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Recovery of the covid-hit economy: Are we on track?

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ABSTRACT

This paper attempts to analyse how India as a country traversed through the lock down period and how quick is the recovery of the Indian Economy from the down turn. The Government has taken several measures to handle the Covid pandemic situation and also to revive the growth of the Economy. The impact of the spread of the Pandemic on various sectors of the economy, the Government's efforts to address the disaster, and the response of the economy to the Government's efforts are discussed in this paper. Whether the Economy is back on the track of Growth again? A review

KEYWORDS

Covid19, Indian Economy, Lock down

INTRODUCTION

We have heard that extraordinary problems need extraordinary solutions. The impact of corona virus pandemic on the economy is truly extraordinary. Therefore the efforts to bring the battered economy back on track need to be extraordinary too.

The pandemic not only hit the Indian economy. It dealt a severe blow to the world economy too, with its severity varying only in insignificant degrees between countries.

ECONOMIC AND SOCIAL COST

Just how severe is the impact of the pandemic outbreak on our economy?

An economy which normally grows at 6% to 7% pa has slowed down to a -23% for quarter ended 30 June, thanks to the nation-wide lockdown. Most major economic indicators like production, capex, employment, personal income, government revenue, consumption and purchasing power all have been pulled down by the virus.

Production cycle, supply chain, working capital cycle, cash flow.... everything has gone for a toss. Disruptions galore. Most of the pre-Covid receivables had become bad debts during the pandemic. Even after the economy showed signs of life in the second quarter of the current fiscal, this situation did not improve since activity at various segments of the value chain was yet to start. Non realisation of receivables means huge capital loss for

industries and businesses. Under the circumstances, entrepreneurs would be shy to infuse fresh capital too.

If the economic cost was huge, the social cost inflicted by the pandemic was much more severe. Livelihoods of millions of small vendors and self-employed were lost, some of them, forever. Millions working in service industry lost jobs, and income. Unorganised workers who constitute 75% of the workforce was the worst hit. Automobile industry, accounting for a little over 7% of GDP and 22% of overall factory output, and employing almost 45% of organised labour, laid off workers. Contract labour which constitutes more than 50% of total labor force was the first to get axed. **Unemployment touched 45-year high**. No situation could have been more alarming.

SHAKEN NATIONAL PSYCHE

Close to 5 crore migrant workers were uprooted. With little help from the government and employers, thousands started walking home a thousand kilometres away barefoot, tagging children and women along, without any protection from the punishing summer sun was truly heart-rending. It is an epic migration.

It reminded us of the agony the nation experienced when lakhs of Hindus and Muslims migrated to their new lands on partition of the country in 1947. The current migration was no less. It was truly heart-rending and shook the collective conscience of the nation and beyond.

Shramic special trains were operated well in time to send the remaining stranded workers home.

These families undertook the most arduous journey to the safe and assuring environs of their natives in order to escape the harsh living conditions and the bad deeds of their unkind employers, but only to see the stark reality of nothingness at home. Rehabilitating such a humongous population of semi-skilled and unskilled workers is a huge task. State governments were absolutely unprepared to face the emerging situation.

THE SILVER LINING

The only sector which bucked the trend and continued to remain resilient through the pandemic is agriculture. Even though it constitutes a measly 17% of GDP, it in fact saved the day for us. Our farmers did not stop going to the fields. They raised the crops and brought it to the markets too. This was providential. Otherwise, the nation would have faced foodgrains shortage too.

THE ACTION

The impact of the pandemic on the economy was an unprecedented. By all accounts, it should be treated as national calamity. It was a disaster of unfathomable proportions, crying for instant relief. **Millions needed to be saved from hunger and death.** The situation called for result oriented, instant and decisive action. It was not the time to squabble over modalities and what measures, monetary or fiscal, to be adopted.

The world's largest PDS was effectively used by the government to reach foodgrains and other necessities at the doorstep of almost 70 crore people. Month after month, Cash was distributed to enable them to buy other essentials. It is a monumental task, well accomplished.

It cost the Government a little more than a lakh of crore rupees in a span of few months. The action won the government all-round appreciation and helped it win the confidence of the people on the margins.

With human misery addressed in time, the focus shifted to the economy. Before things got worse, the **government announced a string of relief and reform measures worth Rs.20 lakh crores** with promises to do more. Rs. 20 lakh crore is a huge amount indeed. But the catch is that a **major portion of the package was in terms of loans and advances to de-cog the value chain.** It was also aimed at easing the liquidity concerns of businesses whose working funds got stuck up without any hope of realisation in the near future.

But the package drew a barrage of criticism. Experts were disappointed because the package had very little to offer in the form of direct cash outflow. The package was found to be too small, less than 2% of the GDP, when compared to what governments of many advanced nations had provided (around 7 to 10%).

Government announced further reforms in core sector especially in coal and power in order to attract private investment and FDI which is expected to boost employment in the medium term. In order to encourage states to draw and spend, Overdraft limits to State governments were revised upwards and pre-conditions relaxed. **All PSUs were directed to release payment to vendors without delay with a view to revive cash flows**. Funds were front-loaded in all govt sponsored infra projects in order to enable contractors raise demand for goods.

No relief package would be complete without the involvement of banking sector. **Banks were directed to put moratorium on loan repayments**. A special Covid loan was devised to enable all eligible borrowers to meet working capital requirements.

Collateral free bank loans up to Rs.50000 were announced to encourage street vendors to re-start their businesses and remain self-employed as before. This turned out to be the signature scheme of the government targeting 50 lakh vendors and traders. With direct monitoring by the ministry of finance, the scheme achieved a huge success.

NPA norms were also suitably tweaked in order not to impair balance sheets of banks. Sensing that they have not done much to stimulate demand and consumption, the government, **at the start of the festival season, announced cash disbursement of Leave Travel Concession to government employees.** The move was aimed at putting more money into the hands of the employees for spending during festival season.

Part of employer's contribution to PF was also funded by the government in order to ease funds crunch of small entrepreneurs.

Government also top-loaded Kisan funds into 9 crore farmer's accounts to improve rural liquidity. Simultaneously, **the remuneration under MGNREGA**, government's flagship rural employment scheme **was also raised to allay rural distress**.

INITIAL SIGNALS OF RECOVERY

With selective ease of lockdown restrictions, the economy started ticking in the first week of second quarter. The growth data for **quarter ended 30 Sep was -9%**, a vast improvement from the previous -23%. The GST collection showed buoyancy. **Automobile industry registered a staggering 18% y-o-y sale**. Core sector came out of negative signs. **Migrant workers returned to previous employments** in large numbers, facilitated by special trains. **Construction sector too shrugged off its sluggishness**. Toll collections improved and reached 75% of pre-Covid period revenue indicating that **transport sector was also becoming vibrant** and more and more people are willing to come out.

These bright spots brought cheers. Air of despondency gave way to optimism.

MID-TERM REVIEW

The question everyone asks is whether we have weathered the storm successfully? Whether the relief and recovery measures have achieved the desired results? Can we confidently declare that we are out of danger? The answer is, both yes and no.

THE UPSIDE

The government defied popular demand for massive deficit financing to pump cash into the system. Instead it resorted to indirect methods of easing liquidity. Government was committed to maintain fiscal deficit at 3.5% of the GDP as per Fiscal Responsibility and Budget Management Act 2003. However, no one would have complained if the target was exceeded this year. Still the government played safe and continued with its conservative approach.

Similarly, Government also refrained from heavy public borrowings to meet fund shortage.

The incumbent government had an exemplary track record of containing Inflation at a healthy 4% since 2015. With production and supply chain disruptions, it was expected to go out of control. **Yet, inflation was tamed at less than 6%.** This was possible because of the government's **timely intervention to remove supply chain bottlenecks** and ensure quicker undeterred movement of essentials across the country.

Food inflation too was restricted within manageable limits thanks to good monsoons and resilient agriculture. The government did not have to face the spectre of foodgrain shortage.

There was a panic that loss of livelihood to millions would wipe out domestic savings. Hardly. **Despite a drop of 40% in Jan Dhan account balances, overall domestic savings improved.** The banking system faced the problem of excess liquidity. **The GST collections have almost reached pre-Covid levels indicating that economic activity** is slowly reaching the earlier levels.

THE DOWNSIDE

However all is not well. There are grey areas which are cause for concern.

Banks are burdened with excess liquidity but with no avenues of investment. Demand for loans from corporate sector is negative. Without profitable deployment of lendable funds, banks will suffer a P&L problem. It also explains why interest rates are moving south.

While banks have to make nominal provisions against unsecured loans to street vendors, **they face a greater risk of a part of these loans turning NPA in the near future**. Both these eat into their profits and erode capital. With most banks already operating with

bare minimum capital adequacy, the emerging scenario suggests that a banking catastrophe is around the corner.

Service sector which contributes roughly half of GDP is still not fully on its legs.Hotel industry has not reached even 40% occupancy. Chances are, they can never get back to pre-Covid levels in future. Eateries which provide huge employment opportunities are working with skeletal staff. **Malls and shopping complexes have poor foot-fall.Entertainment industry** is operating below par. Many small businesses have closed permanently.

Transport sector shows no signs of getting back to pre-Covid levels. Toll collections continue to remain at 75% of earlier levels. **Trains and airways have no takers yet.** While international travel is negligible, domestic travel is tepid. That the railways had to cancel several trains because of poor occupancy proves the point. Situation in Metros, suburban trains and city buses is just the same.

Even the usually vibrant festival season was muted. The season failed to see a significant spurt in public spending.

Even the growth witnessed by the automobile industry is temporary. The fear of travelling in public transport during the pandemic pushed people to buy own vehicles. Now, after a few months of buoyancy, vehicle sales have plateaued. **Demand for commercial vehicles too continues to remain flat.** The sector is now operating with much less workforce than earlier.

The virus has ensured that the Investment climate in the country is absolutely absent. **With demand not picking up, there is no incentive for investment.** And no employment. For demand to pick up, personal income should increase. All the relief measures adopted by the government have failed in raising consumption levels. People are bitten by the postponement bug.

Obviously, there are no new projects. No expansion of completed projects. No additional investment in on-going projects. Unless the investment climate improves, we cannot expect any spurt in Capex which is an essential requirement to absorb excess labour.

The government will do well to go back to class room and read **John Maynard Keynes** once again to learn how to stimulate demand during times of depression. When private spending is not picking up, the **government had to step out to spend through deficit financing.** Government will be fully justified even if deficit targets are breached.

The deadlines for on-going funded projects will have to be redrawn. Funds are required to meet the time and cost over-run.

With respect to the completed large projects, repayment obligations will go awry. Just take the example of a road project with a 22 year revenue stream. Depressed toll collections will necessitate recast of the repayment schedule. Road projects are just one example. **There are thousands of such big ticket projects which will need an urgent recast and restructuring**.

Same logic applies to many IT parks and giant office spaces across the country most of which are bank-funded. **With government facilitating 'work- from -home' and 'work-from -anywhere'** concepts by tweaking IT laws, most IT parks and office spaces will fall vacant very soon, leaving the **lessors with no revenue**. Demand for huge office spaces is not expected to grow in the foreseeable future. These spaces can't even be converted into residential apartments. Even if someone attempts redevelopment, it involves huge cost besides time- consuming and cumbersome. Under the altered circumstances, it's viability too is in doubt. **All this will result in massive loan defaults and put pressure on the already weak banking system.**

A well-thought mechanism should be put in place urgently to prevent a system collapse.

THE FUTURE

Some analysts said it will take Indian economy up to 2033 to align with the pre-Covid growth curve. It sounds true almost. But still, we need not be that pessimistic.

We have to admit that the economy has shrunk in size and will operate at that level for a few more years. Results for the current quarter are expected. If it performs well in the Sep- March quarters of the current fiscal, **the growth rate may improve from -9% in Sep quarter to zero for the whole year**. This will be a great achievement. If it turns positive, it will be a miracle.

Sum and substance is, our goal of achieving a 5 trillion USD economy by 2024-25 needs to be postponed.

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