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Macroeconomic Challenges in India and Response of Policymakers & Alternatives in the Context of COVID-19 Crisis

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Abstract

Though India being one of the fastest growing economies of the world, it has been grappling with many macroeconomic challenges since independence which became severe in the era of COVID-19 pandemic. Though, the adverse effects of the pandemic are over but the initial blow that the pandemic had on our economy has large macroeconomic and social implications which may last till this decade. The paper discusses in detail about the major structural challenges that our economy has been facing since independence, and the policy initiatives by the policymakers and some alternatives especially in the context of this pandemic. It also brings out limitations and opportunities of the government and way forward.

Keywords: Unemployment, Inequality, Inflation, Fiscal Deficit, COVID-19, Growth Rate

JEL Classification: E3, E6.

1. Introduction

India Economy is the fastest growing economy in the world and is ranked 5th in terms of Nominal GDP and 3rd in terms of GDP measured in Purchasing Power Parity (PPP). India's average growth rate of GDP in the last decade has remained above 5% which is very decent as compared to its BRICS (Brazil, Russia, India, China, and South Africa) counterparts. India has in recent times been able to attract large foreign investments by doing away with unnecessary regulatory burden, easing the norms of investments and few economic reforms which lead it to move 14 places to be 63rd among a group of 190 countries in the World Bank Ease of Doing Business Report in 2020. It has improved its ranking remarkably by 79 positions from year 2014 to 2019 and this jump was despite some structural changes introduced during this period like demonetization, push towards digital economy, ghastly implementation of Goods and Services Taxes (GST) etc. The Labour Force Participation rate (LFPR) in India is among the highest in the world presently despite showing some declining trend in the last few years. This is due to a large share of population (two-third of population) are in the working age group of 15–59 which gives India a chance to reap the gains of this large demographic dividend in fostering its growth. Also, India was not only among the nations of the world that mostly remained immune to shocks of the global financial crisis of 2008 but also witnessed high growth rate in the aftermath of the crisis.

Despite of all these achievements Indian economy has been grappling with many challenges such as high poverty, inequality, high unemployment, rising inflation, low human capital development, deteriorating balance of payment and current account deficit, high fiscal deficit, poor infrastructure, high share of unorganized sectors in the economy, low rate of capital formation and domestic saving and some other macroeconomic shocks like volatility in financial market, capital outflows etc. which have become quite severe due to outbreak of coronavirus pandemic and the government was left with no option but to impose strict lockdown. This lockdown brought major economic activities to standstill impacting lives of millions and mainly low income underprivileged sections of the society. This problem got even worse due to the second wave of the pandemic. Therefore in the aftermath of this pandemic where things are expected to get worse further due to additional fiscal burden of the government, India needs better and more prudent policy actions to tackle these challenges.

The aim of this paper is to describe in detail about major challenges that India's economy currently face and some policy prescriptions especially in the context of this ongoing pandemic to better manage these challenges. Section 1 presents major macroeconomic challenges that the Indian economy faces including the challenges faced during the ongoing crisis, Section 2 presents some policy responses by the government and the alternative policy actions, Section 3 presents limitations and opportunities for the government followed by references in Section 4.

2. Major Challenges for India's Economy

2.1. Declining Growth Rate

The Indian Economy growth history since independence has been a remarkable one. Though average annual growth rate of Indian economy stagnated at around 3.5% before 1991 which is also widely known as Hindu rate of growth , the growth rate rose after 1991 economic reforms in the form of Liberalisation Privatisation and Globalization (LPG) which the government undertook due to severe macroeconomic challenges like burgeoning fiscal deficit, rising inflation, plummeting growth and unemployment, capital plight, deteriorating balance of payment conditions, and current account deficit etc. that it faced during that period and the growth rate accelerated to 5.5% for the period between 1991 and 2000. But it was the period from 2000 onwards when internet revolutionized the way businesses are done across the globe, India's growth story has been tremendous thanks to LPG reforms that the government undertook in 1991. The average growth rate since 2000 to 2010 has remained above 7% and it was only during that period in the year 2006–07 that India clocked the highest annual growth rate of above10%. Though the financial crisis of 2008 swept the whole world and India was not immune to it fully, however it was able to recover faster than most of western economies due to its prudent and stricter regulations on financial institutions. The growth rate for 2008 plummeted to 3.08% but rose sharply in the subsequent years to above 7%. In the year 2013 India faced yet another macroeconomic challenge in the form rising inflation and widening current account deficit due to global oil price shock but annual growth rate remained intact above 6%, thanks to effective and prudent intervention by Reserve Bank Of India (RBI). But India's annual growth rate reduced sharply after 2016 due to major structural shifts within the economy post demonetization and hasty implementation of GST. The growth rate plummeted from 8.25% in 2016 to 4.81% in 2019.

The Indian economy then witnessed the severe crisis in the form of COVID-19 for which it was totally unprepared. The tremors of the crisis were felt across all sectors of the economy. The GDP growth rate declined sharply and went into the negative territory to −8% for the financial year 2020–21 as shown below (Figure 1). The Index of Industrial Production (IIP) which gauges intensity of manufacturing was 137.4 in the month of January 2020 and then fell sharply to 54 in the month of April 2020 when lockdown was at full phase. The IIP then started recovering from and reached 145.5 in the month of March 2021 as shown below (Figure 2). It then fell drastically to 126.6 in the month of April as the economy was hit by the second wave of the pandemic. Many experts believed that the impact of the second wave would not be as severe as the first wave. According to Chief Economic Advisor K.V. Subramaniam our economy is going to recover from the month of July onwards but this recovery momentum will once again be halted due to the third wave of the pandemic expected to hit India soon. India will be among the economies which will be worst affected with output falling to 12% below the pre-crisis level till the middle of the decade according to Oxford Economics. The sectors that are badly hurt are the manufacturing and services sectors like tourism and hospitality, travel, education etc. The lockdown and social distancing norms curtailed the production activities across the sectors. According to ex RBI Governor Dr. Raghuram Rajan, the COVID 19 crisis is the worst crisis that India will witness after Independence. Initially there will be economic repercussions but later the effect will be felt at personal and social level. The recovery of the economy to its normal level will not only depend on this pandemic but also on macroeconomic foundations of the economy and the policy measures adopted by the government to correct the economy.

FIGURE 1. Below shows GDP growth rate over years.

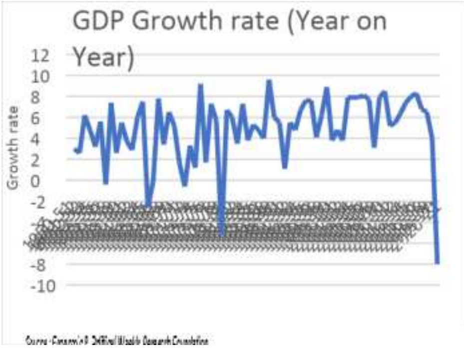
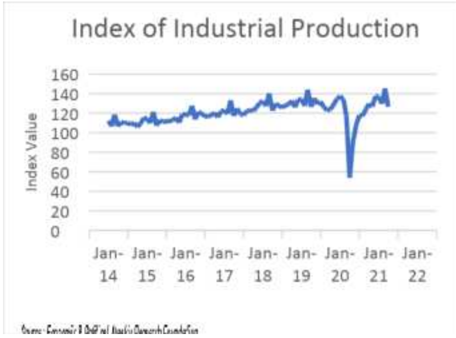


FIGURE 2. Below shows IIP.



2.2. Unemployment

The challenge of jobless growth of an economy is one of the serious issues that the policy makers are jostling with. In the initial years after independence unemployment was not a major challenge and the policy priority for the government was to promote growth, industrialization, poverty reduction etc. Decent growth of GDP and growth of labor absorbing industries in the initial years of planning pose no threat of rising unemployment. However, the economy grew at a slower pace (around 3.5 as against the planned rate of 5% per annum) and the labor force grew more rapidly than the increase in employment doubling the unemployment figures during 1956–72, from around 5 to 10 million and increasing the unemployment rate from 2.6 to 3.8% (Papola, 1992). The government then responded by introducing various employment generation programs during fifth five year plan (1974–79) which recognized unemployment as a major challenge. The challenge became more serious when the population of India began to rise sharply due to a sharp decline in death rate because of various health and family planning measures adopted by the government. The unemployment rate, total (percent of total labor force) (International Labour Organization modeled estimate) hovered between 5 and 6% from 1991 to 2019. At the same time labor force participation rate for ages 15–24, total (percent) (national estimate) for India declined from 44.64% to 26.67%.

There are various causes of unemployment in India, the most prominent among them are large population size, high poverty among the population as it hinders the opportunity of getting requisite skills to work and education to get employed, lack of vocational skills among the workers, social norms that do not allow women to get employed, large dependence of population on agricultural sector which only contributes around 17% of the total GDP and where the problem of underemployment and disguised unemployment is widespread, decline in the share of labor absorbing manufacturing sector and growth of less labor absorbing capacity service sector etc. In the last five years the problem of unemployment was exacerbated by the demonetization in 2016 which badly hurt the small, medium and informal, and unorganized sectors of the economy and then the introduction of GST in 2017 which disrupted the functioning of businesses across sectors and again small and medium scale businesses were severely affected. Also privatization of government undertakings and mergers of entities like public sector banks ensured less availability of government jobs. In the last one decade there is a declining trend in the growth of more labor intensive sectors like textiles sector which is worrisome because it will only add to the growing problem of unemployment.

The unemployment rate rose sharply in the aftermath of the first wave of COVID-19 crisis as there was a big jump in unemployment rate, total (percent of total labor force) (International Labour Organization modelled estimate) from 5.27 to 7.11 from year 2019 to 2020. The unemployment with advanced education and basic education (percent of total labor force with advanced education) stood at 15.11% and 3.85% respectively. High unemployment rate with advanced education suggests that the pandemic has not only affected the jobs in the informal sector of the economy which requires low and basic education but it has also led to higher unemployment among the educated ones mainly employed in the formal sector. Employment to population ratio, 15+, total (percent) (modeled ILO estimate) too declined from 46.74 to 43% from the year 2019 to 2020. Overall working hours lost due to the pandemic in 2020 for India was 13.7% which is higher than the global rate of 8.8%. According to the Centre for Monitoring Indian Economy (CMIE) total job loss in the April month of 2021 is over 7 million due to the second wave of the pandemic and the unemployment rate was in double digits close to 12% in the month of May 2021. The unemployment rate for 15 years and above increased drastically to 23.52% after the first wave in the month of April of 2020 which can be attributed to job losses due to closure of manufacturing units across India due to national lockdown imposed (Figure 3). Though unemployment rate fell in the later part of the year to its normal level due to easing of some restrictions imposed and workers allowed to resume production activities with physical distancing norms, it rose to above 10% in the month of May 2021 due to the second wave attack which again disrupted production activities. The unemployment rate for urban male shows a similar pattern (Figure 4). The crisis has not only affected the blue collar jobs but also white collar jobs as well as unemployment rate rose even in the formal sector during the pandemic. But with the easing of restrictions imposed from July onwards unemployment rate is also expected to fall. However, there is speculation about the third wave in the form of rise of Omnicorn variant which seems have already started. This is can soon take a virulent form but its effect on unemployment rate and economy as a whole will depend upon speed of vaccination and the proactive measures that we take to prevent the spread of virus.

FIGURE 3. Below shows unemployment rate for 15 years and above.

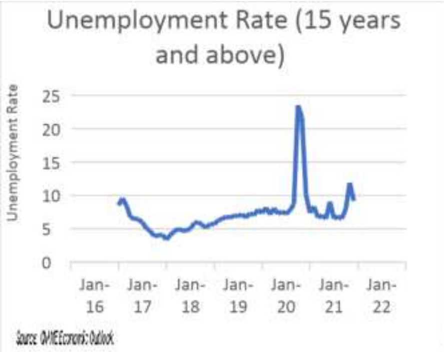
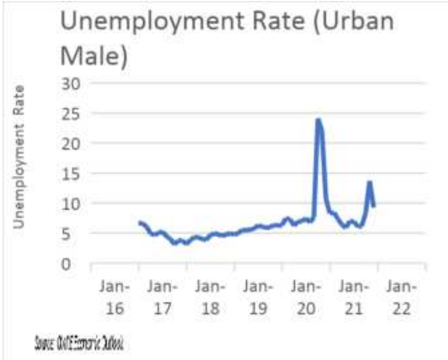


FIGURE 4. Below shows unemployment rate for urban male.



2.3. Inequality

Though being the fastest growing economy in the world, India is one of the most unequal countries of the world. Widening Inequality is a serious challenge in India and increasing crony capitalism has further added to this woes. In simple words inequality shows how evenly the income is distributed among the people of a country. Income inequality can further lead to the problem of wealth inequality which is of the more severe type of inequality of the two (though there can be other forms of inequality like social inequality and regional inequality etc.). In India top 10% wealth owners control almost 77% of wealth and top 1% of them control almost 58% of wealth which is higher than the global average of 50%. There are 119 billionaires in India. Their numbers have increased from only 9 in 2000 to 101 in 2017. Between 2018 and 2022, India is estimated to produce 70 new millionaires every day (Oxfam India). According to World Inequality database share of top 10% income earners increased from 40.9 to 57.1% and on the other hand the share of bottom 50% income earners declined from 18.5 to 13.1% from year 2000 to 2019 Also according to United Nations Sustainable Development Goals report share of bottom 40% of population in India has fallen significantly from 13% in 1990 before LPG reforms to 8.4% in 2019.

After independence from 1950 to 1980 India witnessed a declining trend in inequality. Inequality rose after that period and especially after 2000 it rose even more sharply. Though India was able to achieve an unprecedented growth rate after 2000 but it was only at the cost of rising inequality and poverty. Despite the fact India is the fastest growing economy in the world, it fares poorly in terms of Human Development Index (HDI) rank at 131 according to latest report by United Nations Development Program (UNDP) in 2020. This highlights that India is one of the nations of the world where standard of living is poor and the benefits of higher growth rate have not percolated down to the lower strata of the society. Some of the policy initiatives like demonetization, push towards cashless economy and early implementation of GST have further widened this inequality gap. A growing body of evidence has also demonstrated that economic inequality is associated with a range of health and social problems, such as mental illness and violent crime (Oxfam India).

The share of income those who are at the top have increased and those who are at the bottom of the pyramid have decreased continuously (Figure 5), the trend may continue even in the severe form in the wake of the pandemic as it has affected the lives of millions low income group people and their share of income is expected to decline in coming years.

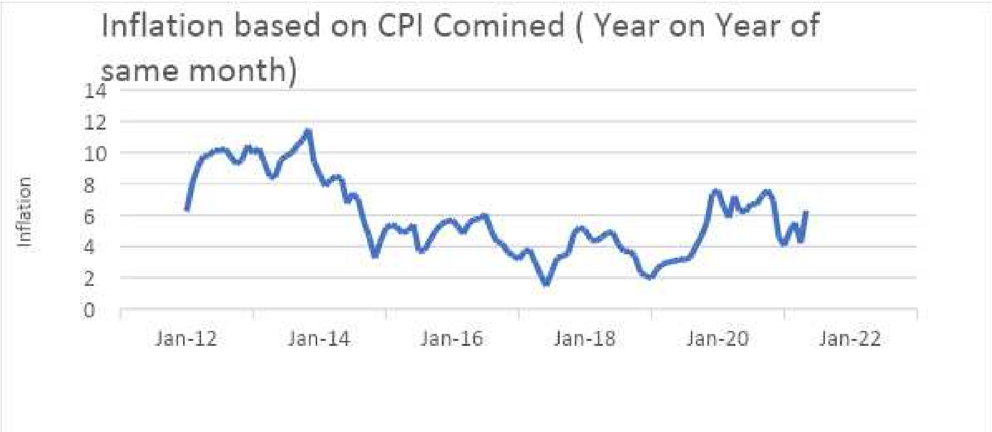
FIGURE 5. Share of income of top 10 & bottom 50%.

2.4. Inflation

Inflation means a sustained rise in the price of goods and services in an economy. Rising inflation is one of the concerns for India for the last two decades. India's growth rate is one among the highest in the world but with high growth comes high inflation. Though a moderate rate of inflation is beneficial for a developing country like India as it gives incentives for producers to produce more goods and services in an economy which in turn employ more workers and earns wages which they can spend on their consumption. But inflation, if not controlled, can give rise to serious problems as it affects the lives of millions of poor and middle income groups of people by eroding their purchasing power. It also increases the cost of borrowing and lowers the rate of domestic savings which in turn can affect the rate of capital formation if cheap and adequate sources of external borrowings and foreign investments are not available in an economy.

India suffered a very high annual rate of inflation from 2009 to 2013 onwards which on an average remained more than 9% and it touched almost 11% in 2013 due to burgeoning current account deficit and oil price shock. Failure to contain inflation was one of the reasons why RBI adopted flexible inflation targeting regime under the recommendations of Urjit Patel Committee in 2014 where the target of the RBI was set to contain inflation based on Consumer Price Index-Combined (CPI- Urban + Rural) to 4% plus or minus 2%, failing to achieve so in three consecutive quarters would be considered as failure of monetary policy. Since the adoption of this flexible inflation targeting regime, RBI has managed to control the rate of inflation within 4% plus minus 2%. But in 2020 the inflation rate reached 6.2% above the upper tolerant range and is expected to rise further due to massive disruption of economic activities and supply chains due to the present pandemic. Though food inflation which touched almost 11% during December 2019 has eased and is hovering around 2% (March 2021) currently due to improvements in supply chains. Inflation measured by CPI Combined shows that it hovered above RBI upper tolerance range of 6% from January 2020 onwards and then came below 6% in the later part of the year and then again spiked above the upper tolerant range from March 2021 onwards (Figure 6) due to attack of the second wave of the pandemic which has caused supply side disruptions. With inflation in India a supply side phenomena and dependent on uncertain monsoons, it would be a challenge to control it in the coming days in the wake of the ongoing crisis. This rising inflation can pose serious challenges to the economy as a whole as it has very wide economic ramifications.

FIGURE 6. Shows inflation based on CPI combined.



2.5. High Fiscal Deficit

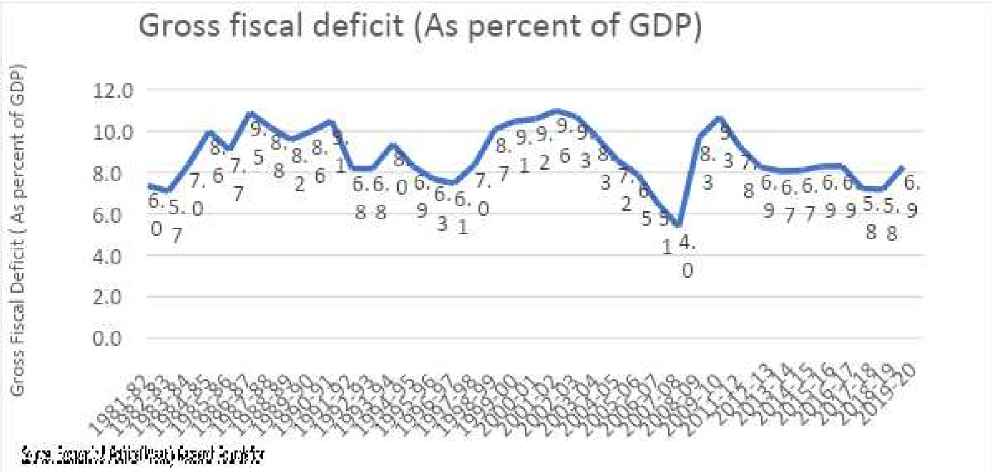
Fiscal deficit is the amount needed to be borrowed by the government in order to finance its expenditure. It is like a thermometer which gauges the financial health of an economy. India has been always struggling to keep its fiscal deficit in check due to its rising expenditure on health, social security, education etc. High fiscal deficit leads to the problem of high inflation within an economy which hurts mainly the middle and poor sections of the society. Although many experts believe that fiscal deficit is desirable to revive the economy mainly during periods of recession as the deficit incurred to build capacity of an economy in terms of infrastructural investments creates demand conditions in an economy which helps in reviving growth. Fiscal deficit if kept in check within a certain range can lead to better outcomes in an economy.

In 1991 before LPG reforms, the fiscal deficit was almost 8% of GDP. Post LPG reforms, the fiscal deficit kept its erratic trend of rise and fall but still was above 6% of GDP and this was mainly due to rise in non-developmental expenditure by the government. Failure to keep a check on fiscal deficit, the government resorted to enactment of Fiscal

Responsibility and Budget Management (FRBM) Act in 2003 with the aim to improve financial discipline where the target was to bring down fiscal deficit to 3% of GDP. The result of this act was seen in the form of gross fiscal deficit (Deficit of union and states combined) showing a declining trend from 5.72% in 2002–03 to 3.94% in 2015–16. But the inability of the government to bring down the fiscal deficit to 3% of GDP resulted in amendments in FRBM Act in 2012 where the objective was to set the fiscal deficit to 3% of GDP by March 2015. But again with the inability to bring down fiscal deficit to the set target, the government amended the FRBM Act in 2015, and then the timeline was set as 31 March 2018 with annual reduction in fiscal deficit by minimum of 0.3% of GDP. In 2016 a review committee under N.K. Singh was formed which recommended that the government should target a fiscal deficit of 3% of the GDP in years up to 31 March 2020 and cut it to 2.8% in 2020–21 and to 2.5% by 2023. The latest provisions of the FRBM act require the government to limit the fiscal deficit to 3% of the GDP by 31 March 2021, and the debt of the central government to 40% of the GDP by 2024–25. Despite efforts being taken, the fiscal deficit hovered between 3% and 4% between 2014 and 2019 (RBI Sources).

Fiscal deficit in 2020 saw a big jump to 9.5% of GDP from 3.77% in 2019 and this was expected as the government had to push spending to revive the economy that was wrecked due to the pandemic. With the second wave of the pandemic disrupting the businesses yet again, the fiscal consolidation objective will be challenged and the government is not likely to meet this objective at least till the middle of this decade. The FRMB Act also provides for Escape Clause in case of emergency situations like the present pandemic because in such circumstances it is only the government spending that will boost the investment and demand conditions in the economy. But the scary fact is that the major part of this spending will be towards revenue expenditure and not capital expenditure. The RBI report warned that COVID-19 pandemic may also leave lasting scars on federalism in India. It will have a bearing on intergenerational transfers, with lower discretionary spending or higher taxation in future. "States' indebtedness is set to rise, and if it is not accompanied by an acceleration in growth, fiscal sustainability will become the casualty, overwhelming the modest gains of the prudence in recent years (Kumar, 2020). The government had announced a big fiscal stimulus package of almost 10% of GDP after the first wave and this was followed by further stimuli to battle the second wave which were indented to focus on land, labor, small and cottage industries, and the MSMEs. As a result of which, the gross fiscal deficit in the financial year 2019–20 jumps to 6.9% from 5.8% in 2018–19 and a big spike is expected in the coming years after mammoth stimuli announced (Figure 7). According to Controller General Accounts data sources, the fiscal deficit of only the central government is expected to be 9.3%.

FIGURE 7. Below shows Gross fiscal deficit (Centre + states).



2.6. Unorganized Economy

Our country provides jobs to almost 90% of the workforce. It mainly includes agricultural and most rural non-farm activities. Non-farm employment in the unorganized sector has continuously increased from 136.7 million to 181.1 million from 2004–05 to 2017–18 (Chen, 2015). Because of a very high share of the workforce, the livelihood of millions is dependent on this sector in our country. This informal economy drives growth and livelihoods and supplies labor-intensive exports. Considering the dependence of the vast majority of the population on this unorganized sector, it is reckoned as the backbone of our economy. The so-called structural reforms in the form of demonetization introduced in 2016 and then the push towards digital economy badly disrupted the functioning of these small firms operating in an unorganized economy which are largely dependent on cash for their day to day transaction purposes. Then the implementation of GST also had a large adverse effect on firms in unorganized sectors as they were totally new to this regime of taxation and most of the small unorganized firms which were at the verge of becoming organized were pushed further towards informality.

Though unorganized sectors provide jobs and livelihood to millions in our country but that is mostly of subsistence nature. In many instances it is just sufficient to bring them out of poverty. Thus they are not able to enjoy the healthy standard of living. They also face other challenges like low level of fluctuating income, difficult work conditions, lack of legal protection, numerous legal and physical risks and social standing (Chen, 2015). The workers employed in this sector have low bargaining power because of lack of unionization. Due to lack of bargaining power most of them are incapable of securing even minimum wages and are thus pushed to the verge of poverty. The rise in unemployment during this pandemic will further reduce the bargaining powers of the workers and push them towards the informal sectors and poverty.

2.7. Financial Fragility

The financial sector is considered to be the backbone of an economy. Any shock to the financial sector can have a disproportionate large effect across all sectors of the economy. This sector plays a vital role in channeling the credit to the real sectors of the economy.

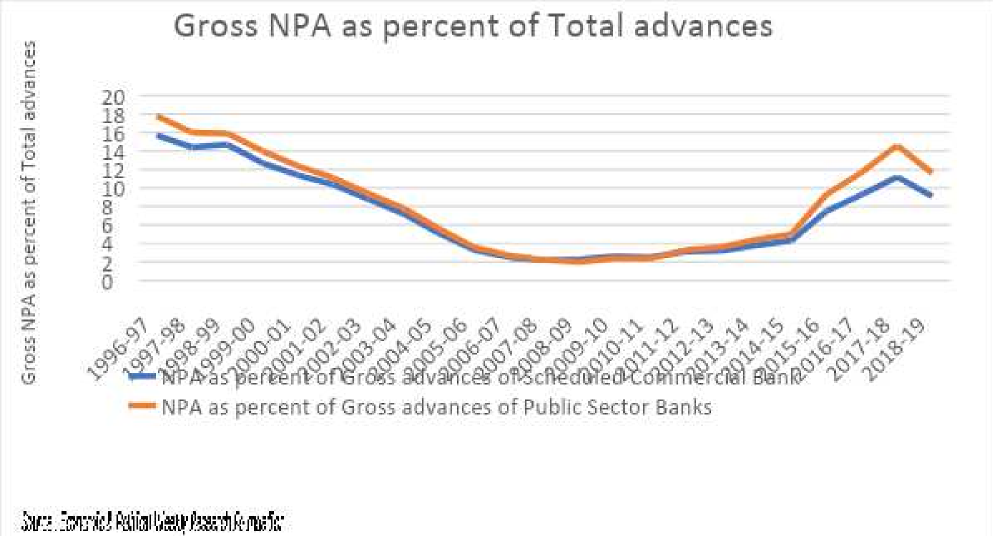
India has been struggling to tackle the challenge of Non-Performing Assets (NPA) in the banking sector. During the period of its boom from 2000 onwards to 2007, India was one of the fastest growing economies of the world and average growth rate remained above 7% . It was during this period that banks lent aggressively in lure of making profits without completely assessing the creditworthiness of borrowers. But in the aftermath of the financial crisis of 2008, many borrowers defaulted and the so called assets of banks i.e. turned into NPA. Also bureaucratic and political influence in the loan approval process to the big corporations further added to the NPA problem. According to RBI sources, the top 12 big borrowers contributed to around 25% of total NPA in 2017. The share of total NPA by big borrowers has increased over time to around 70% of total stressed assets. Gross Non Performing Asset Ratio of both Public Sector Banks (PSB's) and All Scheduled commercial Banks (SCB's) started to rise with PSB's bearing the brunt in the recession followed by the 2008 crisis due to aggressive lending during the boom period prior to the crisis. Gross Non Performing Asset Ratio of both PSB's and SCB's hovered in double digits in 2018–19 and then it started to fall (Figure 8). But the ratio is expected to rise in subsequent years in this era of pandemic with businesses unable to repay their debt obligations. According to RBI Financial Stability Report released on 1 July 2021, Gross Non Performing Asset Ratio for Scheduled Commercial Banks may increase from 7.48% in March 2021 to 9.80% by March 2022 under the baseline scenario; and to 11.22% under a severe stress scenario. This rising NPA problem of banks may severely dent the lending capacity of banks to the needy real sectors of the economy in this era of pandemic.

As a result of rising NPA problems in the banking sector, Non-Banking Financial Companies (NBFCs) emerged as a source of finances to the corporate sector and their total loan was equal to 11.5% of GDP by March 31 (Dasgupta, 2020). But the fall of the biggest NBFC IL&FS in 2018 created adverse effects across the financial sector and it was evident that NBFCs cannot be relied on and substituted for banks in terms of advancing credit.

The government resorted to multi-pronged approach to tackle the problem of rising NPA like Corporate Debt Structuring in 2005, 5:25 rule and Joint lending forum in 2014, Mission Indradanush in 2015 where capital infusion into the banking sector was proposed in a phased manner apart from other governance reforms like establishment of Bank Board Bureau (BBB), Strategic Debt Restructuring and Asset Quality Review in 2015, Sustainable Structuring of Stressed Assets (S4A) and Insolvency and Bankruptcy Code in 2016, Prompt Corrective Action (PCA) etc. These were corrective, administrative and governance reforms in the form of 4 Rs – Recognition of bad debts, Recapitalization of banking sector, Resolution of stressed assets, and Reforms i.e. structural reforms in the sector.

The problem of NPA is going to be severe in the wake of an ongoing pandemic which is going to affect the credit flow to real sectors of the economy. One of the ways of tackling this challenge could be to grant banking licenses to few established NBFCs of known repute and performance and few private players having strong presence among the masses.

FIGURE 8. Below shows the NPA of Banks.



3. Some policy responses and alternatives in the context of COVID -19 crisis

3.1. Monetary Stimulus

Starting on 21 March 2020 various financial and economic assistance programs were announced by the government for sectors or groups such as the health sector, the poor, the farmers, the unorganized sectors. The RBI intervened through its monetary policy intervention tools and tried to reduce the stress of the monetary and financial system. The RBI reduced the repo and reverse repo rates and injected liquidity of 3.74 trillion rupees into the financial system. RBI also announced Ways and Means Advances (WMA) and other short-term liquidity to state governments in order to equip them financially to fight the pandemic. It also provided liquidity to All India Financial Institutions (AIFIs) like National Bank for Agriculture and Rural Development (NABARD), Small Industries Development Bank of India (SIDBI), National Housing Bank (NHB), and Export and Import (EXIM) Bank to provide finances to sectors whom these institutions serve.

Some other major initiatives taken by the RBI was the announcement of The Government Securities Acquisition Program (GSAP 2). This is a sort of quantitative easing by the Federal Reserve System (Central Bank Of United States) where the RBI buys government securities to inject liquidity in the monetary system with the idea to boost consumption and demand. RBI Governor Shantiniketan Das in the month of April further 2021 announced infusion of 1 trillion rupees in the monetary and financial system. With this increase in money supply in the economy, bond yields remained low which reduced the cost of borrowing by the businesses. The RBI had also announced a loan moratorium scheme for some of sectors badly hit by the pandemic like tourism, hospitality, aviation, and small scale industry. The Monetary Policy Committee (MPC) further announced its accommodative stance which at least no further rise in interest rates till the next meet.

To fight the second wave of the pandemic RBI Governor announced the opening of an on-tap liquidity window of ₹50,000 crore with tenors of up to three years at the repo rate. The scheme will remain open till 31 March 2022, wherein banks can provide liquidity to the entities involved in manufacturing and supply of vaccines, priority medical devices, hospitals/dispensaries, pathology labs, manufactures and suppliers of oxygen and ventilators, importers of vaccines and Covid-19-related drugs, logistics firms, and also to patients for treatment (Bhuva, 2021).

3.2. Fiscal Stimulus

Last year the government announced a huge 20 lack crore rupees of fiscal stimulus to fight the pandemic which is roughly equivalent to 10% of GDP. It was a comprehensive package in the form of fiscal, monetary, and some structural reforms. Some experts have argued that the fiscal component was only 2.2% of the GDP in the entire package and the package proved insufficient to revive the MSMEs sectors which were in dire need of finances. Also, it could not fully address the issues of mistreatment of workers and immigrants suffering the wrath of the crisis. A fresh need for a second such package is also argued among economists especially when the second wave once again has disrupted the momentum of growth in the economy to solve the problems of the most needy small scale industries and informal workers who otherwise would be pushed towards poverty. The Prime Minister also articulated a vision of Atmanirbhar Bharat (Self-reliant India) with a focus on increasing domestic production and taking advantage of the opportunity created by the present crisis.

The second wave of the pandemic had impacted India the most. At the beginning many lost their lives and many were admitted in the hospitals across the country. There was a severe crisis of oxygen cylinders throughout the country which resulted in loss of many lives. But thanks to the government for their later speeding up of supplies of oxygen cylinders to hospitals across all regions. It was a challenging task for the government as India had never experienced such a crisis and there were no ready-made policy prescriptions available to tackle such a monumental challenge which had huge social and economic implications. The steps taken by many states to impose partial lockdown were an appreciable one as it was meant to break the chain of virus spread and helped in protecting many lives though it was economically painful in short-term but only to ensure long-term stability of an economy. The expenditure on oxygen cylinders might have saved the government's enormous future health expenditures.

The impact of the second wave has almost unfolded and is not as large as the first one, thanks to states imposing partial lockdown and speeding vaccination. But as it comes on the back of depleted savings, debt, and reduced fallback options, the second wave can lead to potentially larger impacts on work, incomes, food security, health, and education in the days to come. The states, who are at the forefront of the pandemic response in terms of containment as well as welfare, are severely strained in their finances (State of Working India 2021: One Year of Covid-19,' released by Azim Premji University). The report proposed extending free rations under the Public Distribution System (PDS) beyond June, at least till the end of 2021, and cash transfer of Rs 5000 for three months to as many vulnerable households as can be reached with the existing digital infrastructure, including but not limited to "Jan Dhan" accounts. It suggested expansion of work days to 150 under Mahatma Gandhi National Rural Employment Guarantee Act (MNEREGA), 2005.

To battle the second wave of the pandemic Finance Minister Nirmala Sitharaman on 28 June 2021 announced some fresh relief measures for the economy focusing largely on extending loan guarantees and concessional credit for pandemic-hit sectors such as tourism, hospitality and aviation etc., and investments to ramp up healthcare capacities. A comprehensive fiscal stimulus worth 6.28 crore was announced to provide support to various pandemic hit sectors. ₹7,500 crore worth scheme to provide loans up to ₹1.25 lakh to small borrowers through micro-finance institutions was announced as a part of it. The existing Emergency Credit Line Guarantee scheme (ECLGS) was extended to 1.5 lakh crore. Many such schemes were announced by her as a part of huge fiscal stimulus whose main purpose was to stimulate growth and employment by lending support to sectors hit hard by the pandemic. The newly formed Union cabinet on 8 July approved yet another fiscal stimulus worth 23,123 crore for healthcare and emergency responses. It was too aimed to boost the transport facilities to address the problem of shortage of medicines and oxygen cylinders.

4. Limitations and opportunities for the Government

The resources available with the government are limited because the government's revenue and tax collection has fallen significantly. The borrowing under the present crisis will also be a costly affair. Saving to GDP ratio has fallen in the last five years and is 30.196% in 2020 due to fall in household and private savings which provide bulk of financing for investments. As the pandemic has swept across all the economies of the world the availability of foreign finances will be limited too. Under these circumstances well thought out policy measures are needed taking into consideration all trade-off and government's resources.

India needs to be well prepared to battle the third wave which will be difficult given we have already exhausted most of our resources and Debt to GDP ratio has already touched 80%. Huge fiscal stimulus announced by the government during the first wave and further stimulus during the second wave has tied the hands of the government. In this scenario more stimulus could lead to other macroeconomic challenges like burgeoning budgetary and fiscal deficit and inflation. The crisis has also affected the government's ability to collect taxes and revenues which will further add to the woes. India needs to be circumspect of this fact as it has been pointed by Dr. Raghuram Rajan that COVID-19 is the worst pandemic that India has ever faced since independence and it can give rise to multiple economic challenges in future and in the long run its effect will not be felt only at an economic level but also at personal and social level. Therefore the challenge in the long run is not just only to revive growth but also to protect employment of millions and to prevent further widening of social, regional, and class inequality. As also pointed out by many experts that pandemic is going to last till the middle of this decade, so its long run adverse economic effect will be felt throughout this decade till all the macroeconomic touchpoints return to pre-pandemic level. Therefore a well thought-out, clear, and concise approach is the urgent need of the hour to tackle this pandemic.

Given the herculean task ahead and India already constrained by resources, it becomes even more daunting. Because during such crisis times it is only the fiscal stimulus that puts the economy back to its path of normalcy as was evident during the great depression in 1930 and global financial crisis in 2008. But it also provides our country a chance to contemplate some policy alternatives which can finance such a huge fiscal stimulus package. The fear to use currency during the crisis by the people in recent times has pushed for the cause of a cashless digital economy which was envisioned by the government post demonetization. Also, the recent splurge seen in online buying and people shifting to online platforms for other business transactions can give a boost to consumption activities which occupy a major portion of the pie of GDP (60% of GDP). This move to online platforms can also put a check on illegal corrupt practices and help in boosting Tax to GDP ratio. According to some reports, the push towards digital economy has helped in curbing illegal activities like smuggling, hoarding, and black marketing though it will hurt the small scale firms which are dependent on cash for day to day transactions. So a calculated approach is needed here. The GST can be fine-tuned to ensure that its full advantages are reaped (Van Leemput, 2016). The different five tax rates under the present GST regime (0, 5, 12, 18, and 28% presently) can be done away with and instead we can have one Revenue Neutral Rate (RNR) which according to some studies pan out at roughly 15%. The Reverse Charge Mechanism (RCM) under the present regime can also be withdrawn. This can align with the very idea of a uniform and smooth tax regime as per international practices. These minor reforms will give confidence to foreign investors in the wake of this panic and can make India a huge Foreign Direct Investment Destination which will act as an alternative to finance such a huge fiscal stimulus package. The Foreign Portfolio Investors (FPIs) and Foreign Institutional Investors (FIIs) have also reposed their trust in our stock market as initially the stock market witnessed a bumpy ride but has not shown signs of mass exodus given its macroeconomic credentials. India can further take a calibrated approach in easing the norms for FPSs and FIIs who bring in additional resources in the form of huge foreign exchange currently at record high of 610 billion dollar and also provide RBI the laxity to intervene in foreign exchange market in case rupee depreciates in future. The huge fiscal package announced by the government is a sort of direct incentive and it may not work in the long run as the direct incentive package will only work once the crisis is fully over. Some economists argue that the huge fiscal package announced by the government is aimed at addressing supply side problems but the economy needs to be revived through bolstering demand.

The current crisis has promoted work from home culture which saves enormous amounts of money incurred on fuel by the people and prevents road congestion. This has helped in controlling air pollution which contributes to the cause of sustainable development. The government can use this as an opportunity to bring out policies to promote work from home and to tax luxury sectors which degrades the environment as this will shore up revenue collection and will also promote sustainable and environment friendly growth.

In short it can be said that steps taken by the government to deal with the crisis in terms of fiscal and monetary stimulus yielded short run desirable results but still a lot has to be done to put economy back to its normal trajectory in the long run which requires enormous resources. Some of the alternative policy prescriptions in the form of minor structural reforms discussed in this paper can provide the path to achieve its long run target. This pandemic can also be seen as a lesson to deal with such an unknown crisis and also as an opportunity to carry out further reforms which makes India a more resilient, stronger, and stable economy.

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Appendices

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