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IMPACT OF COVID-19 ON FISCAL SITUATION

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Abstract

This paper is an analysis of Fiscal measures and spending during the covid-19 pandemic in advance and emerging market economies. The economic crisis after the month of march 2020 affected all the sectors of Indian economy, thus the India's capacity to deal with a new crisis was weak when the pandemic hit in March 2020. The study is based on secondary data which has been use to understand the situation of fiscal measures during Covid-19 in the advance and emerging market economies. Advanced economies and Emerging market economies are differentiated on the basis of several criteria but the most significant criteria a country's Gross Domestic Product which refers to the final value of goods and services produced during a particular period of time. The Gross Domestic Product is projected to contract by 7.7 percent in fiscal year 2020-21 as compared to a growth of 4.2 percent in the year 2019-20. However, GDP growth is expected to recover strongly in the year 2021-22 owing to the reform measures taken by the Centre Government. The emerging market economies like India, the fiscal response is much weaker compare to the advance economies but it is broadly considered in line with the average for emerging market economies. A strict lockdown of twenty-one days was imposed under the Disaster Management Act, 2005 and it resulted into increase of unemployment, affected trade cycle, manufacturing and service activities.

The outcome of the study interprets that how policies, i.e. Fiscal policy, responded in advance economies and emerging market economies during covid-19 to boost health expenditure, income transfer and welfare payments, subsidies and minimizing the short-term unemployment. In response to Covid-19 Pandemic Government of India had taken several steps to limit the impact of pandemic on economy. This paper also highlights the various fiscal measures taken by the Government of India and Government of Gujarat with reference to the Covid-19.

Keywords *– Fiscal policy, Coronavirus, Pandemic.*

INTRODUCTION

On January, 30th 2020, the first case of corona-virus was detected and the numbers of total cases were constantly increased, especially during the second wave of pandemic. The highly contagious corona virus spreading across the country and world as well. With reference to this pandemic, Government of India had taken several preventive and mitigating measures started with progressive tightening travelling norms, issue of advisories for the members of public, setting up the quarantine facilities, social distancing measures etc. Government had also imposed a strict nationwide lockdown of twenty-one days under the Disaster Management Act, 2005 with subsequent extension and relaxation buying necessity items such as dairy product, medicines, etc. in the country. The lockdown in country leads to low economic activities. Any shocks in the economy, operates at the two level, first is supply side disturbance and second one is reduction in aggregate demand (AD). Macroeconomic policy responses to an economic crisis are divided into two parts, Firstly Expanding monetary policy which includes the reduction in the policy rates, reserve ratios or expansion of money supply (MS) and secondly Expanding fiscal policy which includes increase in expenditure done by the government or reduction in taxes.

Covid-19 had impacted negatively not only in India, but also other developed countries, developing countries as well. Across the world, Government had focused more on expanding the fiscal measures to boost health expenditure, income transfer and welfare payments, subsidies and minimizing the short-term unemployment.

OBJECTIVES

- To analyze the Total percentage of spending from Gross Domestic Product (Advance & Emerging economies) during covid-19.
- To analyze trends in deficit during current decade. (2014-2020)
- To study the measures given by the Central and Gujarat state government during covid-19.

RESEARCH METHODOLOGY

In view of the specific objectives, methodology followed in carrying out the present study involved secondary data. The sources of Secondary data include the various working papers, articles related to the theme, national or international referred journals, official websites namely directorate of Economic and Statistics, Government of Gujarat, and documents like Socio Economic Review, Economic Survey of India, Gujarat 2020, Various reports published by International Monetary Fund (IMF), World Health Organization (WHO), Indian Institute of Corporate Affairs (IICA) and so on. For analysis of the data, R Program, Statistical Packages for Social Science (SPSS) and Microsoft Excel has been used. While analysing the data Bar diagram and line diagram has been used.

REVIEW OF LITERATURE

Jane G. Gravelle and Donald J. Marples (February 2021) – In their Report title "Fiscal Policy and Recovery from the Covid-19 Recession" analyzed the role of policies during pandemic. They had analyzed the present recession in economic effects, which includes discretionary spending and the automatic revenue decline and spending increases that accompany a recession were projected to increase the debt. The study mentions about the policies response, especially fiscal policy with the theoretical and empirical impact of Fiscal policy in the pandemic. This report also examines that how present crisis are different compare to previous crisis during great depression 1931s, Global Financial crisis of 2008 and 2011 as well.
Prof. Saratkumar Malik, (2021) – In his report titled "Policy response to limit the Impact of Covid-19 Fiscal, Monetary, and Security Market Regulation" describe about the policies which were adopted during pandemic in a country of G20 (group of 20 countries). The report also mentions about the measures taken through fiscal policy, monetary policy and securities market regulations to bring economy of country back on track. This measures also includes initiative taken for healthcare infrastructure, and socio-economic welfare of the people.
Prof. Rajankumar Ghosh (2020) – In his report titled "Management of Covid-19 Pandemic in Gujarat" made a first attempt of various activities and steps taken by the Government of Gujarat so in responding to the Covid-19 crisis. Since the crisis are still ongoing and overwhelming. This report describes about the situation of public health, law & Order, Supply of food grains and other essential commodities, Migrant labor and lastly experience of various stake holders with administration.

DATA ANALYSIS & INTERPRETATION

Advanced economies are those which are technically advanced and manufacturing based economies. Advanced economies are also based on the law of demand (D) and supply (S) in which prices of commodities are determined by the relationship between the availability of goods and desire among the consumers. Advance economies are the opposite of Emerging Market Economies. United Kingdom, Australia, United States of America, France, Korea, Japan, etc. are considered as an advance economy. As per an accepted definition Emerging Market Economies (EME) are those that are determined to become an advanced country. Emerging Market Economies are also termed as Developing countries. The few examples of Emerging Market Economies are India, China and Russia which also considered as largest countries in the world. Such economies are more focused on production, fiscal measures, developing regulatory bodies and exchanges, inviting and accepting foreign investment. Globally, Emerging Market Economies are playing a vital role in stimulating global economic growth especially after the currency crisis of year 1997[6].
Advanced economies and Emerging market economies are differentiated on the basis of several criteria but the most significant criteria a country's Gross Domestic Product which refers to the final value of good and services produced during a particular period of time.
Below is the table 1, which represents the total amount and percentage of Gross Domestic Product spending to control the Covid-19 in advance economies and emerging market economies.

Table 1: Total Percentage of GDP spending of various countries during Covid-19

Name of Country	Amount	Currency	Total % of GDP
Japan	117.1 Trillion	Yen	21.1
United Kingdom	48.7 Billion	Pound	15
USA	2.3 Trillion	US Dollar	11
Australia	208.7 Billion	Australian Dollar	10.5
India	1.7 Trillion	Rupees	10
Korea	135 Trillion	KRW	7.1
Germany	156 Billion	EUR	4.5

[6] www.thestreet.com

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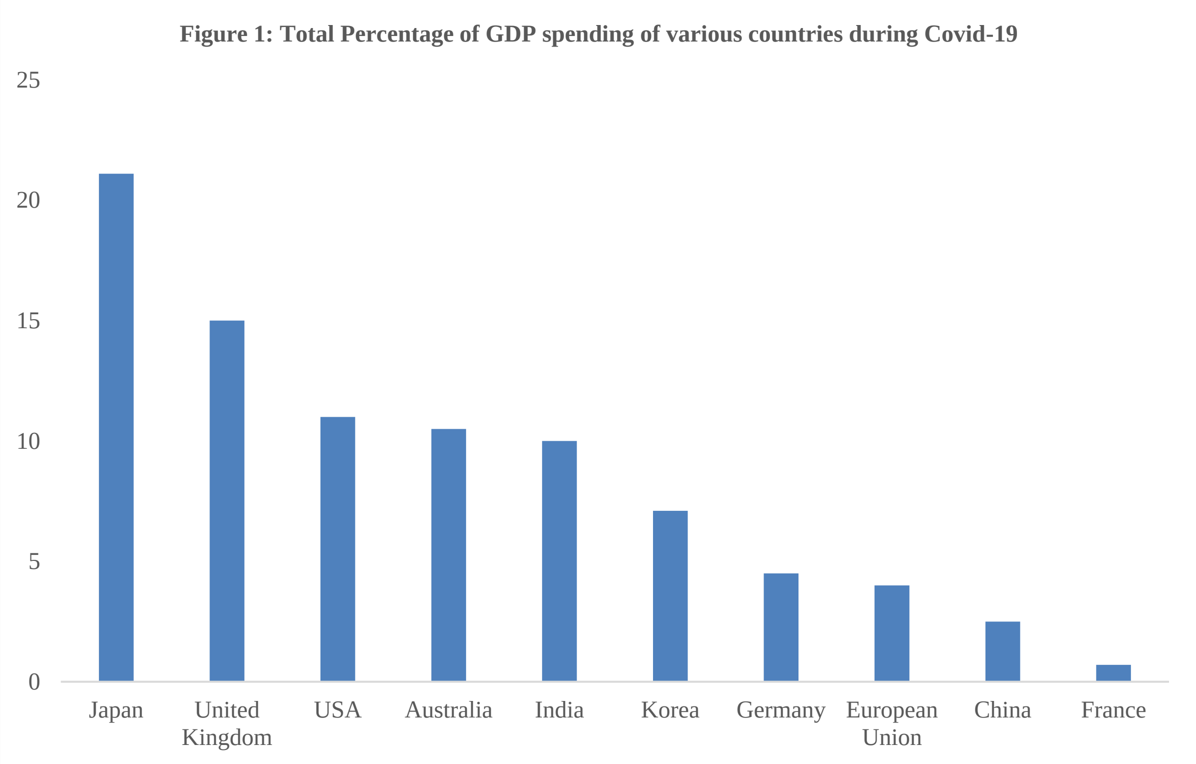
European Union	540 Billion	E	4
China	2.6 Trillion	RMB	2.5
France	16.5 Billion	EUR	0.7
Source: IICA, Report on Policy response to limit the impact of covid-19 Fiscal, Monetary, and securities Regulation.			



Source: Prepared by the authors based on data shown in the table 1.

The above diagram shows the total percentage of Gross Domestic Product (GDP) spending in various countries during covid-19. Here various countries have been divided into two category namely advanced economies and emerging economies. From the above Graph, it has been found that, Japan had spent highest amount of 117.1 Trillion Yen which is 21.1 percent of GDP to limit the impact of covid-19. Secondly, followed by United Kingdom spent 48.7 billion pound which is equal to 15 percent of GDP. When it comes to United State of America, then it the fiscal spending was 11 percent of there total GDP. Country such as Australia, Korea, Germany had 10.5 percent, 7.5 percent and 4.5 percent respectively spending from GDP. To control the impact of Covid-19, European Union had slightly lower spending compare to Germany. The lowest spending country during pandemic is France, which had spent only 0.7 percent of GDP. Developing countries like China and India, India had spent Rs 117 Trillion which is equivalent to 10 percent of GDP followed by China had spent Amount of 2.6 Trillion which is equivalent to 2.5 percent expenditure of GDP for controlling the impact of covid-19.

TRENDS IN FISCAL DEFICIT IN INDIA

Fiscal deficit is the refers to the difference between what a government earns and what it spends. Fiscal deficit is expressed as a percentage of Gross Domestic Product.

Table 2: Trends of Fiscal Deficit of Gross Domestic Product

Years	**Total % of GDP**
2011-12	5.9
2012-13	4.9
2013-14	4.5
2014-15	4.1
2015-16	3.9
2016-17	3.5
2017-18	3.5
2018-19	3.4
2019-20	4.6
2020-21 (Revised Estimate)	9.5

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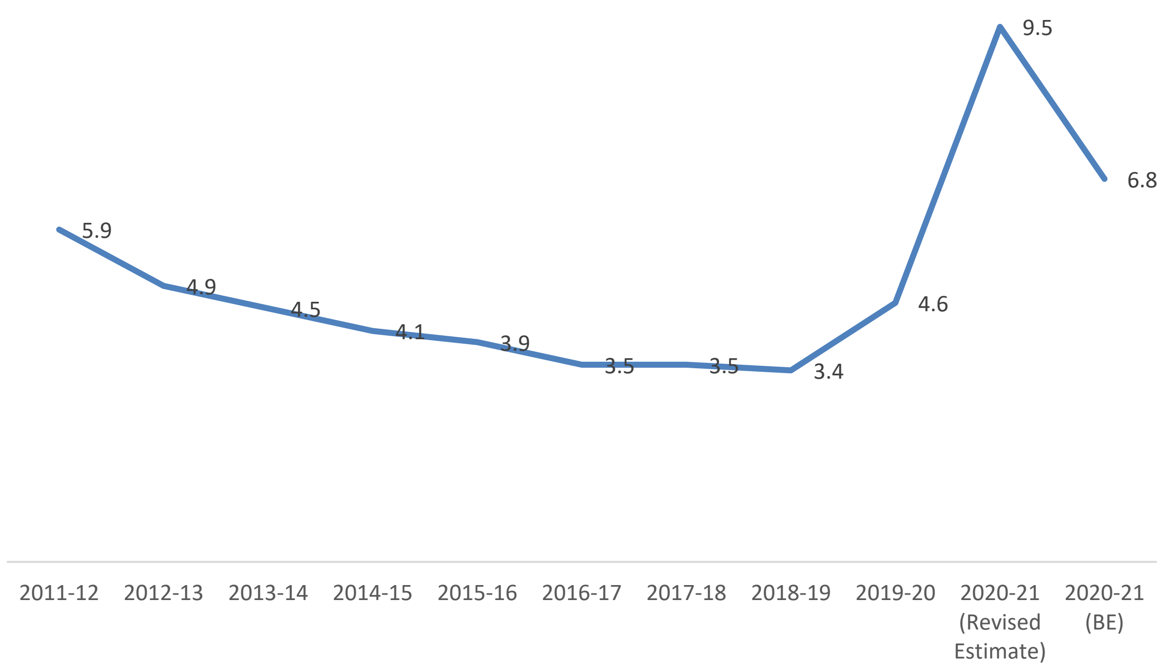
2020-21 (BE)	6.8
Source: The Economic Survey of India 2020-2021	

Figure 2: Trends of Fiscal Deficit of Gross Domestic Product



Source: Prepared by the authors based on data shown in the table 2.

The above figure shows the trends of fiscal deficit during the last decade. i.e. from the fiscal year 2011-12 to 2020-21. In the year 2011, the fiscal deficit was stands at 5.9 percent of GDP which was decreased to 4.9 percent in the year 2012-13, followed by the year 2013-14 fiscal deficit was 4.5 percent of GDP. This decreasing trend was remained continue till the year 2018-19. It can also be said that, the fiscal deficit from the year 2011 to year 2018 on an average it remains between 3.5 percent to 6 percent of GDP.

The fiscal year 2019-20 was having an increase to 4.6 percent of GDP from 3.5 percent of GDP from the year 2019-20. One of the causes besides rising fiscal deficit was low tax revenue of Rs 20.1 trillion against an estimated amount of Rs 21.63 trillion, i.e. almost a gap of more than Rs 1.5 trillion. During the same year GDP growth was also lower than estimated[7]. The revised estimate of fiscal deficit was 9.5 percent of GDP which is almost more than doubled compare to previous year 2019-20. The reason behind an increase is the fiscal deficit is increase in government expenditure for various sectors affected due to Covid-19. The Government of India had announced the fiscal package of Rs 20 lakh crore, i.e. 10 percent of GDP for the various sectors such as agriculture, urban development, welfare schemes, and other business units. The fiscal year 2020-21 budget estimate was 6.5 percent of GDP.

GLIMPSE OF FISCAL SPENDING BY CENTRAL GOVERNMENT AT THE TIME OF COVID-19

Government of India's fiscal measures are divided into two parts. One, the above line measures which include government spending (3.5 percent or 2.2 percent of past year), forgone revenue of 0.3 percent and boosting spending of 0.3 percent within past fiscal year. Two, the below line measures were specifically designed for supporting business and credit provision to various sector which around approx. 3.5 percent of GDP.

Above the line expenditure measures were more focused on Social protection and healthcare such as cash transfer to lower-income households, (1.2 percent) wage support and employment (0.5 percent) provision to low-wage workers, insurance coverage for workers working in the health care facilities (0.1 percent). The above mention stimulus was announced on the later part of October 2020.

In the November 2020, announcement was also done regarding public investment which includes higher capital expenditure by the Central government and interest free loans to the State government, i.e. 0.2 percent of GDP and various support schemes targeting certain sector. This announcement also includes the Production Linked Incentive (PLI) scheme aiming thirteen priority sectors with an expectation of cost about 0.8 percent GDP over a half of the decade. Other than this, in agriculture sector allocation of higher fertilizer subsidies were

[7] Time of India, October 6th, 2020.

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also done which stands at 0.3 percent of GDP. Allocation for Urban Housing Construction was 0.1 percent of GDP.

On February 1st 2021, The Union Budget for the year 2021-22 was tabled in the Parliament by the Finance Minister of India. The budget 2021-22 was expanded spending on health and wellbeing which includes Covid-19 vaccination program (Rs 350 billion). The Government of India, had announced free food grain facilities which will be provided to 800 million individuals in month of May and June 2021 with the cost of Rs 260 billion. The Government of India, had also announced interest-free loans of Rs 150 billion to the State Government for capital expenditure and it will leads to acceleration of Disaster Response Fund to State Government. Finally, customs duties and various taxes on vaccines, and other medical equipment's were also waived off to boost the availability at the time of requirement.

GLIMPSE OF FISCAL SPENDING BY GOVERNMENT OF GUJARAT AT THE TIME OF COVID-19

The State Gujarat is well known as growth engine of India with its strong economic fundamentals.

1. As on July 2021, Government of Gujarat had offer an aid to the children who lost their one parent due to Covid-19. This includes financial aid of Rs 2000/- monthly to the child who lost their one parent and it is expected that around 4000 kids to be getting benefits of this scheme[8].
2. As on May 2021, Government of Gujarat had announced Mukhyamantri Bal Seva Yojna to children who lost their both parents due to Covid-19. This include a financial aid of Rs 4000/- monthly till they turn up to age of 18. If child goes for a further study then the financial assistance of Rs 6000/- monthly will be paid till he/she turns up to the age of 21. Such children will also get benefits of various scholarships in India and foreign countries as well. Other than this, the guardian of children will also get covered under the National Food Security Act in which food grain will be getting at concessional rates[9].
3. As on April 2020, Government of Gujarat had announced compensation of Rs 25 lac, to the person who get infected and die due to Covid-19. This includes people who are engaged in work related to the corona virus such as front-line workers, Police, employees working in Public Sector Units (PSUs). In the same time, Central government had deposited 800 crores in the bank accounts of approximately 40 lac farmers in the Gujarat state under Prandhan Matri Kissan Samman Yojna[10].
4. As on May 2020, Government of Gujarat had launched 'AtmaNirbhar Gujarat Yojna' for a people who are in lower income middle group such as small businessman, electricians, skilled workers, barbers and among other can get the benefit of free loan of Rs 1 lakh from banks at interest rate of 2 percent yearly as this will help them to get back or recover their normal life disrupted due to Covid-19. In this scheme, tenure will be of three years, and payment of installments will begin after six months of disbursal. For this, Central Government has given a package of Rs 20 lakh crore to make India "ATMANIRBHAR" or "SELF-RELIANT"[11]

FINDINGS

From the above research paper, following are the finding of the study

- Across the Globe, Japan had implemented the fiscal stimulus of 21 percent from their Gross Domestic Product which is highest in compare to the other advance economies in the world.
- Country like France, had implemented the fiscal stimulus of 0.7 percent from their Gross Domestic Product which lowest across the globe.
- An emerging market economy such as India, had fiscal stimulation of 10 percent from the Gross Domestic Product. This spending was lesser than the other advance countries but quite more compare to other emerging market economies like China.
- At present the fiscal deficit for Government of India is 9.5 percent which is considered as highest deficit in the year 2020-21.
- Centre Government had introduced many measures for healthcare infrastructure, social protection, cash transfer program to low income group people etc.
- Government of India, had also introduced Productive Linked Incentive (PLI Scheme) to focus on thirteen various sectors in the economy.
- Recently, Government of Gujarat had also introduced various schemes like Mukhyamantri Bal Seva Yojna, Prandhan Mantri Kisan Samman Yojna, Atma Nirbhar Bharat etc. State Government had also announced an incentive of Rs 25 lac to the frontline workers, police and other employees working in Public Sector Units.

[8] The Hindu, Business Line July 27th, 2021
[9] Indian Express May 30th, 2021
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RECOMMENDATION AND CONCLUSION

It is being said that, the legacy of Covid-19 will remain uncertain and it is cleared that the the world economy will look different from the one that before Covid-19. This paper had outlined the fiscal measures taken in the various countries to limit an impact of covid19. For the implementation of whichever fiscal measures have been announce, it requires the coordination from monetary policy as well which is regulated by Reserve Bank of India.

Fiscal stimulus may have proved to be negative for higher fiscal deficit. Private companies in a country can increase their investment in production process so that export may get increase and this will lead to increase in consumption by increasing an income. To increase an export, use of technology, innovation in business can play a vital role for boosting economic growth.

Urgent measures have been taken not only to fight with the virus or pandemic but also for providing a disaster relief and make sure that people do not suffer from hunger, firms do not go bankrupt. The high fiscal measure may lead to increase in deficit or debt of the country.

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