Governance and Economic Impact of Covid-19 on Indian Economy

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Abstract

In the year 2019-20, Indian economy was already on its trough and the incidence of corona-virus pandemic in 2020-21 has further deteriorated the economic condition, limiting the fiscal space of the government. As need of the hour was to take some supportive measures to handle such unusual situation, therefore, various monetary and fiscal measures were taken by the government to overcome the impact of the pandemic. This resulted in overshooting of the fiscal deficit target set under the FRBM Act and made the government to revise its fiscal deficit target of 3.5 per cent of GDP in 2020-21 (BE) 9.5 per cent in 2020-21 (RE) and further it is projected as 6.8 per cent of GDP for 2021-22 (BE). After an estimated 7.7 per cent pandemic-driven contraction in 2020-21, India's real GDP is projected to record growth of 11.0 percent in 2021-22 and nominal GDP by 15.4 per cent. The government has expected to generate 23 per cent more revenue and has budgeted to increase its spending by only 0.95 per cent in FY22 as compared to FY21 (RE). In order to deal with pandemic situation, the economists have suggested more active, counter-cyclical fiscal policy to enable growth during economic downturn. However, due to lack of revenue sources it also becomes important to strategize the path for fiscal consolidation for the ensuing years.

Keywords: *Covid-19, Economic Impact, Fiscal Deficit, FRBM, GDP, Governance, Indian Economy*

Introduction

The situation of coronavirus pandemic has been described as once-in-a-century crisis where the government across economies has taken numerous fiscal and monetary measures to minimize the economic impact of the pandemic. In India too, government has deployed a range of macroeconomic policy responses to the economic crisis, resulting both from supply side disruptions and reductions in aggregate demand. As an economic revival strategy, the Government of India (GoI) announced a series of Atma Nirbhar Bharat (ANB) Packages. According to the budget 2020-21 presented by Finance Minister of India, the total financial impact of all ANB packages including measures taken by Reserve Bank of India (RBI) was estimated to about Rs.27.1 lakh crore which amounts to more than 13 per cent of GDP.

The impact of pandemic resulted in weak tax and non-tax revenue inflow and an expanded expenditure. According to the Union Budget FY22, Centre's non-tax revenues are estimated to contract by (-)35.6 per cent in FY21 (RE) over FY20 actuals. While the flow of tax-revenue from direct tax, corporate income tax (CIT), personal income tax (PIT) and indirect taxes, especially GST also contracted. Thus, such scenario compelled the government to provide essential relief to vulnerable sections of the society and required it to push the fiscal constraints of the economy.

In such scenario it becomes pertinent to take a review of the fiscal situation of the economy in pre-covid-19 period; how it is going to be in next few years given the covid-19 impact; and what strategy the government is going to adopt for the ensuing years for fiscal consolidation. Also, it is not only about the levels of deficits abut also revamping the financing pattern of deficit which is relevant.

Against this backdrop, the paper is organized in six sections. Besides the introduction, section 1reviews the Indian economy in pre-covid-19 period. Section 2 explains the outbreak of coronavirus pandemic globally and in India. Section 3 gives details of the preventive measures taken by the government to deal with the pandemic. Section 4 examines the economic impact of corona-virus pandemic during 2020-21. Section 5 deals with the Covid impact on States. Section 6 concludes by giving fiscal strategy for ensuing years as suggested by Union Government and the Fifteenth Finance Commission.

Economy in 2019-20 – a year before Pandemic

Output Growth

On an average the economy grew at 6.7 per cent in the last five years. Looking at the performance of the Indian economy in the year before the Covid-19 pandemic, which hit worldwide, one can observe that the growth was already low as compared to the preceding years. In the year 2019-20, the Indian economy registered an 11 year low of 4 per cent whereas in the year 2018-19 the economy expanded at 6.8 per cent.

According to the revised estimates released by National Statistical Office (NSO) for the year 2019-20, the growth of real GVA in 2019-20 is 4.1 per cent as against 6 per cent in 2018-19 (Table 1). This decline is mainly attributed to the contraction in manufacturing, and mining and quarrying sector, registering a negative GVA growth. Construction also exhibited a growth of only 1 per cent during 2019-20 as compared to 6 per cent in 2018-19. From demand side, all components were driven down, except Government Final Consumption Expenditure (GFCE) which provided sustained support to aggregate demand (Table 2).

Table 1: GVA at Basic Prices by Economic Activity

(Percentage Change over previous year)

S.N.	Industry	2018-19	2019-20 (1st RE)	2020-21 (2nd AE)
1	Agriculture, Forestry & Fishing	2.4	4.3	3.0
2	Mining & Quarrying	-5.8	-2.5	-9.2
3	Manufacturing	5.7	-2.4	-8.4
4	Electricity, Gas, Water Supply, & Other Utility Services	8.2	2.1	1.8
5	Construction	6.1	1.0	-10.3
6	Trade, Hotels, Transport, Communication & Services related to Broadcasting	7.35	6.4	-18.0
7	Financial, Real Estate and Professional Services	6.15	7.3	-1.4
8	Public Administration, Defence and other Services	9.35	8.3	-4.1
	GVA at Basic Prices	6.0	4.1	-6.5

Source: National Accounts Division, NSO (various years).

Table 2: Final Expenditures and GDP

(Percentage Change over previous year)

	Item	2018-19	2019-20 (1st RE)	2020-21 (2nd AE)
1	Private Final Consumption Expenditure	6.84	5.5	-8.98
2	Government Final Consumption Expenditure	6.39	7.89	2.94
3	Gross Fixed Capital Formation	10.47	5.44	-12.38
4	GDP	6.29	4.04	-7.96

Source: National Accounts Division, NSO (various years).

The total exports and imports during 2019-20 contracted by (-)2.14 per cent and (-)5.80 per cent, as compared to that of 2018-19, respectively which resulted in contraction in trade deficit during the year. Overall trade deficit in 2019-20 was US$ 76.4 billion, which was lower than the deficit of US$ 102.1 billion in 2018-19.

The merchandise exports during 2019-20 was US$ 313.4 billion as against US$ 330.1 billion during 2018-19, registering a negative growth of (-)4.78 per cent (Table 3). This is mainly due to a major fall in export of 'petroleum products', 'pearls, precious and semi-precious stones' and 'organic chemicals' registering a fall in growth of more than 10 per cent in each from the level in 2018-19 (Table 4).

Table 3: India's Foreign Trade

(Values in USD Billion)

	Merchandise		Services		Total		Overall Trade Deficit
	Exports	Imports	Exports	Imports	Exports	Imports	
2018-19	330.08	514.08	208	126.06	538.08	640.14	102.06
2019-20	313.36	474.71	213.19	128.27	526.55	602.98	76.43
2020-21(upto January, 2021)	228.25	300.26	168.35	98.21	396.60	398.47	1.87

Source: Annual Report, Department of Commerce, Ministry of Commerce and Industry, GoI, Pg.27

Table 4: Exports of top ten commodities in 2019-20

(US$ Bn)					
Rank	**Commodity**	**2018-19**	**2019-20**	**Growth (%)**	**Share (%)**
1	Petroleum products	46.55	41.29	-11.31	13.18
2	Pearl, precious, semi-precious stones	25.97	20.69	-20.33	6.60
3	Drug formulations, biological	14.39	15.94	10.78	5.09
4	Gold and other precious metal jewellary	12.95	13.75	6.15	4.39
5	Iron and steel	9.74	9.28	-4.77	2.96
6	Electric machinery and equipment	8.42	8.97	6.45	2.86
7	RMG cotton incl accessories	8.69	8.64	-0.60	2.76
8	Organic chemicals	9.33	8.35	-10.47	2.66
9	Motor vehicle/ Cars	8.50	7.80	-8.26	2.49
10	Production of Iron and steel	7.26	7.01	-3.49	2.24

Source: Annual Report (2020-21), Department of Commerce, Ministry of Commerce and Industry, GoI, Pg.26

The merchandise imports during 2019-20, on the other hand, was US$ 474.7 billion as against US$ 514.1 billion in 2018-19, registering a negative growth of (-)9.12 per cent. Out of the top ten commodities of imports in India in 2019-20, commodities like 'Gold', 'Pearl, precious, semi-precious stones', 'Coal, Coke and Briquettes, etc.', 'telecom instruments', and 'Organic Chemicals' registered a fall in growth of more than 14 per cent as compared to that in 2018-19 (Table 5).

Table 5: Imports of top ten commodities in 2019-20

(US$ Bn)					
Rank	**Commodity**	**2018-19**	**2019-20**	**Growth (%)**	**Share (%)**
1	Petroleum: crude	114.04	102.75	-9.90	21.64
2	Gold	32.91	28.23	-14.22	5.95
3	Petroleum Products	26.88	27.80	3.43	5.86
4	Pearl, precious, semi-precious stones	27.08	22.46	-17.05	4.73
5	Coal, Coke, and Briquettes, etc	26.18	22.46	-14.22	4.73
6	Electronic Components	15.75	16.32	3.64	3.44
7	Telecom instruments	17.92	14.22	-20.61	3.00
8	Organic chemicals	14.25	12.22	-14.23	2.57
9	Industrial machinery for dairy etc.	12.47	11.98	-3.93	2.52
10	Electric machinery and equipment	9.86	11.28	14.37	2.38

Source: Annual Report (2020-21), Department of Commerce, Ministry of Commerce and Industry, GoI, Pg.27

The Consumer Price Index (Combined) (CPI-C) inflation for 2019-20 increased to 4.8 per cent from 3.4 per cent in 2018-19. Inflation in food and beverages (having a weight of about 46 per cent in (CPI-C)) increased from 0.7 per cent in 2018-19 to 6.0 per cent in 2019-20. This was mainly due to delayed south-west monsoon combined with unseasonal rains during the kharif harvest period which became the cause for food inflation. The contribution of the fuel group to inflation decreased to 1.9 per cent in 2019-20 from 11.3 per cent in the previous year. Inflation measured in terms of Wholesale Price Index (WPI) remained subdued during 2019-20 and stood at 1.7 per cent as compared to 4.3 per cent in 2018-19 due to deflation in prices of non-food manufactured products and fuel & power.

The fiscal deficit for 2019-20 was budgeted at 3.3 per cent of GDP. The envisaged growth for gross tax revenue was 9.5 per cent and 3.4 per cent for total expenditure over 2018-19 RE[1]. The gross tax revenue, however, registered a fall of 3.38 per cent over 2018-19 and total expenditure registered a growth of 16.03 per cent over 2018-19 (Table 6). With slowing economy and declining tax revenue collection, falling disinvestment, increased expenditure on subsidy etc. fiscal deficit worsened to 4.6 per cent of GDP in 2019-20 as against 3.4 per cent in 2018-19 (Table 7).

Table 6: Central Finances at Glance

(Percentage Change over previous year)

Items	2018-19	2019-20	2020-21 (BE)	2020-21 (RE)*	2021-22 (BE)**
Gross Tax Revenue	8.41	-3.38	20.54	-21.57	16.67
of which:					
Corporation Tax	16.17	-16.08	22.29	-34.51	22.65
Taxes on Income	9.80	4.15	29.50	-28.06	22.22
Goods and Services Tax	31.41	2.96	15.32	-25.40	22.31
Customs	-8.69	-7.24	26.28	-18.84	21.43
Union Excise Duties	-10.58	3.72	10.97	35.21	-7.20
Service Tax		-12.67	-83.08	37.25	-28.57
A. Centre's Net Tax Revenue	6.01	3.01	20.56	-17.81	14.94
Devolution to States		-14.55	20.52	-29.87	21.02
B. Non Tax Revenue	22.29	38.80	17.69	-45.29	15.37
of which:					
Interest Receipts	-10.53	1.68	-10.58	26.83	-17.59
Dividend and Profits	24.14	64.11	-16.51	-37.87	7.24
Other Non-Tax Revenue	25.43	16.83	69.87	-54.20	27.81
C. Capital Receipts (without borrowings)	-2.51	-39.16	227.84	-79.33	304.33
of which:					
Disinvestment	-5.32	-46.90	317.46	-84.76	446.88
Receipts (without borrowings) (A+B+C)	7.40	5.22	28.14	-28.69	23.40
Borrowings	9.87	43.77	-14.71	132.14	-18.49
Total Receipts (including borrowings)	8.08	16.03	13.25	13.41	0.95
D. Revenue Expenditure	6.84	17.10	11.89	14.49	-2.73
E. Capital Expenditure	16.94	9.10	22.74	6.57	26.20
Total Expenditure (D+E)	8.08	16.03	13.25	13.41	0.95

*Note: * the percentage change is over 2020-21 (BE)*
*** the percentage change is over 2020-21 (RE)*
Source: Union Budget, GoI

Table 7: Deficits (as % of GDP)

	2018-19	2019-20	2020-21 (BE)	2020-21 (RE)	2021-22 (BE)
Revenue Deficit	2.4	3.3	2.7	7.5	5.1
Fiscal Deficit	3.4	4.6	3.5	9.5	6.8
Primary Deficit	0.4	1.6	0.4	5.9	3.1

Source: Union Budget, GoI

Outbreak of Covid-19 Crisis

a) Global Spread

The corona-virus pandemic has reshaped the world. It started as an inexplicable pneumonia-like ailment in Wuhan, China and got spread across 221 nations and domains, including Antarctica (in December 2020). As of March 9, 2021, the virus has infected more than 117.7 million individuals, with 2.6 million reported deaths. North and South America are the most exceedingly awful struck areas as far as case tally and fatalities. However, Asia has seen a surge in cases and fatalities due to the covid wave in India. The worldwide economy has crashed, as containment and mitigation endeavours continue to interrupt manufacturing, education, the financial sector, and other prospects of life. The USA comes out to be at the leading country in terms of all the parameters, i.e., total number of reported cases, deaths and active cases. India has the second highest number of total reported cases followed by Brazil and Russia but the total number of reported deaths due to disease is below the number of deaths in Brazil. The figures of France are cause of concern because its total number of recovered patients is lowest and the number of active cases is second highest, after the USA. This means that there is a surge in number of people getting affected due to coronavirus but the recovery of those getting infected is very low and this might raise the case fatality rate in France. The total number of reported cases, recovered cases, active cases and deaths in the world and the top ten most effected countries are given in the Table 8.

Table 8: Covid-19 reported Cases in Top 10 Countries vis-à-vis Global

(As on March 9, 2021)				
Country (1)	**Total Cases (2)**	**Total Deaths (3)**	**Total Recovered (4)**	**Active Cases (5)**
United States of America	29,744,652	538,628	20,449,634	8,756,390
India	11,244,624	157,966	10,897,486	189,172
Brazil	11,055,480	266,614	9,782,320	1,006,546
Russian Federation	4,333,029	89,473	3,922,246	321,310
United Kingdom	4,223,232	124,566	3,278,629	820,037
France	3,909,560	88,933	266,096	3,554,531
Spain	3,160,970	71,436	2,810,929	278,605
Italy	3,081,368	100,103	2,508,732	472,533
Turkey	2,793,632	29,094	2,632,030	132,508
Germany	2,513,768	72,698	2,310,900	130,170
Global	**117,744,409**	**2,611,889**	**93,431,576**	**21,700,944**

Source: https://www.worldometers.info/coronavirus/#countries

Table 9: County-wise Share of Reported Cases in the World

(As on March 9, 2021)				
Country (1)	**Percentage Share in Total Cases Globally (2)**	**Percentage Share in Total Deaths Globally (3)**	**Percentage Share in Total Recovered Cases Globally (4)**	**Percentage Share in Total Active Cases Globally (5)**
United States of America	25.26	20.62	21.89	40.35
India	9.55	6.05	11.66	0.87
Brazil	9.39	10.21	10.47	4.64
Russian Federation	3.68	3.43	4.20	1.48
United Kingdom	3.59	4.77	3.51	3.78
France	3.32	3.40	0.28	16.38
Spain	2.68	2.74	3.01	1.28
Italy	2.62	3.83	2.69	2.18
Turkey	2.37	1.11	2.82	0.61
Germany	2.13	2.78	2.47	0.60
Global	**100.00**	**100.00**	**100.00**	**100.00**

Source: Author

The Table 9 shows the percentage share of each country in the total number of reported cases, recovered cases, active cases and deaths in the world. From the total global share of total corona-virus affected cases, about one-fifth of the total number of deaths and recovered people are from the USA and it also has one-fourth share in the total number of cases. As on March 9, 2021, more than 50 per cent of the total active cases are coming from the USA and France. Among the top ten most affected countries, India has one of the lowest share in total active cases globally, after Germany and Turkey. India and Brazil have negligible difference in the share of total reported cases globally, *i.e.*, 9.55 per cent and 9.39 per cent, respectively.

Table 10: Share of Total Cases reported out of the Country's Population

Country (1)	**Population (%) (2)**	**Percentage Share of Total Cases (3)**	**Percentage of Deaths out of Total Cases (4)**	**Percentage of Recovery out of Total Cases (5)**	**Percentage of Active Cases out of Total Cases (6)**	**Total (7) [(4) +(5) +(6)]**
United States of America	4.27	9.04	1.81	68.75	29.44	100
India	17.71	0.82	1.40	96.91	1.68	100
Brazil	2.74	5.24	2.41	88.48	9.10	100
Russian Federation	1.89	2.97	2.06	90.52	7.42	100
United Kingdom	0.88	6.25	2.95	77.63	19.42	100
France	0.84	6.00	2.27	6.81	90.92	100
Spain	0.61	6.76	2.26	88.93	8.81	100
Italy	0.78	5.09	3.25	81.42	15.34	100
Turkey	1.08	3.35	1.04	94.22	4.74	100
Germany	1.08	3.01	2.89	91.93	5.18	100
Global	**100.00**	**1.53**	**2.22**	**79.35**	**18.43**	**100**

Source: Author

The column (3) of Table 10 shows that out of the total population of the country, how many have been infected by the corona-virus. Approximately, 1.53 per cent of the total population in the world has been infected by the coronavirus till date. The USA has highest percentage (9.04) of infected population from the disease and India has the lowest percentage (0.82) of infected population. In the column (3), the values represent that out of the total infected cases, what percentage of people has died after getting infected in a country. Globally, out of the total cases reported 2.22 per cent of people have died. The highest percentage of deaths has taken place in Italy and lowest in Turkey out of the number of cases reported in the respective countries. The recovery rate at the global level is 79.35 percent and among all the nations, India has the highest rate of recovery, i.e., 96.91 per cent. Out of total cases, France has 6.81 per cent of recovery rate, and 90.92 per cent of active cases out of the total cases reported within the country.

b) Spread in India

India's first novel corona-virus patient got reported on 30 January 2020 in Kerala's Thrissur district. At that time, more than 7500 cases were reported in 20 countries of the world. As of February 2, 2021, India has the highest number of confirmed cases in Asia, and the second-highest number of confirmed cases globally after the United States, which has more than 10.3 million confirmed cases and more than 154,000 deaths. The per-day cases peaked mid-September in India with more than 90,000 cases reported each day, which decreased to under 15,000 starting as of 2021 January. A majority of those infected had a travel history to countries such as Italy, China and Iran as per the analysis of the Ministry of Health and Family Welfare, Government of India.

The Economic Survey 2020-21 rightly quotes that Covid-19 is once in a century crisis by giving three reasons. First, the crisis was a health induced slowdown and its impact got compounded due to unknown nature of virus and the high case fatality rate (CFR) of 2-6 per cent for April-March 2020. Due to the unknown nature of virus in terms of reproduction number (R_0) and CFR there was a nationwide lockdown imposed in the major economies of the world leading to limited economic activities. This was a rarely observed phenomenon because it was not a war or financial crisis but a health induced crisis. Second, it was a synchronized crisis as 85-90 per cent of economies were hitting recession as two successive quarters with falling GDP or negative GDP growth. This meant that recession was compounded in an interconnected world due to the disruption in global supply chain and global demand failure. Third, the crisis was creating a trade-off between life and livelihood means that saving life was given precedence over generating livelihood, in the short run. This kind of crisis required an immediate policy intervention like active surveillance, early detection, contact tracing, quarantine, case management and prevention of spread.

Dealing with the Pandemic

Measures India has taken to control the coronavirus spread

The Indian government had announced strategic multi-pronged policy response to minimize the entry and spread of coronavirus. Some of the immediate responses were increasing the testing capacity across the nation; building up the capacity to meet the requirements of personal protective equipment (PPE), masks and ventilators; setting up of 24*7 helpline number to address queries related to corona-virus; travel and entry restrictions in the country; nationwide lockdown; stimulus package for the poor etc. Some of the major steps taken by the government are described in detail as follows:

a) Legal Provisions & Nationwide Lockdown

India's response to the Covid-19 pandemic has been predominantly dealt by the following laws:

i. The Disaster Management Act, 2005 (DMA)

ii. The Epidemic Disease Act, 1897 (EDA)

iii. The Indian Penal Code, 1860 (IPC)

After the declaration of the corona-virus pandemic as a notified disaster, the National Executive Committee of the National Disaster Management Authority (NDMA), set up under the Disaster Management Act, had imposed the graded lockdowns (starting from 24^{th} March 2020) as shown in Table 11. The centre issued periodic guidelines to states to enforce the lockdowns. The Epidemic Disease Act was used simultaneously, by both the central and the state governments to address the health aspect of the disaster. This was done despite the fact that EDA does not define what constitutes a dangerous epidemic disease. People violating lockdown orders were being charged under sections 188, 269 and 270 of IPC.

Table 11: Phases of Lockdown during Covid period

Phase of Lockdown	Date (From-to)	No. of Days
Phase - 1	25th March - 14th April 2020	21
Phase - 2	15th April - 3rd May 2020	19
Phase - 3	4th May - 17th May 2020	14
Phase - 4	18th May - 31st May 2020	14
Total Number of Days in Lockdown		**68**

Some of the States like Andhra Pradesh, Bihar, Chandigarh, Chhattisgarh, Delhi, Goa, Gujarat, Himachal Pradesh, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Manipur, Odisha, Punjab, Puducherry, Rajasthan, Sikkim, Tamil Nadu, Telangana, Uttar Pradesh and West Bengal had imposed the partial lockdown (like closing of schools and colleges) even before the 24th March.

b) Evacuation Measures

The Government of India started a ginormous evacuation of stranded Indian citizens from across the globe called ***Vande Bharat* Mission** in the first half of May 2020. It located several commercial jets, military transport planes and maritime warships in what is set to be one of the greatest ever peacetime repatriation exercises in history. In the first stage, around 14,800 citizens stranded in 13 nations were brought back by 64 flights. Ministry of Civil Aviation in co-ordination with the Ministry of External Affairs planned stage two of the *Vande Bharat* Mission to bring Indian residents from almost 31 nations all around the world for which 149 flights were deployed. There was another program named Operation *Samudra Setu* by Indian Navy which brought back around two thousand Indians in two ships during the first phase of evacuation.

c) Fiscal and Monetary Steps

In order to combat Covid-19, the Government of India and the Reserve Bank of India had adopted a multi-pronged strategy to maintain financial stability and provide necessary regulatory support to assuage both demand and supply constraints posed by the pandemic. The response to pandemic in India through fiscal policy differed from the ways adopted in other countries. In India, the demand stimulus was introduced in a phased manner with prior focus on measures to provide a cushion for the poor and vulnerable sections of society. The stimulus packages announced by G20 countries as percentage of their GDP as of March 2021 are given at Figure 1.

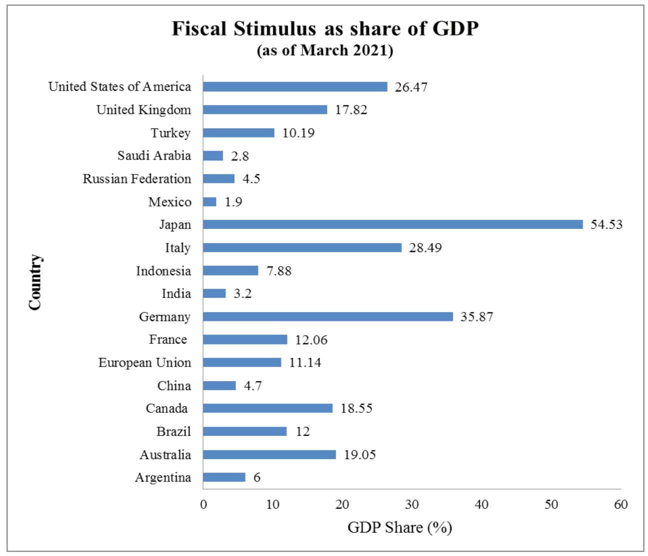


Figure 1: Value of Covid-19 Fiscal Stimulus in G20 countries as share of GDP

Source: Statista.com

The Union Finance Minister announced short term and long-term measures under the Aatma Nirbhar Bharat 1.0 (Self-Reliant India Movement). The broad categorization of the different tranches is given in the Table 12. The MSME sector received the primary focus as it is the heart of Indian industrial ecosystem and employs an estimated 11 crore persons, produces 45 per cent of the country's total manufacturing output, 40 per cent of exports and almost 30 per cent of the national GDP.[2]

Table 12: Stimulus Package in Response to Covid-19

Division	Budget (in Rs. Bn.)
Tranche 1	5,945.50
Tranche 2	3,100
Tranche 3	1,500
Tranche 4 & 5	480
Sub-Total (A) 11,026.50	
PM Gareeb Kalyan Yojana (Initial Measures)	1,920

RBI Measures (Actual)	8,016.03
Sub-Total (B)	**9,944.03**
ANB 1.0 Grand Total (A+B)	**20,970.53**
As percent of GDP (%)	**10**

Source: Atmanirbhar Bharat (Part 5) Government Reforms and Enablers

According to the government, the total outlay for ANB 1.0 was approximately ten per cent of the GDP. The first tranche laid focus on the poor including migrant workers, who were supplied food grains; farmers were given additional re-finance support of Rs. 30,000 crore; *Mudra Shishu* loanees (loans below Rs 50,000) were given interest subvention of two percent for prompt payees; and street vendors were facilitated easy access to credit. In order to include large number of enterprises under the bracket of MSMEs, the government had expanded the definition of MSMEs to make them eligible to avail of the benefits. Again, in the second tranche the major focus was on poor, migrants and farmers. The major steps included free food grains for migrants, extension of *Pradhan Mantri Awas Yojana* (PMAY) scheme, MGNREGA wages raised to national average of Rs. 202 per day against Rs. 182 per day etc. Under the third tranche measures were taken to strengthen infrastructure, logistics and capacity building for Agriculture, Fisheries and Food Processing Sectors. In the fourth and fifth tranche measures for reforms in the sectors including coal, minerals, defense production, air space management, airports, MRO, distribution companies in UTs, space sector, and atomic energy were taken. The sector-wise allocation of the package is shown in the Table 13.

Table 13: Sector-wise Allocation of Aatmanirbhar Bharat Package

Sector	Allocation (Rs lakh crore)	Allocation as Percentage of Total Package
Banking (RBI measures)	5.22	24.40
State Borrowing	4.28	20.00
Business and MSME	3.675	17.20
Agriculture	3.48	16.30
Social Sector (including PMGKY)	2.08	9.70
Power	0.9	4.20
Housing	0.7	3.30
Taxation	0.5	2.30
Health	0.15	1.80
Total	**20.986**	**100.00**

Source: PRS Legislative Research

Subsequent to ANB 1.0, two more Atma Nirbhar packages were announced by the Government. PMGKY, three ANB packages and RBI measures were considered five mini-budgets in themselves which amounted to Rs. 27.1 lakh crore (more than 13 per cent of GDP)[3].

According to the findings of IMF, India's fiscal measures to support its population can be partitioned into two categories. First, above-the-line estimates which incorporate government spending (about 3.2 per cent of GDP, of which about 2.2 per cent of GDP is expected to fall in the current financial year), foregone or deferred revenues (about 0.3 per cent of GDP falling in the current year) and facilitated spending (about 0.3 per cent of GDP falling due inside the current year). Second, below-the-line measures in form of equity, advances and guarantees were intended to help organizations and shore up credit arrangement to several sectors (about 5.2 per cent of GDP).

Under monetary and macro-financial measures, the Reserve Bank of India (RBI) reduced the repo and reverse repo rates by 115 and 155 basis points (bps) to 4.0 and 3.35 per cent, respectively. RBI had also announced liquidity measures across three estimates involving Long Term Repo Operations (LTROs), a cash reserve ratio (CRR) cut of 100 bps, and an increase in the marginal standing facility (MSF) to 3 per cent of the Statutory Liquidity Ratio (SLR) (further extended to September 30, 2021) and open market operations (simultaneous sale and purchase of government securities), resulting in cumulative liquidity injections of 5.9 per cent of GDP through September.[4]

Impact of Covid-19 on Indian Economy

The pandemic has caused both demand and supply-side disruptions impacting the Indian economy adversely. The changed consumption pattern of people due to loss of income and ambiguity about future affected the demand side whereas the nationwide lockdown and shutting down of economic activity interrupted the supply chain. The severity of these disruptions can be comprehended through various economic indicators.

As per the second advance estimates of national income released by NSO, real GDP is estimated to contract by 8 per cent in 2020-21, as compared to a growth of 4 per cent in 2019-20 (Table 1). This contraction in GDP is mainly due to the contraction in industry and services sector. Among the industries, mining contracted by 9.2 per cent, manufacturing by 8.4 per cent and construction by 10.3 per cent. In services sector, trade, hotels, transport and communication contracted by 18 per cent. Only two sectors, agriculture and electricity registered a positive growth rate of 3 per cent and 1.8 per cent, respectively.

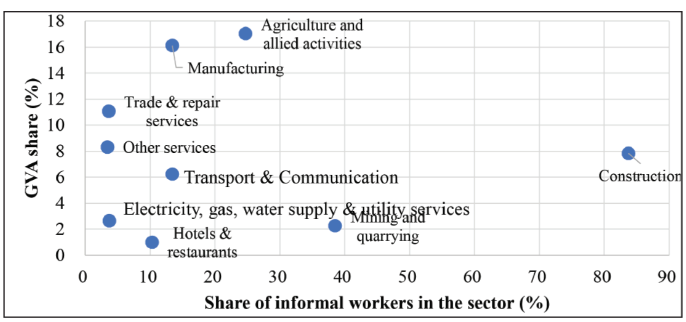
From the demand side, both private consumption expenditure and fixed investment are estimated to contract by 8.9 per cent and 12.4 per cent, respectively in 2020-21. Whereas, government consumption final expenditure is estimated to grow at 2.9 per cent in 2020-21 (Table 2).

During pandemic, the external sector of India emerged to be key cushion for resilience. The merchandise exports and imports during 2020-21 (April-January), were USD 228.25 Billion and USD 300.26 Billion, respectively which declined by 13.3 per cent and 25.9 per cent, respectively over the corresponding period of the previous year (Table 3). The steep contraction in merchandise imports and stable net services receipts led to a very narrow current account deficit of USD 1.87 Billion.

As per the latest estimates available for the price situation, the CPI-C averaged 6.6 per cent in 2020-21 (Apr-Dec) up from 4.1 per cent during the corresponding period in 2019-20. Of this, the Consumer Food Price Index (CFPI) averaged to 9.1 per cent. Inflation measured in terms of Wholesale Price Index (WPI) averaged (-)0.1 per cent in 2020-21 (Apr-Dec) as compared to 1.5 per cent in 2019-20 for the corresponding period.

As per the Economic Survey 2020-21, the contact-sensitive sectors, like trade, transport, tourism, hospitality industry, and so on had an employment shock relative to the respective employment share, with informal workers are liable to bear the bigger brunt. The construction and mining sectors, which employs a huge portion of informal sectors, had been seriously affected by the pandemic-induced lockdowns (Figure 2)[5].

Figure 2: Sectoral Distribution by GVA Share and Share of Informal Workers



Source: Economic Survey, 2020-21, vol.2 Pg.12, Chapter 1

During the stringent lockdown of 2020, an estimated 14 crore (140 million) people lost employment while salaries were cut for many others. More than 45 per cent of households across the country had reported an income drop as compared to 2019[6]. People who were not working, meant that they were not getting paid which puts additional dampen on their demand, which means less productions and more people were forced to leave job market.

The fiscal deficit and revenue deficit for 2020-21 were budgeted at 3.5 per cent of GDP and 2.7 per cent of GDP, respectively. However, the Covid-19 pandemic drastically reduced the income of the Government and exerted pressure to increase its expenditure. As a result, against an original BE revenue and expenditure of Rs.22.45 lakh crore and 30.42 lakh crore, respectively for 2020-21, RE estimates are Rs.16.01 lakh crore and Rs.34.50 lakh crore, respectively. The revised estimates of borrowing for the year 2020-21 shows a growth of over 132 per cent over the budget estimates. This resulted in the higher revised estimates of fiscal deficit and revenue deficit at 9.5 per cent and 7.5 per cent, respectively (Table 7).

Impact on States

The states with higher population and population density saw higher spread of cases and very few cases of deaths. According to the data maintained by covid19india.org, Maharashtra noticeably had the highest number of cases and deaths. The Economic Survey compares Maharashtra with Uttar Pradesh and Bihar. These three States have the highest population with Bihar and Maharashtra having nearly indistinguishable population. Nonetheless, Maharashtra has a lower population density than both Bihar and Uttar Pradesh. However, it was noticed that Uttar Pradesh and Bihar had lower number of cases while Maharashtra had a much higher number of cases than what was anticipated. In fact, the densely populated states like Uttar Pradesh (with a population density of 690 people for each square km) and Bihar (with a population density of 881 people for each square km) – as against the national average of population density of 382 people for each square km – have been considered to have dealt with the pandemic relatively well. As far as overall deaths are concerned, it is seen that Kerala, Telangana and Andhra Pradesh have managed it effectively.

The Covid-19 pandemic had varying impact on across states. The impact depended on factors such as – spread of the virus; demography of the state; and the composition of the economy of each state. According to India Ratings & Research, the states which had a higher share of agriculture suffered less compared to those where the share is low as overall agricultural activities were less impacted. Similarly, utility services like electricity, gas, water supply, etc are essential services used by households but states with large share in manufacturing units saw major decline in consumption of these services. Maharashtra is one of the highest contributor of output in the country. Since it is the focal point of the pandemic situation in the nation, therefore, the state had been struggling with the shock in contact-sensitive services sector (with 56% of its yield coming from that area). The labour market is also stressed given its higher share in MSMEs and reverse migration has further accelerated the impact. While Tamil Nadu and Kerala had been struggling with the construction sector, while Gujarat and Jammu & Kashmir are facing a slowdown in manufacturing sector. Although, Punjab and Haryana were protected by the relatively resilient agricultural sector but had encounter with casual labour shocks in the services sector. Additionally, Delhi and Telangana had also experienced services led informal sector shocks. However, the comfortable fiscal situation of Delhi, one of the key COVID-19 hotspots raises high expectation from the Government of NCT of Delhi to take liberal measures combating the crises.

Fiscal Consolidation and the Road Ahead

Exceptional time needs extraordinary measures. The government cannot keep same fiscal rules and would have to rethink about the magnitude of debts and deficits due to ambiguity created by coronavirus pandemic. As per the mandate of Fiscal Responsibility and Budget Management (FRBM) Act, the Union government needed to achieve a fiscal deficit of three per cent of GDP by March 31, 2021. However, the pandemic has affected the fiscal deficit of India both by increasing the government expenditure to provide essential relief to vulnerable sections of the society; and by decreasing the total receipts due to fall in capital receipts, tax and non-tax receipts.

The Economic Survey of 2020-21 called for a more active, counter-cyclical fiscal policy to enable growth during economic downturns. The Government of India is expected to set up internal working group to redraw the country's fiscal consolidation road map following the sharp slippage caused by coronavirus pandemic[7].

In view of the pandemic, both Union Government and the Finance Commission have given their estimates for economic indicators for the forthcoming years.

As per the projected estimates given by Union Government to Fifteenth Finance Commission, the real gross domestic product (GDP) growth will be on path of improvement. After an estimated 7.7 per cent pandemic-driven contraction in 2020-21, the real and nominal GDP are projected to grow at 11.0 and 15.4 per cent, respectively, in 2021-22. This sharp recovery of 10-12 per cent of real GDP growth is based on a low base effect and inherent strengths of the economy. Further, the real GDP is expected to gradually reach 8 per cent in 2025-26, with an inflation assumption of around 4 per cent.

On the other hand, according to Finance Commission's assessment, the recovery in 2021-22 may not fully be to the level of real activity of 2019-20. After a contraction of 6 per cent in nominal GDP in 2020-21, it projects nominal GDP to grow by 13.5 per cent in 2021-22. High growth in nominal GDP in 2021-22, because of the low base in 2020-21, followed by a growth of 9.5 per cent in 2022-23 and sustained expansion at 10.5 per cent, 11.0 per cent and 11.5 per cent for the years 2023-24, 2024-25 and 2025-26, respectively (Table 14).

Table 14: Suggested path for Fiscal Consolidation (as % of GDP)

Fiscal Variables	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
GDP (Nominal)	-6	13.5	9.5	10.5	11	11.5
Gross tax revenue	9.81	9.84	9.94	10.07	10.25	10.47
Net tax revenue	6.8	6.79	6.85	6.92	7.02	7.16
Non-tax revenue	1.35	1.35	1.35	1.35	1.35	1.35
Revenue receipts	8.15	8.15	8.2	8.27	8.38	8.51
Capital expenditure	1.84	1.7	1.51	1.53	1.54	1.49
Revenue Expenditure	14.07	13.08	12.67	12.16	11.69	11.32
Fiscal Deficit	7.4	6	5.5	5	4.5	4
Revenue Deficit	5.9	4.9	4.5	3.9	3.3	2.8
Total Liabilities	62.9	61.0	61.0	60.1	58.6	56.6

Source: Fifteenth Finance Commission Report, Volume I, Main Report

To achieve such levels, the government needs to streamline its income generation programmes and also control the government expenditure without much affecting fiscal support required for revival of economic activity. However, given the current situation, it is difficult to keep expenditure low, as the government is involved in many welfare activities to keep up with the political system of the country and the need for public expenditure for economic recovery. Nevertheless, the Union Government has projected that the revenue expenditure will decline from 13.7 per cent of the GDP in 2021-22 to 12.4 per cent in 2025-26, while capital expenditure will increase from 2.1 per cent of GDP to 2.3 per cent. In this respect, the Union's commitments – including interest payments, pensions and salaries, subsidies, defense and others – were projected to decline from 9.4 per cent of GDP in 2021-22 to 8.6 per cent in 2025-26. In contrast, it assessed that the spending on national development priorities, including education, health, housing, employment, water supply and sanitation, social security and welfare, agriculture, rural development, power and digital technology would need to modestly increase from 2.5 per cent of GDP to 2.7 per cent during the period.

In order to reprioritize expenditure, the FFC has estimated a decline in revenue and capital expenditure to 11.32 per cent and 1.49 per cent of GDP by 2025-26 from 13.08 per cent and 1.70 per cent of GDP in 2021-22, respectively.

On revenue side, the Union Government has projected gross tax revenue to grow at 13.4 per cent per annum, with a rising buoyancy of 1.2, taking the tax to GDP ratio from 10.3 per cent in 2021-22 to 11.1 per cent in 2025-26. The Finance Commission, on the other hand, has assessed the buoyancy of gross tax revenue to be 1.13 and the tax-GDP ratio to increase to 10.5 per cent by 2025-26 from 9.84 per cent in 2021-22.

In view of such assessments of revenue and expenditure, the government is aiming to bring down the fiscal deficit to 4.5 per cent of GDP by 2025-26 from 6.8 per cent in 2021-22. The government hopes to achieve the fiscal consolidation by first, increasing the buoyancy of tax revenue through improved compliance, and secondly by increased receipts from monetization of assets, including public sector enterprises and land. The Fifteenth Finance Commission also has recommended a path for fiscal consolidation for the centre by reducing fiscal deficit to 4 per cent of GDP by 2025-26 (Table 14).

To conclude, India was already facing a tough situation in pre-pandemic year due to slow growth and was walking on tight rope as far as fiscal situation is concerned. The pandemic has only made the matter worse. To take the road suggested by Union Government and FFC, growth is the key for fiscal expansion. It is important that the appropriate steps are taken to get a strong growth keeping checks on how debts and investments are used efficiently. It is also important to ensure compliance with administrative and tax policy changes.

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