Economic Notions on COVID-19: Slow Down to Make Better Future

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Abstract: India has been working on a set of policy measures for past few months to combat the economic impact of the fast-spreading pandemic Covid-19. The pandemic has already had and will continue to have effects on economy. The overall effect of the pandemic on economic activities and GDP depends on the magnitude and duration of the pandemic. As the spread and far-reaching impacts of Covid-19 dominate across the world and it has been witnessing and experiencing the parallel spread of volatility in stock market, slowdown of economic development, and growth so it would definitely have a profound effect on the way people live. In present context, it seems that recessionary risk is real and movement of market is still ambiguous. Thus, it is necessary to take some proactive action to pave the economy during and post-pandemic period.
Keywords: Pandemic, NPA, Lockdown, Recession, Financial Crisis.

1. Introduction

A gigantic and unpredictable pandemic stop the wheel of entire economic activities across the globe and now became vulnerable to society. Humans are still unable to understand the origin, cause of dispersion, effect, and recurrence of Covid-19. It has become very tough to draw a plan of action to combat this problem and the situation is becoming bad to worse every day. Scientists, researchers, medical fraternity have been working round the clock for serving the society, work at home is gaining momentum, lockdown perplexed the people to a great extend. The current pandemic is a meticulous and rare phenomenon. It can affect people physically, but also psychologically. In this situation, many people will experience stress, anxiety, and depression reactions mild to moderate range. Moreover, the paper is an attempt to analyze the reverberations of these kinds of reactions in economy (Baldwin et. al.2020).

2. What Would a Covid-19 Induced Recession?

Though market sentiments can be ambiguous and recessionary risk are real. The vulnerability of major economies, including the developed and developing economy, has risen as growth has slowed and the expansions of various countries are now less able to absorb shocks. In fact, an exogenous shock hitting the U.S. and European economy at a time of vulnerability has been the most plausible recessionary scenario for some time. The entire worlds typically at the verge of recessions that could fall into one of three categories:

2.1 Real recession:

It is a capital expenditure boom cycle that turns to bust and derails the expansion. But severe exogenous demand and supply shocks-such as wars, disasters, or other disruptions that can also push the real economy into a contraction. It is pertinent to state that Covid-19 has the greatest chance to infect the economy as a whole.

2.2 Policy recession:

When central banks leave policy rates too high relative to the economy’s neutral rate, they tighten financial conditions and credit intermediation, and, with a lag, choke off the expansion. This risk remains modest- outside of India's rates is already rock bottom or even negative, while Reserve Bank of India has delivered a liberalized framework to cope with present change. Outside of the monetary policy response, the G7 finance ministers have also pledged fiscal support.

2.3 Financial crisis:

Financial disparity tends to build up slowly and over long periods of time, prior to rapidly unwinding, unsettling financial intermediation, and then the real economy. There are some marked distinctions globally, yet in the Indian economy, financial crisis risks are complex to analyze and predict. Some economists point to the fizz in corporate credit, as seen in significant issuance and tight spread. We struggle with the subprime likeness of the last recession, as corporate credit neither funds a real economy boom nor is the debt held on banks' balance sheets. Both factors limit the systemic risk of a budding shakeout in credit, though this risk can't be dismissed entirely. It's difficult to see Covid-19 contributing to financial imbalances, but stress could arise from cash flow strains, particularly in small and medium enterprises (Report of Harvard Business Review, March 2020).

3. Need of Recovery Path

Whether economies can stay away from the recession or not, the path back to growth under Covid-19 will depend on a range of drivers, such as the degree to which demand will be delayed, application of industry 4.0 measure, the intensity of structural damage and comprehensive impact of other economic indicators. It is very much relevant to sketch the following three broad scenarios:

3.1 V-shaped:

This scenario describes the classic real economy shock, a displacement of output, but growth eventually rebounds. In this scenario, annual growth rates could fully absorb the shock. Though it may seem optimistic amid today's gloom, we think it is plausible.

3.2 U-shaped:

This scenario is the ugly sibling of V-shaped the shock persists, and while the initial growth path is resumed, there is some permanent loss of output. Is this plausible for Covid-19? Absolutely, but we'd want to see more evidence of the virus's actual damage to make this the base case.

3.3 L-shaped:

This scenario is a very ugly and poor relation with V and U. For this to materialize, we'd have to believe in Covid-19's ability to do significant structural damage, i.e. breaking something on the economy's supply side-the the labor market, break down of capital formation, or the productivity function. This is difficult to imagine even with pessimistic assumptions.

4. Early Impact of Covid-19 in India

In an unprecedented move, India announced a nationwide lockdown and practice of social isolation in order to slow the spread of the corona-virus. The latest move reflects a calibrated approach adopted by the central government that was followed by the cancellation of international and domestic flights. Under the lockdown, all nonessential services will remain closed, but hospitals and all related medical establishments, grocery shops, banks, utilities, and manufacturing of essential commodities, among others, will be open. Capital and debt market services will continue to function as usual (Gupta and Madgavkar, 2020).

The latest move by the central government follows a spike in the number of confirmed cases in India, which rose to 32500. Although this is relatively low compared with the most affected countries, the fear is that if the spread escalates like that in China, U.S.A., and Europe, the effects could prove more detrimental than that seen anywhere else. A growing concern is that the confirmed cases have been largely concentrated in some of the most densely populated states; the top 10 states with confirmed cases together account for 64% of the nation's GDP, so the economic and social ramifications of an outbreak could quickly snowball. In imposing a nationwide lockdown, India has joined Britain, Italy, and other nations that have adopted similar steps. A measure of this scale, which will effectively bring a majority of manufacturing industries to a standstill for the next few weeks, will have significant implications. With 25% of the working population dependent on manufacturing, construction, and mining, a lockdown will disrupt their regular source of income and weigh heavily on households that exist on subsistence. Policymakers now face the complex and daunting task of designing a composite support system that can meet the resource shortfalls of a heterogeneous society. In this regard, states such as Kerala, Uttar Pradesh, Delhi, and Karnataka have been proactive and announced relief measures including cash transfers to laborers, free distribution of food grains, advance payment of pensions, and additional schemes for poverty alleviation and rural employment. Although the central government has pledged $2 billion for testing facilities and other medical equipment to manage the viral outbreak, a composite fiscal stimulus yet to be announced, but expected in the days ahead will be crucial in meeting the resource deficit.

The central government faces a dual challenge. Not only does the fiscal package need to be strong enough for colossal spending, setting aside fears of overshooting fiscal deficit targets, but the government also needs to identify the disadvantaged segments of society, including the thousands of casual daytime workers who may be stranded in cities, away from their homes. The government will also need to find a way to effectively disburse resources to households not officially listed with centralized distribution agencies. At the same time, the containment measures must be implemented with extreme care so that the healthcare system is not overwhelmed by a rapid rise in cases (Lonski John, 2020).

India faces a unique challenge now, and the short-term economic costs of the lockdown will no doubt be significant. But a coordinated, multipronged approach by policymakers that addresses the financial needs of the weaker sections of the population and simultaneously strengthens the existing healthcare system can go a long way in ensuring that the long-term socio-economic and humanitarian costs of this pandemic are contained in the country. A latest CRISIL report states that lockdown results in 4% GDP erosion and India need 8.5% growth rate for 3 years in succession to be back on track. CRISIL has also estimated 4% permanent loss to India's real GDP (from the decadal trend levels) in the base case owing to the corona virus-induced nationwide lockdown. To be back on track, the rating agency believes that India may need a real GDP growth rate of 8.5 percent on average for three years up to 2023-24. Noting that an aggressive fiscal policy will be required to protect India's workforce, CRISIL expects a fiscal stimulus of about Rs. 3.5 trillion. Further, CRISIL'S research also suggests the banking sector non-performing assets (NPAs) are expected to rise to 11-11.5 percent by March 2021 from an estimated 9.6 percent as of March 2020, with sharply lower recoveries and rising slippages (Nayak Gayatri, 2020).

5. Conclusion

India has adopted different approaches to slow the spread of the virus. Some have tested extensively, carried out contact tracing, limited travel, and a ban on large gatherings, encouraged physical distancing, and quarantined citizens. Others have implemented full lockdowns in cities with high infection rates and partial lockdowns in other regions, with strict protocols in place to prevent infections. Society must preserve both lives and livelihoods. Moreover, the present pandemic hits the economy so hard across the globe. It is presumed that 30% of medium and small enterprises will no longer after Covid-19. Few sectors will grow by leaps and bounds whereas traditional industries will be no more. Nature and trend of new business would be emerging like putting old wine in a new bottle. There will be a progressive turnover of goods and services but their delivery model will definitely change, industry 4.0, telemedicine, automation, deep learning, machine learning, and Artificial based instruments will come in the picture. To do so, India can consider a concerted set of fiscal, monetary, and structural measures and explore ways to return from the lockdown.

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