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Covid-19: How to Minimize Uncertainties, Increase Confidence and Achieve Economic Stability in India?

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ABSTRACT

COVID-19 pandemic has caused the economic slowdown, worldwide. The contraction into the economy has been experienced. To revive the economy from current economic crisis due to the pandemic, monetary and fiscal policies both have important role. In this paper, some suggestions and solutions are given to revive the economy from this economic crisis. Some Monetary and fiscal policies are already in practice to stabilize the economy. Those policies are also analyzed. Increasing confidence among the producers and the investors is important to revive the economy.

KEYWORDS: *Monetary policy, Fiscal policy, Economy, Stability, COVID-19*

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INTRODUCTION

A great economic shock due to the COVID-19 pandemic has been experienced worldwide, including India. Current corona virus (CoV) is newly discovered and is named SARS-CoV-2. SARS-CoV-2 virus belongs to the SARS-CoV group and responsible for the COVID-19. CoVs are a large family of viruses, can cause common cold to serious diseases. Before current SARS-CoV-2, SARS-CoV in 2002 and MERS-CoV in 2012 were discovered. Current virus is expected to be transmitted from animal to a human and is therefore called zoonotic source, but the actual source of virus is still unknown. The first case of COVID-19 was reported on December 2019, in Wuhan city, China and is directly linked with the Huanan Wholesale Seafood Market in Wuhan city. In India, first case was recorded on 30 January.

Nationwide lockdown in India started from 25 March 2020 and ended on 31 May 2020. Lockdown was imposed into 4 phases. After that unlock phase started from 1 June 2020 and most of the restrictions was removed. Because of the lockdown, all the economic activities were closed and had a great impact on the economy. Lockdown caused huge amount of income, employment and production loss.

Asian Development Bank has expected the contraction of 9% in FY2020-21. GDP of India has already contracted by 23.9% for the Q2 (April to June quarter). COVID-19 has disturbed social-economic lives all around the world. Demand, supply chain, agriculture-allied activities, industrial activities, transport, service sector, goods & service market, stock market, FDI (Forgiven Direct Investment), trade activates, banking etc. all economic activities are negatively affected. Poor people are suffering the most. They lost their job and struggling to earn meal for 2 times a day. Large number of migration was experienced by our nation. It is estimated there will be 25% fall into the income of poor people. Poverty may double in India making 354 million more Indians poor.

Due to the pandemic, trend of the rise in the income of the middle income class became worse. They suffered due to the lockdown and economic slowdown. In the April-June 2019 quarter, on an average, 33% of the households reported an increase in their income. Where in the same quarter this year, 2020, there is only 6.7% increase is reported. It was also reported that this year, in April-June 2020, only 15% of the households that earned more that Rs. 5 lakh per annum reported a rise in their income. But last year in the corresponding period, more than 50% of such households reported an increase in their income. In 2019-20, salaried jobs were estimated at 86.1 million. This number fell to 68.4 million in April 2020.

Minimizing uncertainties, increasing confidence and achieving economic stability in India is crucial, not only for the economic aspect but for the social aspect too. Stabilizing the economy should be a priority for our nation because further period in uncertainty can push the Indian economy in to the path of economic depression and poverty.

Aims and Objectives

- To find some solutions to minimize the uncertainties, increase confidence and achieve economic stability in India.
- To give some suggestions to revive the economy from the crisis due to the pandemic.
- To analyze some steps taken by the monetary and fiscal authorities to revive the economy form the crisis.

Review of Literature

Balajee et al. (2020) analyzed relationship between fiscal spending and COVID19 spread in their paper "Fiscal situation of India in the time of COVID-19". They found that the promotion of corrective actions is necessary to minimize the effect of crises. Health crisis primarily should be monitored. They agreed on the importance of fiscal boosts. If fiscal deficit is high, FRBM mandated target recovery will be slow. Borrowing, printing etc, measures expects tax rise should be adopted to not decrease domestic demand. Rationalize existing subsidies to mitigate economic fallout due to COVID-19 is suggested.

Lancet, T. (2020) analyzed about the COVID-19 impact on India in their paper "India under COVID-19 lockdown". Shortcomings and suggestions are also discussed. They found that the government's sudden lockdown enforcement of lockdown in India had immediate disadvantage to the vulnerable population. India experienced huge number of migration by the labor. Starvation and food problem is also rising, especially for those, who are working into the informal sector. There is a shortage of health facilities in India. Lockdown and other immediate changes are to keep infection at a manageable level. It is suggested that central government should give more power and fund to the state government to control the infection. Improving health facilities, especially in primary care and at the district level is suggested.

Lee, H. S. (2020) in their paper "Exploring the Initial Impact of COVID-19 Sentiment on US Stock Market Using Big Data" analyzed the initial impact of COVID-19 on US stock market. Correlation between COVID-19 and 11 selected sector indices as well as industry return is studied. They found there is less or more effect of COVID-19 on these sectors. To sustain competitive advantage it us suggested that investors should understand the nature of stock market. Strategic investment is needed to minimize sudden shock due to COVID-19. Development of new investment strategies for asset management is suggested.

Liu H. et al. (2020) analyzed immediate effect of COVID-19 on stock market in their paper "The COVID-19 outbreak and affected countries stock markets response". They found negative effect of COVID-19 on stock market returns across all affected countries. Stock markets of Asia reacted more quickly. Covid-19 has adverse effect on the returns from stock market and Asia is suffering the most. Investors were found not free minded to invest in the initial period of pandemic outbreak. Promotion of credit to the investors is suggested. Stock markets have great potential of earning.

S. M. Dev and R. Sengupta (2020) studied about the impact of COVID-19 on the Indian economy in their paper "covid-19: Impact on the Indian Economy". They found there is a decrease into the urban demand. Informal sectors are struggling due to pandemic. Low yoy credit growth and deposit growth is also reported. Their study also shows there is a decrease into the electricity demand due to the lockdown. FPI investment in equity and debt was also negative in March 2020. Policies announced to revive the economy from COVID crises was also mentioned. Support to the poor people by state and local government was suggested.

MEASURES TO MINIMIZE UNCERTAINTIES, INCREASE CONFIDENCE AND ACHIEVE ECONOMIC STABILITY IN INDIA

To achieve the economic stability, monetary measures both are important. Lockdown due to the COVID-19 have slashed the demand and therefore, the production activities are facing uncertainty. Lack of the demand for labor has created the problem of unemployment. India is facing the contraction of economy and the main cause is the shortage of demand for the good and services and lack of confidence among the producers and investors. To minimize uncertainties, increase confidence and to achieve economic stability, contribution of both RBI and the government is important to check the smooth flow of liquidity and production.

A. Monetary policy

The Reserve Bank of India (RBI) uses the monetary policy to manage the money supply or liquidity to balance the economy. RBI controls the liquidity by its tools. Some of these tools are REPO and reverse repo rate, cash reserve ratio, open market operation, bank rate and statutory liquidity ratio which are explained below.

- Repo rate is a transaction rate which is relevant for banks, wherein securities are sold by RBI in context to an interest rate. Higher the repo rate, expensive is the funds for bank and vice versa. The reverse repo rate is which banks use to park the excess money with RBI. Repo rate is now more commonly used by RBI.
- Cash Reserve Ratio (CRR) is the percentage of bank's total deposit that need to be kept in cash form with the RBI. Higher rate of CRR means banks have less to land to the public.
- Open market operations refer to buying and selling of government securities by RBI in behalf of government. RBI buys the securities to induce liquidity and to inject funds. To curb liquidity, RBI sells these to banks to reduce the amount that bank has.
- Statutory Liquidity Ratio (SLR) is the percentage of Banks' total deposit that they need to invest in government approved securities. Low SLR means that bank have to lend outside more.
- Bank rate is the re-discounting rate at which RBI extends to banks against securities such as commercial paper, bill of exchange and other approved securities.

To revive the economy from the shock of COVID-19 pandemic, Reserve Bank of India (RBI) is conducting several measures like stimulation of sales and purchasing government securities under the open market operation. Actions taken by RBI have great role in reviewing the current economic situation and ensuring the smooth flow of the liquidity in the market. One of the measures that can be operational in the market is **'Operational Twist'** program of quantitative easing used by RBI that was first introduced by the Federal Reserve in US in the year 1961.

Operational Twist program is the combination of two actions which is purchasing long-term bonds and selling shorter term bonds, at the same time. RBI can increase the bond prices up and yield down by purchasing long-term bonds. Prices and yields have the opposite relation. Also, the interest rate will decrease. At the same time, selling shorter-term bonds should increase the yield and their prices would fall. The central bank buys long-term bonds by selling short term bonds. When they buy the long-term bonds, prices increase and yield decrease. Price of short term bonds will decrease and yield will increase. The operation twist will decrease the rate of interest for the long run.

The purpose of the low reverse repo rate is to increase the liquidity and decrease the rate of interest. But in the situation that we are facing today, this method will not work. Because this has short term effect and banks fails to create confidence among the people about the certainty for the long-term. But the operation twist has effect for the long-term. Liquidity and confidence will also increase.

Lower long-term yields will make loans less expansive while saving becomes less desirable because of the low interest. In this way, it will boost the economy. However, short term rates are very low and reverse repo rate of 3.5% is operational policy rate. Surplus liquidity is invested in short term assets and gold. This has also caused rise in the price of gold. Therefore, RBI has challenge of reducing the long-term interest without affecting the short term yields. They need to push up the short term interest rate and push down the long-term rates.

RBI also has challenge of inflation and unemployment control. RBI doesn't have direct effect on employment but the situation will improve after more economic activities. Liquidity is already there, the only need is to create the confidence of investors and producers. When demand and output will be increased, demand for labor will also automatically increase. But it will be a challenging task if nearly 19 million salaried jobs lost as of July don't return. More than 90% people are employed in the unorganized sector. Counting the actual job loss and the improvement in this sector after COVID-19 is even more difficult task.

Due to the COVID-19 pandemic, it is expected that the outstanding liabilities could be turned into the bad loans. To solve the situation, RBI had allowed to alter the terms of loans for cash strapped borrowers including longer repayment times and an extended freeze on repayment. Under this new measure during the pandemic, lender doesn't have to classify restructured loans as bad debt for up to 2 years. The central bank had expected the bad loan ratio to rise to 12.5% by March 2021, up from 8.5% a year earlier, which is the highest level since 2000.

In March 2016, target set by RBI for the inflation was between 2% and 6%. RBI had formally adopted the mandate of flexible inflation targeting framework and agreed to maintain around 4% with a band of plus or minus 2%. Retail inflation has touched a high of 6.93% in July 2020. This target is mostly achieved but consumer price growth being well above the range has brought the CPI at 6.93% in July 2020. The Consumer Food Price Index in July 2020 was at a high of 9.62%. This increase in the price is caused by the supply chain disturbance caused by localized and regional lockdown. Another challenge is in the form of debt that is ahead of the RBI. Fitch Ratings estimates that India's public debt will surge to 85% of GDP by March 2020, from 70% before the virus outbreak. India can face low growth traps. Without the regulation of RBI, economic growth and tax collections may stay depressed for longer.

Table 1: Current rates (as 03 October 2020)

Policy Repo Rate	: 4.00%
Reverse Repo Rate	: 3.35%
Marginal Standing Facility Rate	: 4.25%
Bank Rate	: 4.25%
CRR	: 3%
SLR	: 18.00%
Base Rate	: 7.40% - 9.00%
MCLR (Overnight)	: 6.65% - 7.15%
Savings Deposit Rate	: 2.70% - 3.00%
Term Deposit Rate (> 1 Year)	: 4.90% - 5.50%
Government Securities Market	
5.77% GS 2030	: 6.0155% #
5.79% GS 2030	: 6.0092% #
5.22% GS 2025	: 5.3932% #
6.18% GS 2024	: 5.2712% #
5.09% GS 2022	: 4.1641% #
91 day T-bills	: 3.3578%*
182 day T-bills	: 3.5779%*
364 day T-bills	: 3.7312%*
* (cut-off at the last auction)	
# (as on end of previous working day)	

Source: RBI

According to the SBI, a reversal repo rate below 3.5% will be detrimental to lending in the situation of current capital constraint caused by COVID-19 pandemic led lockdown. This reverse repo rate below 3.5% will induce landing in the economy with tighter capital constraint. The rate also translates into the 1 year deposit not being lower by more than 25 basis points from the current level. Repo rate was maintained at 4% for 2 bi-monthly monetary meet of FY 2020-21. All rates are decreased near zero, minimum as possible to ensure the market stability. Term deposit rate more than 1 year was 5.00% - 5.50%, on 14 September 2020. But now it is decreased to 4.90% to 5.50%. On the other hand 91 day and 182 day bills rate was 3.2294% and 3.5200% respectively, on 14 September 2020, but now the rate of these short terms bills have increased.

Fiscal support through immediate budgetary measures and other measures taken by the government can protect vulnerable firms and employees. The solution must come from the joint efforts of the central government and the state policies, rather than any individual industry segment or a concern.

B. Fiscal policy

Fiscal policy is the tool of government by which the government controls and regulates the economy. Fiscal policy deals with the expenditure and taxation decisions taken by the government. Some major instruments of fiscal policy are budget, public expenditure, public revenue, taxation, public debt and fiscal deficit in the economy. Government uses these measures to stabilize the economy. Government can make variations in private consumption and investment by making changes into the public expenditures and taxes. India have deficit financing in almost all the year. That mean we spend more than our revenue. Main objectives of fiscal policy are effective mobilization of resources, financial mobilization by taxation, public and private saving, redistribution of wealth, price stability, employment generation, balanced regional development, Balance of Payment (BOP), increase the national income, infrastructural development and Foreign Exchange earnings.

The country need to adopt an active fiscal policy. We should not depend on monetary accommodation alone to stabilize the economy. Fiscal stimulation is the most effective solution in current pandemic because it has direct effect through the welfare policy. Government should adopt fiscal expansionary policy. Monetary policy is effective but if these rates are reduced further, monetary policy will depress rather than stimulate the economy.

India is badly affected economically. Every sector is facing negative or minimum growth. Some sectors are given below to understand the economic situation of the country.

Table 2: Percentage change in key indicators

Indicator	Q1 2019-20	Q1 2020-21
Production of coal	2.6	-15
Production of cement	1	-38.3
Consumption of steel	5	-56.8
Total telephonic subscribers	1.5	-2
Commercial vehicle sales	-9.5	-84.8
Cargo handled at the major sea ports	1.7	-19.8
Cargo handled at airport	-6.5	-57.2
Passengers handled at airport	-0.6	-94.1
Railways, net tone kilometres	0.7	-26.7

Source: Ministry of Statistics and Programme Implementation

India was already facing low growth rate in almost all of the sectors in Q1 2019-20. Now the COVID-19 crisis has made the growth rate worse. Restrictions imposed on the trade and travel has caused the huge contraction and passengers handled at airport have recorded the worst change due to restrictions. To stabilize and revive the economy many measures are taken by the government. Some are explained below.

Finance minister of India announced the budget on February 1, 2020 and raised the fiscal deficit target from 3.8% of the GDP from 3.3%. To revive the economy, more stimulation with the efficient implementation is needed. For this purpose Fiscal Responsibility and Budget Management Act (FRBM) need to relook the act to widen the fiscal deficit. To inject subsidies and welfare policies like MAGNREGA, PDS etc. government need to expand more. FRBM should suspend some rules for 1-2 years, so that government can spend more. But the problem of crowding outs and insufficient application of measures can make all the efforts zero. Therefore, government has to act wisely and implement policy efficiently.

As the COVID-19 has impacted the world, many countries including India has announced the stimulus packages. Stimulus packages can improve the living standard of the unemployed people and BPL (Below Poverty Line) families. Government of India has already announced the stimulation package of Rs. 20,97,053 crore, included measures already announced and RBI's economic package in February, March and April this year. Package was announced under the 'Atmanirbhar Bharat' program to make India self-reliant and revive the economy from the shock of COVID-19. Stimulation will be provided into 5 tranches.

Table 3: Overall stimulation provided by 'Atmanirbhar Bharat' Package

S.N.	part	Rs. Crore
1	Part 1	5,94,550
2	Part 2	3,10,000
3	Part 3	1,50,000
4	Part 4and 5	48,100
	Sub total	11,02,650
5	Earlier Measures including PMGKP	1,92,800
6	RBI measures	8,01,603
	Sub total	9,94,403
	GRAND TOTAL	20,97,053

Source: Financial Express

- First tranche focuses on the backbone of the economy i.e. MSMEs. The main focus was MSMEs which provides 11 crore employments and have 29% share on GDP. 3 lakh crore collateral free loans and Rs. 50,000 crore equity infusion for MSMEs through the fund of funds is included.
- In second part, focus is on migrant workers and street vendors and introducing 'one nation one ration card'. Special credit policy of Rs. 5.000 crore has been announced to support 50 lakh street vendors who will have access to an initial Rs 10,000 working capital. Help to farmers including fisherman and animal husbandry is also provided.
- Third tranche focus on agriculture and allied sector, post harvest management infrastructure, Pradhan Mantri Matsya Sampada Yojana, Animal Husbandry Infrastructure Development Fund.
- Fourth and fifth tranches comprise of reforms for sectors including coal, minerals, defense production, air space management, space sectors, DISCOM etc.

Second round of stimulation is also expected to be announced by the FM Sitharaman.

But fiscal stimulation need huge amount to spend. India's fiscal deficit was already high before the crisis, but now it's not going to be easy to keep the fiscal health in check. India's fiscal deficit was already a concern for the economy, but now stimulus package will increase the burden more. In a situation where peoples are losing their jobs, have no earning and when the society is facing uncertainty, revenue generation is going to be a challenge for the government. Increase in the tax rate is not an option. Policies should be on the favor of poor people.

These steps can help the economy to revive, only if these are implemented efficiently. It is experienced that most of the policies can't achieve its goal or target, in India. *For example*, it was announced that 800,000 tonnes of emergency ration will be provided, to estimated 80 million migrants under the union government's "Atam Nirbhar Bharat" programme, during May and June 2020. But it was reported that slightly over 600,000 tonne food grains had been withdrawn by states and till August 5, just over 200,000 tonne had been distributed to 20.3 million beneficiaries. On the other side, bad quality of the ration is also reported.

World is going to loss trust and credibility on China. Therefore, India should use this as an opportunity to boost local manufacturing and investment. Corporate Tax rate should be on the low level, where investors can consider it as profitable and still revenue could be generated. Government need to make systematic strategies to provide support the domestic industries and create certainty, without further increasing its liabilities and debt. Certainty and favorable production environment can induce the foreign investment which is important for employment and income generation.

Conclusion

Together, monetary and fiscal policies should aim to revive the economy from the economic crisis due to the COVID-19. Both the policies should ensure the sustainable recovery from the pandemic. India has option of taking financial help from the international resources but India should try to avoid as much as possible because the debt burden is already huge. Confidence among the investors and producers should be the priority that can be created through creating the environment of stability into the market for long-term. Only central bank cannot ensure the stability because the liquidity is not a concern and rates are already low as much as possible. Fiscal policy has the equal role to play to stabilize the economy. Liquidity is already present in the economy and we need to increase the velocity and demand for goods and services. Generating employment opportunities and market certainties is the key to achieve the economic stability.

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