Kaur

School of Engineering and Sciences
GD Goenka University, Gurugram, Haryana, India
Email: pawanjeet514@gmail.com

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ABSTRACT

The Whole World is suffering from the COVID-19 pandemic for nearly two years and hence the post-pandemic situation will be triggering in behavioural, social, health, economic and political fields which will impact the nations at a huge level. The COVID-19 epidemic becomes stressful for all the economies of the world where the crisis-affected \$90 trillion global economies, especially the developing countries like India, which sequentially affect its power projection throughout the whole world. Many countries around the world have implemented procedures to support their respective economies in view of the brutality of the crisis, but in our country, no such effective policies are started in a systematic manner as we prioritized the health crisis and not the economic ones. The informal sector of India became vulnerable in recent times as it was not yet recovered from two previous shocks demonetization and introduction of the goods and services tax (GST). Along with that Indian banking system is badly broken which is weak in saving all the firms in the nation. Although our government has responded with many policies to deal with the economic crisis, they need proper management through international coordination and financial support that benefit all countries. This paper emphasis on the economic crisis of the COVID-19 outbreak, along with the newly developed policies for past global economic contractions, along with their implications related issues and challenges.

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1. Introduction

The COVID-19 outbreak has become traumatic for all the economies of the world, but developing countries like India faces challenges in all areas of economics including health, industrial bodies, macroeconomics, business, development, political and public finance. It is not wrong in saying that the economic hit is worse than the Global Financial Crisis as the service and trade sectors come in an extraordinary fall in 2020, which was simply more severe than during any global financial crisis. The social distancing and lockdown had been adopted to avoid the spread of the Coronavirus Disease 2019 (Covid-19), due to which non-essential expenses are being suspended. The international and internal movement was restricted, hence the income caused by travel and tourism faced a massive downfall. Lots of people associated with industries lost their jobs, especially the local markets suffered a lot in this epidemic as shown in Figure 1. While lockdown and social distancing result in productivity loss but those were the only accessible tools to prevent the spread of COVID-19 (Balakrishnan 2019).

2. Indian Scenario in COVID-19 Lockdown

On analysing broad macroeconomic and sectoral fundamentals, India had already persisted lack of consumption and investment demand before the pandemic; COVID-19 had raised the trends. Food scarcity is observed in many states and hence food prices are increasing day by day. Even in this situation, India has dispatched a lot of shipments of anti-malarial drug hydroxychloroquine to developed economies like UK, USA, France, and Russia along with the developing economies like Africa, Latin America, and Central Asia and sent Indian military doctors to nations like Nepal, the Maldives, and Kuwait that has shown India a diplomatic outreach and influence others. In addition to this, the hospitals in New Delhi are evacuating Indians as well as foreigners (Basu 2019).

3. Government Policies for dealing economic loss

Right now, we are in the mid of a global epidemic, which is imposing both health shock and economic shock worldwide, where every country is making policies on the health shock, but the downfall of the economy is also a serious problem. All countries in the world are somehow dealing with the economic mess and the health shock will definitely leave behind, but India has to suffer a lot as the economy was already in a deteriorated state when the pandemic hit us. It is not wrong in saying that the health shock shall pass, leaving behind the enormous economic downfall for a much longer period (Kotwal & Sen 2019). There is the reduction in demand, the supply chain disturbances, as some people stay home and the others go back to their villages, imports are being interrupted and out of the country, travel is stopped which will negatively impact the production in almost all industries like manufacturing, mining, agriculture, public administration, construction, in short, all sectors of the economy. Here and now, the provision sector, especially travel and tourism, and hospitality, is at its worst hit. Due to all this investment, employment, income, and consumption are highly affecting which eventually pulling down the cumulative growth rate of the economy. Also, the Indian banking system is badly broken as their capital positions are weak, which is also affecting the economy (Ohri 2020).

The economic recovery will be contingent on the economic policy actions taken now and it may possible that the economy bounces back to its former level if companies remain submerged, workers hold on to their jobs, and supply chains continue even with the sudden pause to economic activity. Immediate policy actions should be taken to preserve the economy. If employees are getting suspended and businesses are getting closure, the economic recovery will be much slower on the universal level. The Minister of Finance and Corporate Affairs of India Smt. Nirmala Sitharaman declared a series of actions to boost investor confidence by easing FDI and credit facilities, followed by a corporate tax cut (Ethiraj 2020). The RBI's accommodative policies have further incentivized investors. However, critically speaking, all of these measures could not arrest the declining



economic growth rate quarter after quarter in 2019-20 (Banerjee 2020). This is because the fundamental problem of the Indian economy for some time has been the inadequate demand arising from the slack in the rural, farm, and informal sectors. This has suppressed the chances of the economy recently far more significantly than the industry and policy experts otherwise thought of the problems of liquidity, trade war, and exports. Thus, the government can emphasis on stimulating demand by enhancing income and source of revenue of the people dependent on the rural, farm, and informal sectors (Gopinath 2020). If that is the case, the economy would be able to bounce back on its path of faster economic development of 7 to 8 percent by 2022. Atmanirbhar Bharat (“Self-reliant India”) and Pradhan Mantri Garib Kalyan Yojana relief package are also announced by the government which is again a major step to deal with economic loss as shown in Figure 3.

4. Some Ideas to deal with the economic crisis

Here are some ideas which officials can consider to deal with the economic crisis (Mukhopadhyay 2020).

- The government of India has to redefine its duties towards the citizens, extending its role to include universal social welfare for all citizens, but firstly protect the workers in the informal sector as they are brutally affected and have little savings. This will not be an easy task, but MNREGA and Jan Dhan Yojna can be used for this purpose but social distancing has to be maintained, so to ensure it, the funding will be provided to the states and panchayats, so that when the appropriate time comes and a large number of workers sign up for MNREGA. The government could also improve commercial cash movements by speeding up GST refunds and rescheduling payments of corporate taxes.
- Medium, small and micro enterprises (MSMEs) will need special help, so the government can pay the large amounts of accumulated arrears to the MSMEs and encourage banks to continue to finance them. The subsidies could be given to banks, to lessen the price of credit for MSME loans (figure 4)

- India has to strengthen the digital infrastructure being the fastest-growing market for digital consumers. Technology-driven revolution can change India’s economic crisis as it is capable of increasing agriculture, manufacturing, and businesses efficiency. Digitalization has improved the delivery services, health, and education sectors in this lockdown. The open online courses, audio-visual training programs, and remote learning programs by colleges and technical institutes had strengthened the technical skills of both faculty and the students. Medicine delivery or medicine records are easy to manage via smartphones and mobile internet and all this happened via technology adoption. The government should invest in the e-commerce sector in the upcoming days.

5. Possibilities and Funding

All these programs will cost money but where will the government obtain the funds from? The bonus should be taken into the budget and redirected to those most in need, but it may also be prudent to increase the budget deficit and let the debt-to- GDP ratio go up for the moment, and when the crisis is over, the obligation would be to bring this down and get back to the fiscal consolidation path.

The new micro-level local economies of mandi and district towns are possible hubs for a new distributive network interwoven through customized digital platforms which can service micro-enterprises and farms at the panchayat level. The state government can ensure supplies of essential commodities and will provide income support to the poor (UNIDO 2004). New tehsil and panchayat-level markets would have to be set up with public money to empower local producers to market and exchange their harvest. The small-scale farmers are not able to sell their foodstuffs as agents are interested in bulk quantities of grain, vegetables, and fruit to take directly to the metro mandis due to which farmers have been protesting since November against the Farmers’ Produce Trade and Commerce bill. The corporate sector can finance its own supply chains (Roychoudhury 2020).

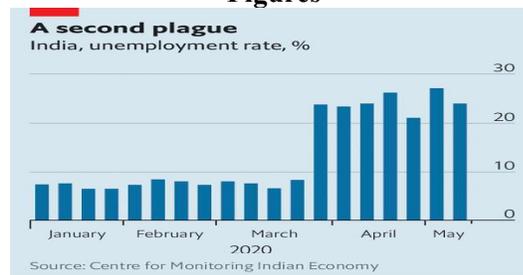


Apart from the enterprises, over 60% of the workforce remains in the agriculture sector, contributing just 17% to the GDP. Over 90% of our workforce works in the informal sector, in agricultural and product processing activities whose output value is not all included in GDP calculations. The private sector speculation request is currently low, and it is unlikely to get revitalized soon because organizations will emphasis on surviving, instead of making new investments (Narang 2020).

6. Conclusion

Several nations around the world are working to support their respective economies from the mid of the crisis. India however is in process of making policies to handle the economic crisis as the government prioritized the health crisis during the pandemic. Now the cases are under control and maximum people are vaccinated, so India must consider economic issues in a systematic manner. It is not wrong to say that COVID 19 has provided some exceptional opportunities for India to participate in global supply chains as developed countries are losing their faith in China. Although India has started the ‘Make in India’ movement, some reforms are needed to get addressed especially the labor reforms.

Figures



The Economist

Figure 1: Unemployment in India during COVID-19

Rural and urban unemployment

Unemployment rate saw an immediate spike after India imposed the lockdown in late-March but data showed an improvement since early May.

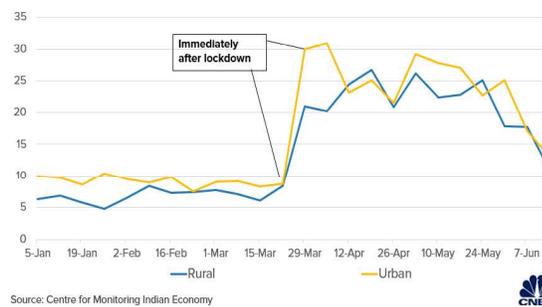


Figure 2: Unemployment rate in India during Lockdown

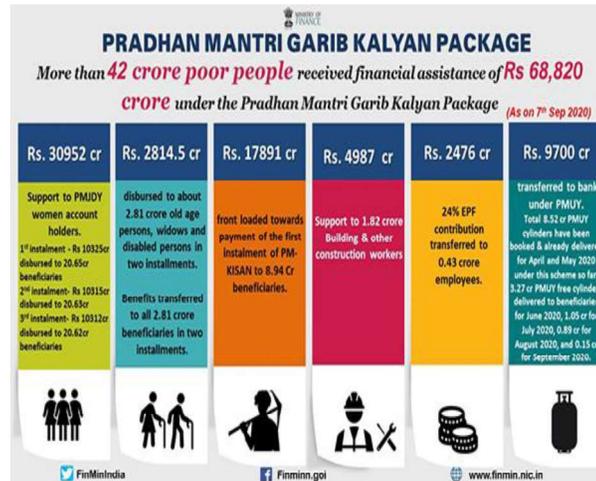


Figure 3: Pradhan Mantri Garib Kalyan Yojna

KEY SECTORS ATTRACTING START-UPS MSMEs

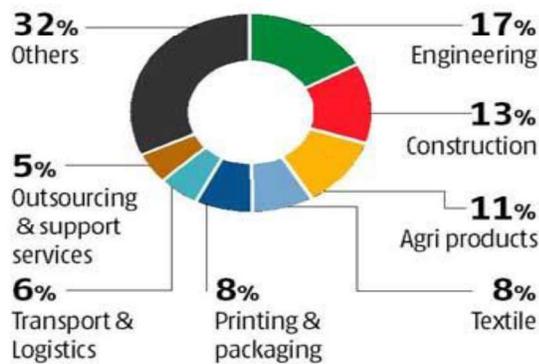


Figure 4. India Aspiration Fund to boost prospects of MSME start-ups

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