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Internship Report

On

'Measuring the Impact of COVID-19 on Fiscal Indicators to Analyse Government's Response and Recommend Fiscal Policy for the Recovery'

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Certificate

This internship report titled *"Measuring the Impact of COVID-19 on Fiscal Indicators to Analyse Government's Response and Recommend Fiscal Policy for the Recovery"* is a report on the study taken up at the Fiscal Policy Institute (FPI) in 2020-21.

The internship report is prepared by Abhiudaya Verma studying at National Law School of India University, Bengaluru under the mentorship of Sri. Subraya M Hegde, Consultant, Fiscal Policy Institute.

All opinion and conclusions expressed in the internship report are of the Intern and usual disclaimer applies.

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Institute's Seal

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Abbreviations & Illustrations

CGA: Controller General of Accounts
FD : Fiscal Deficit
FY : Financial Year
GDP: Gross Domestic Product
GOI: Government of India
GNP: Gross National Product
IMF: International Monetary Fund
RBI : Reserve Bank of India
WB : World Bank
WTO: World Trade Organisation

Tables

Declaration

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Date: **19-12-2020** **Abhiudaya Verma**

Abstract

The ongoing COVID-19 crisis has had an impact on demography and well as on the economy. The problem of looking after both is looming over the governments of various countries including India. This paper shows the drastic changes in the government account book due to the impact of the crisis. Moreover, it analyses the future trends and estimates of the fiscal indicators to get an idea of where the Indian economy is headed. Following this, there is a short critique of certain fiscal measures taken by the government to deal with the crisis and concluding with recommendations for the fiscal policies required for the recovery of Indian economy. The study has found the economic health of the Indian economy to have deteriorated to a point where recession is imminent in the coming years. The current measures taken by the government are constrained by the economic reality. Moreover, the findings reveal that fiscal space for government intervention is also shrinking.

Introduction

For years to come, 'the great lockdown' will make a significant mark in the history of world economy. It has changed the economic outlook of academicians and institutions on the fractures and fault lines of the current economic systems. The lockdown would force the major economies into recession and furthermore the continued COVID-19 crisis will hinder the recovery. In such a scenario, having a detailed outlook of the economic indicators and letting the economic data flow is necessary in order to have a close estimate of the future impact and thus plan accordingly for the recovery. International organisations like the World Bank and International Monetary Fund have been constantly revising their estimates for various macroeconomic indicators as new data is getting available. A number of economic and health organisations have been making recommendations to put a hold on the spread of the virus, improving health facilities and also fiscal and monetary measures to ensure recovery from the pandemic.

In India, the lockdown was imposed from the end of the month of March 2020 and currently after four months of complete and partial lockdown, India is slowly undergoing the process of 'Unlock'. However, the COVID-19 cases have been increasing every day and have made the process of Unlock quite a risk to public health. Indian economy, like most other economies, is under the dilemma of whether to utilise fiscal tools to control the spread of pandemic and improve healthcare or whether to use it to kick start the contracting economy. In all these circumstances, the pressure on the government's account book has been immense and must be pointed out to understand the financial situation of the country and henceforth take necessary measures to get through the era of the pandemic in the most optimal manner. This paper is therefore focused to bring out the impact of the crisis on the fiscal indicators and analyse their trends while pointing out the measures taken by Indian government and thus put forth the findings and recommend the fiscal route the Indian economy should take to tackle the crisis.

Literature Review

The worldwide research community and organisations have been relentlessly working and coming out with studies to have an estimate of the economic damage the COVID-19 crisis has caused and is yet to cause. Global organisations such as the World Bank, IMF, Goldman Sachs, Moody etc.

have been revising their past estimates on the economic health of the countries. A vast amount of data and literature has been generated in the previous months which is both descriptive of the current and future impact as well as prescriptive of the nature of policies and intervention required to recover from the crisis.

Vitor Gaspar and Gita Gopinath in their IMF blog 'Fiscal Policies for a Transformed World, July 2020' talk about the unprecedented expenditure the countries had to incur on public health. This extra expenditure has mostly come from borrowing for various countries leading to the highest ever estimated global public debt to global GDP ratio at 101.5 per cent at the end of year 2020. The authors in their above-mentioned paper recommend continued support to the health infrastructure and facilities to control the death rate and spread of pandemic; however, it has to be in a sustainable manner. " Relative to the January 2020 *World Economic Outlook,* fiscal deficits are expected to be more than five times higher in advanced economies (AEs) and to more than double in emerging market economies (EMEs), leading to an unprecedented jump in the public debt of respectively 26 and 7 percentage points of GDP" write the authors. In a recent IMF blog titled 'COVID-19 Response in Emerging Market Economies: Conventional Policies and Beyond, August 2020', the authors Martin Mühleisen, Tryggvi Gudmundsson, and Hélène Poirson Ward mention that the emerging economies like India, Brazil and South Africa are likely to face an uphill battle as they have not been able to control the infection unlike China or Vietnam.

The fiscal response for the ongoing crisis has been varied across the globe. Discretionary fiscal policies can have larger fiscal multipliers when policy rates are at the effective lower bounds and economic slack and fiscal space exist, because the policies can lead to a virtuous cycle that spurs private consumption and investment through higher inflation expectations and lower real interest rates (Auerbach and Gorodnichenko, 2013). Chapter 1 of the April 2020 *Global Financial Stability Report* indicates that the borrowing costs have risen sharply and have become more volatile since the coronavirus began. Antoinette Sayeh in June 2020 talked about strengthening the economic institutions for recovery from the pandemic. According to him, economic stabilisation in the current crisis requires more than financial assistance. Institutions responsible for debt management must work closely with the government to not lose sight of the increasing debt. Moreover, institutions responsible for public finance must be strengthened to make an effective use of the funds. Lastly, Antoinette also calls for a combined effort from the policymakers and development partners to collectively emerge with strengthened institutions from the Great Lockdown.

Data & Analysis

What do the Fiscal Indicators Reveal (Pre-COVID-19 and Current trend)

Total Receipts

The latest official data on the total revenue generated till the month of June for FY 2020-21 mentioned in theTable-1.1 was released by the CGA. The total receipts stand at 153581 cr rupees at the end of June 2020. Compared to its June 2019-20 FY counterpart, as shown in the table, the total receipts stood at only around 53% of the June 2019-20 FY collection.

Table 1.1: Total Receipts GOI June-July FY 2019-2020 & 2020-2021

(in cr rupees)

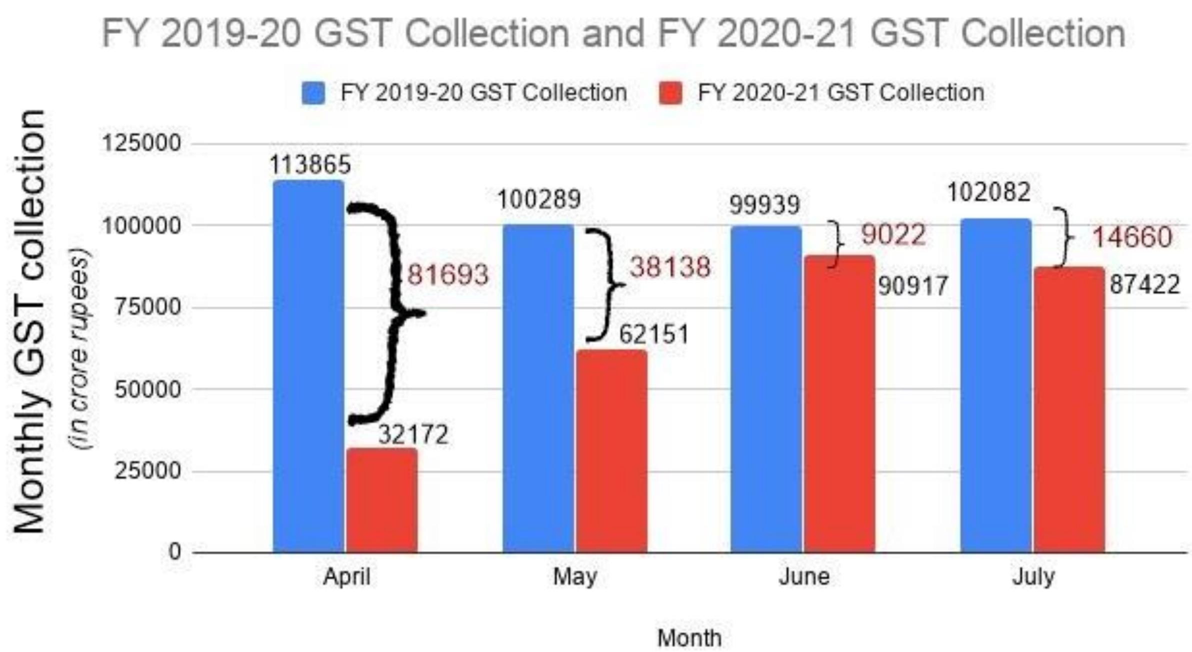
Months	2020-21		2019-20		% Difference
	Monthly	Year to date	Monthly	Year to date	(cumulative)
April	27548	27548	97631	97631	-71%
May	17950	45498	49199	146830	-69%
June	108083	153581	142820	289650	-46%
July	79279	232860	110023	399673	-41%

Data Source: CGA

The total receipts till the month of July specify that the total receipts in FY 2020-21 till the month of July are about 41% less than the total revenue generated till the same month in the previous financial year.

Out of Rs 2,32,860 crore of revenue till July, the share of indirect taxes was around 1 lakh cr rupees which is about 46 per cent of the total revenue generated till the month of July. A detailed distribution of GST contribution to indirect taxes till the month of July is given below. It is estimated that the share of indirect taxes in total revenue for this FY can be around the 50-55 per cent range.

Fig-1: GOI GST collection FY 2019 & 2020 (April - July)



Data Source: ***https://www.gst.gov.in/***

The sudden fall in GST collection is evident from the GST data released by the government. The highest difference was seen in the first month of complete lockdown of April and March as seen in the Figure-1. With partial economic activity resuming since the month of June, the collection showed a smaller difference as compared to the collection in the last fiscal year. However, the recent past months of July and August still show reduction in GST collection. This is the result of various exemptions provided by the Central government to businesses to file GST at later dates. In total, the first quarter of FY 2020-21 showed a 41% reduction in GST collection as compared to the first quarter of the previous financial year. The recent data of August also shows a difference of around Rs 12,000 crore as compared to the month of August of the previous financial year. This shows that the economic activity in the months of unlock has not returned to the previous levels and also depicts the shutting down of various SMEs in the months of lockdown and hence the GST collection levels are not able to reach close to the previous levels.

Table 1.2: Total Expenditure GOI April-July FY 2019-2020 & 2020-2021

(in cr Rupees)

Months	2020-21		2019-20		% More Spending
	Monthly	Year to date	Monthly	Year to date	(cumulative)
April	307060	307060	254679	254679	20%
May	204781	511841	258308	512987	-0.2%
June	304103	815944	208718	721705	13%
July	238265	1054209	225573	947278	11%

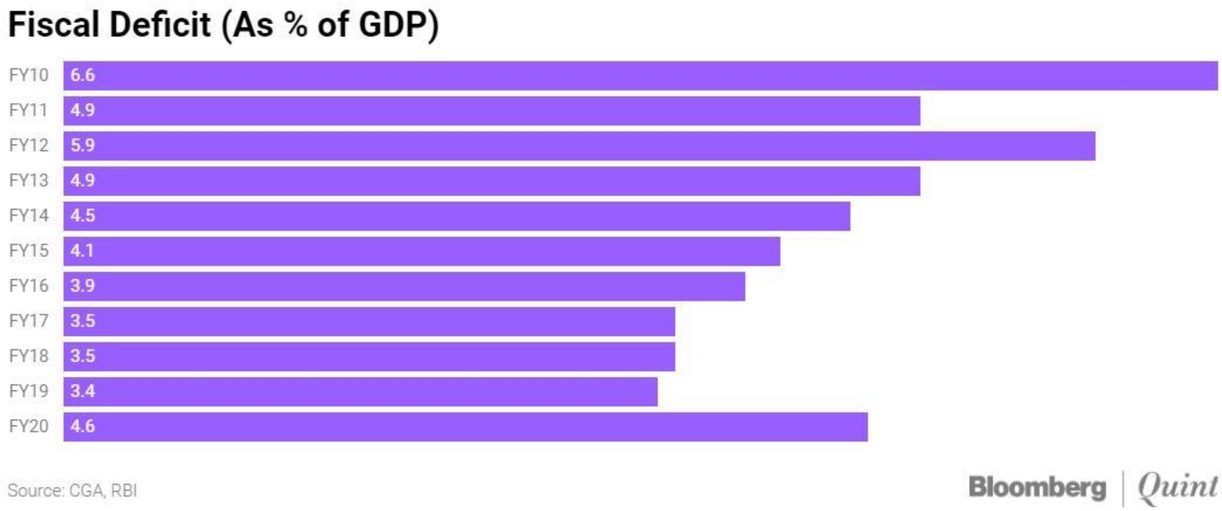
Data Source: CGA

The total expenditure has definitely increased in the initial months of the lockdown; however, it has not increased as much as it has increased in other developing and developed countries on account of the extra spending due to the pandemic. Till the month of July, the government spending increased by 11% as compared to the same months of the previous fiscal year (refer Table1.2). This relatively lower expenditure is the result of fewer 'above-the-line' measures taken by the government as compared to more 'below-the-line' measures. These measures will be discussed in detail in the coming section on fiscal measures taken by the Indian government.

Fiscal Deficit

The latest data on fiscal indicators released by a government entity is in the month of July 2020. The Controller General of Accounts, Ministry of Finance, released the data of government accounts up to the month of July 2020. This data certainly gives us a better picture of what is about to come and how the government accounts will look at the end of FY 2020-21. The fiscal deficit in FY 2019-20 was Rs 9.35 lakh crore. The government was not able to maintain the fiscal deficit even after revising the fiscal deficit target and increasing it to Rs 7.67 lakh crore using the escape clause in the FRBM Act. At the end of the FY 2019-20, the fiscal deficit was found to be around 4.56% of the GDP. The fiscal deficit figures for previous FY are majorly untouched by the COVID-19 crisis. Currently, the FRBM Act mandates the government to keep the fiscal deficit below 3.5% of the GDP with a 0.5% margin to increase through the escape clause in the Act.

Fig-2: Fiscal Deficit as % of GDP - GOI FY 2010 – FY 2020



Source: CGA, RBI

As per the data in the Figure-2, it is clear that the fiscal deficit was the highest at 4.6% of GDP in seven years.

However, the real trouble is yet to come. The fiscal measures taken to kick start the economy for recovery from the COVID-19 crisis are inclined towards increased borrowing to increase liquidity in the market. The government in the 2020-21 budget set the fiscal deficit target at Rs 7.96 lakh crore. This target seemed rather unrealistic considering the amount the government had already borrowed in the months of April, May and June. The Table-2.1 shows the fiscal deficit till the month of June which is Rs 8,21,349 crore. This is about 103% of the initial target of Rs 7.96 lakh crore.

Table 2.1- Fiscal Deficit April-July FY 2020-21

(in crore rupees)

Months	2020-21	
	Monthly	Year to date
April	279512	279512
May	186831	466343
June	196020	662363

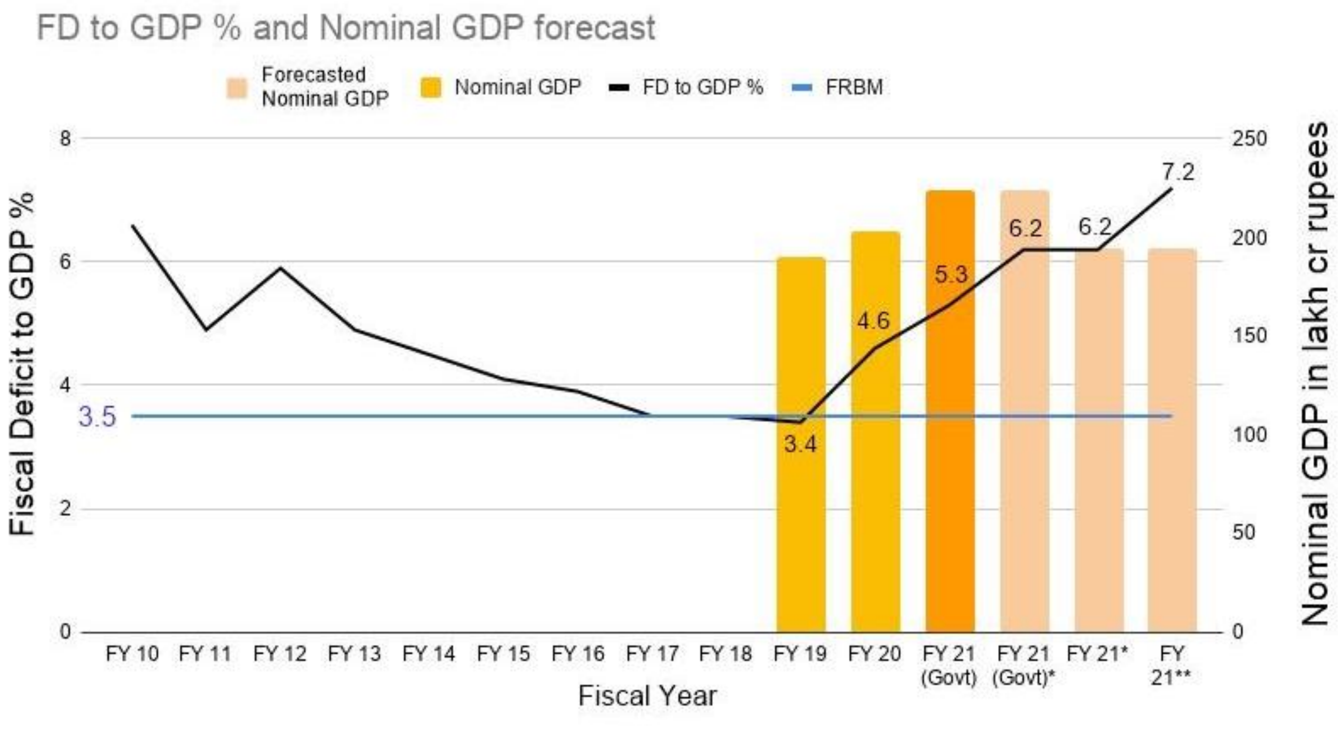
July	**158986**	**821349**

Data Source: CGA

In the month of May, the government came out with a rather more realistic target for fiscal deficit keeping it at Rs 12 lakh crore. The current deficit of about Rs 8,21,349 crore is 68.3% of the targeted figure of Rs 12 lakh crore in the first quarter of the FY 2020-21.

If we go into further analysis of the fiscal deficit considering the changes in the nominal GDP, the figures for fiscal deficit to GDP ratio are almost unbelievable. In year 2019-20, the nominal GDP was around Rs 203.47 lakh crore. Assuming that the growth in nominal GDP would be the same as that of last FY, i.e 7.2%, the nominal GDP in year 2020-21 will stand at Rs 218.11 lakh crore. Now being optimistic and assuming that the government will achieve the target of Rs 12 lakh crore as fiscal deficit and would not have to borrow more and the revenue figures will also improve as per the government's estimate, the fiscal deficit will stand at a staggering 5.3% of GDP (Figure-3) in the best case scenario for the current fiscal year.

Fig- 3: Fiscal deficit in India: Present level and Forecasts



Data source: PIB, Goldman Sachs, CGA, RBI, Self-estimated - Fiscal Deficit to GDP % (GOI)

Table 2.2 Fiscal Deficit estimation (GOI)

Fiscal Year (FY)	Nominal GDP Expected growth	Nominal GDP *in lakh cr (rupees)*	Fiscal Deficit (FD) *in lakh cr (rupees)*	FD as % of GDP
2018-19	(Actual) 11%	**189.73**	(Actual) **6.49**	3.420650398
2019-20	(Actual) 7.20%	**203.4**	(Actual) **9.35**	4.596853491
2020-21 (Govt.)	(Estimated) 10%	**223.74**	(Target) **12**	5.363368195
2020-21*	(Goldman) -5%	**194**	(Target) **12**	6.18556701
2020-21**[1]	(Goldman) -5%	**194**	(Target+120%) *approx* **~ 14**	7.216494845
2020-21 (Govt.)*[2]	(Estimated) 10%	**223.74**	(Target+120%) *approx* **~14**	6.257262894

Data source: PIB, Goldman Sachs, CGA, RBI, Self-estimated (GOI)

The Figure-3 and the Table-2.2 give an overview of the fiscal deficit to GDP % in the current fiscal year of 2020-21. The government in the BE-2020-21 had estimated the nominal GDP to grow at 10%. Using this figure, however it seems unrealistic, the FD to GDP is seen around 5.3%. The nominal GDP growth in the current context seems difficult to achieve as in the previous FY 2019-20, the government predicted the nominal GDP to grow at 11-12%, however, it only grew about 7.20%. Hence in the already contracting economy coupled with the COVID-19 crisis, the estimate of Goldman Sachs seems more realistic i.e. around -5% growth in nominal GDP.

We have also used this estimation of nominal GDP by Goldman Sachs to calculate the fiscal deficit with the Rs 12 lakh crore target of the government. This comes out to be around 6.2% of GDP which is more than double the target prescribed by the FRBM Act. Moreover, just like the nominal GDP figures, the fiscal deficit target estimation by the government also came out to be quite different from the actual figures. This was majorly due to the reduction in the Revenue Receipts which are all set to reduce even further due to lack of economic activity during the lockdown. The actual fiscal deficit in FY 2019-20 was about 120% more than what the government had kept as target. Hence, we have used the same error margin to the current fiscal deficit target of Rs 12 lakh

[1] **2020-21** -** The growth in nominal GDP is taken as forecasted by Goldman Sachs i.e. -5%. The Increase in fiscal target has been done as in case of 2020-21 (Govt)*.

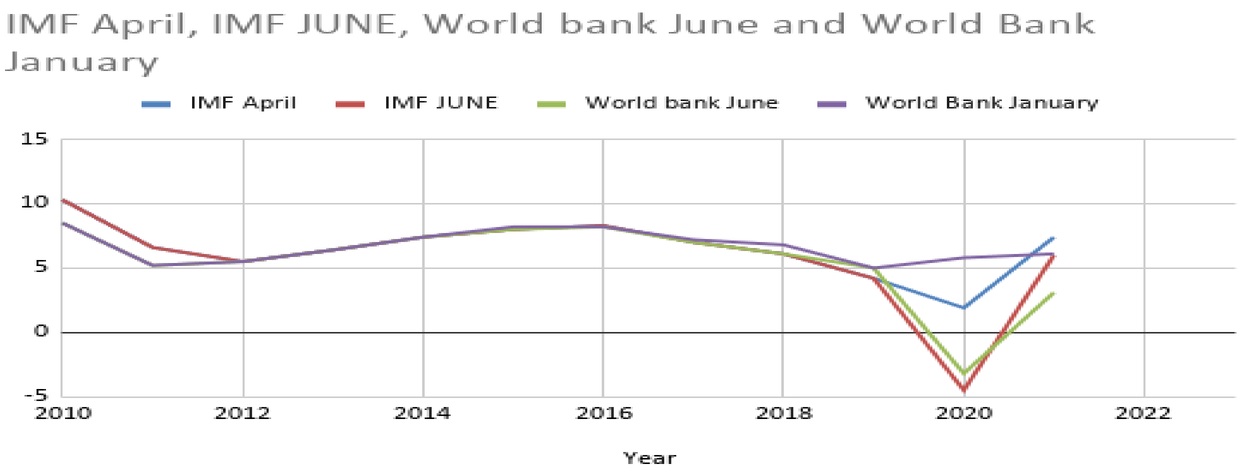
[2] **2020-21 (Govt)* -** The growth in nominal GDP is taken as mentioned in BE-2020-21 i.e. 10% but the fiscal target has been increased by 120% of 12 lakh cr as announced by the govt. The increase has been done based on the error margin witnessed in Fiscal Target set for 2019-20 and also the possibility of govt. borrowing more in than the revised amount.

crore and estimated it to reach around Rs 14 lakh crore considering the further reduction in revenue and increase in borrowing that is likely to happen. The final forecast for the fiscal deficit as a percentage of GDP has come to around 7.20%. This figure might seem a bit exaggerated; however, a number of rating agencies like Moody, Goldman Sachs etc have estimated that the fiscal deficit figures might reach the 8% bracket as well.

GDP trend

India's GDP has been falling since 2016. In FY 2019-20, the growth was pegged around 4.2%. The already emerging economic slowdown got mixed with the COVID-19 slowdown. The Q4 of FY 2019-20 showed only 3.1% growth which incorporated only about a week of lockdown. The numbers and forecasts for FY 2020-21 push India's economy into a state of concern. A plethora of agencies and organisations have been releasing their forecasts for India's growth. With the ongoing uncertainty, the forecasts of different organisations are certainly not in line with each other in terms of magnitude; however, they all definitely point towards a negative growth in FY 2020-21. This study looks at the GDP forecast data released by two international organisations, the IMF and World Bank (refer Fig-4). The World Bank in its January 2020 Global Economic Prospects report estimated a growth of 5.8% for India in FY 2020-21. This was two months prior to the COVID-19 pandemic. The estimate was showing an increase in growth figures for the current year compared to the previous fiscal year. While the January 2020 figures of the World Bank could not incorporate the impact of the pandemic, the IMF in April 2020 did get a chance to estimate the growth figures keeping the current COVID-19 crisis in mind. Clearly, the figures released in April 2020 underestimated the impact of the pandemic. The IMF in the April 2020 report estimated India's growth at a positive 1.9% which would have made India one of the few big emerging economies to have a positive growth.

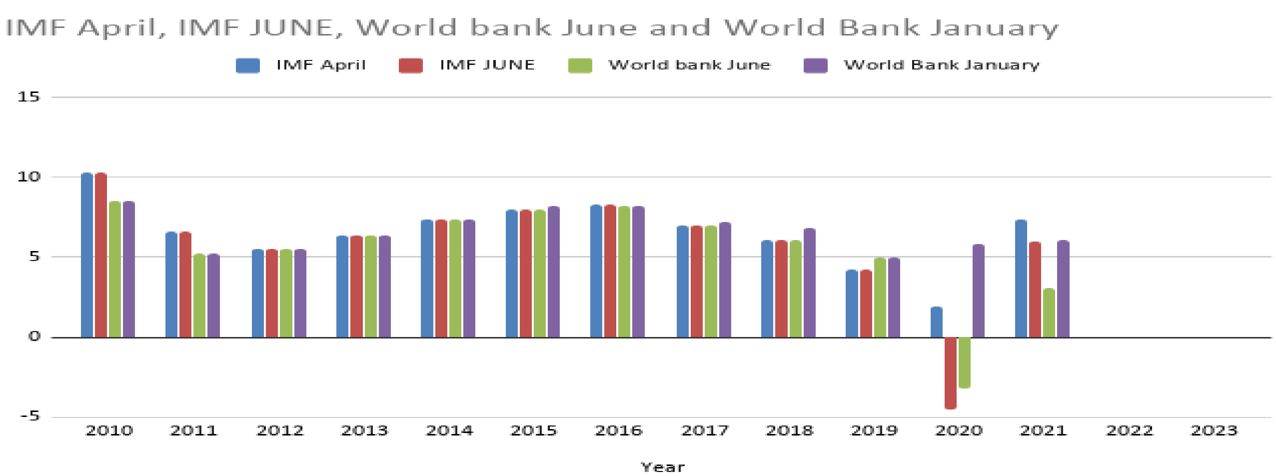
Fig-4: Post and Pre-Covid GDP Forecast India FY 2020



Data source: IMF, World Bank

The month of June showed revised projections by both the IMF and World Bank and the Indian economy along with the world economy was seen in great trouble (refer Fig-5). With a recession most likely to hit in the coming years, the GDP growth figures are astonishing for India. The IMF in June 2020 revised its GDP growth projection from 1.9% to a staggering -4.5 %. This would be the first time that India might see a negative GDP growth since 1979. The World Bank, however, has forecast the GDP growth for India at -3.2%, which is not as low as the IMF forecast.

Fig-5: Post and Pre-Covid GDP Forecast India FY 2020



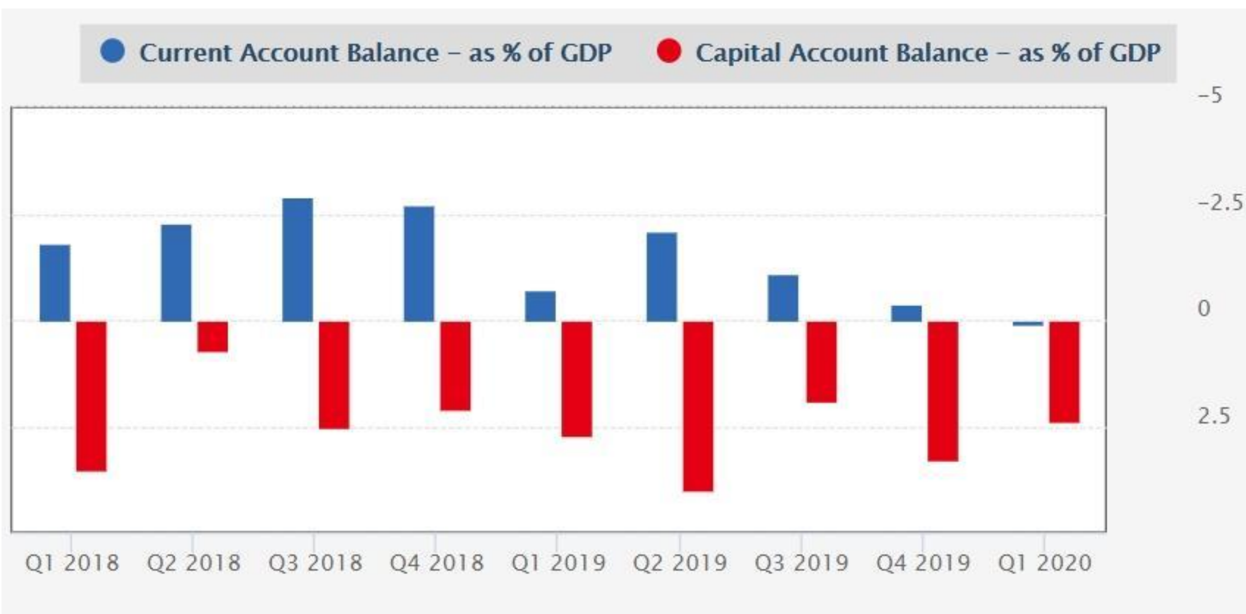
Data source: IMF, World Bank

Interestingly, what is being termed as the 'recovery year', FY 2021-22, has also seen varied forecasts. The GDP growth figure the World Bank had forecast without considering the impact of COVID-19 and GDP figure the IMF forecast with consideration of the COVID-19 impact were quite the same, i.e around 6%. This means that, according to the IMF, the Indian economy is expected to recover faster in FY 2021-22. But the World Bank believes that the COVID-19 shocks will resonate in the recovery year and hence it has forecast the GDP growth figures at 3.1%.

Balance of Payments

The data for BoP that showed the true effects of the lockdown and pandemic was released by the RBI in late September. Till now, the RBI has released the BoP data for only Q1[3] (Jan- Mar) of the year 2020 and for Q2 (Apr-Jun). However, as the lockdown in some western countries and China started before it started in India, the Q1 data just reveals the tip of the iceberg but the Q2 data gave a better picture of the government's current and capital account changes due to the pandemic.

Fig-6: Quarterly BoP GOI 2018-2020



Source: India Macro Advisors

The highlight of Q1 2020 BoP data is that it was the first time since Jan-Mar quarter of 2007 that the quarterly current account showed a surplus (refer Fig-6). Though this surplus was just around

[3] The yearly quarters Q1, Q2, Q3 and Q4 in this section of BoP do not correspond with the quarters as understood in the fiscal year (April-March) of Indian Economy but rather seen as quarters in one whole year i.e from Jan-Dec.

0.1% of GDP, it is indicative of the fact that the global lockdowns in various countries were responsible for this lower trade deficit and also because of the falling crude oil prices at the start of the year. There was also a rise in net invisible receipts which added on to put the current account in surplus. The roughly surplus (0.6 billion USD) in the Q1 is likely to be seen again as after the 2020 Q1, nationwide lockdown was also imposed in India which affected the imports even further and also stagnated the economic activity (refer Table 3.1). The net capital account on the other hand was in surplus which was about 2.4% of the GDP with net FDI at 12 billion USD. However, this was a huge surplus, Rs 1.25 lakh crore, as compared to Q1 of 2019 which was only Rs 1,356 crore. This larger surplus was on account of the lockdown beginning in foreign countries resulting in reduction in investment and the pulling out of capital from both debt and equity markets.

Table 3.1 : ***Balance of Payments Govt. of India Q1-Q4***

(in crore rupees)

Net Current Account Balance	**Year 2019**	**Year 2020**	**Net Capital Account Balance**	**Year 2019**	**Year 2020**
Q1 (Jan-Mar)	-328	↑ **4,037**	**Q1** (Jan-Mar)	1356	↑ **1,25,590**
Q2 (Apr-Jun)	-104351	↑ **1,50,034**	**Q2** (Apr-Jun)	199067	↓ **4,187**
Q3 (Jul-Sep)	-53382	*	**Q3** (Jul-Sep)	95640	*
Q4 (Oct-Dec)	-18733	*	**Q4** (Oct-Dec)	168286	*

Data source: *RBI* **data yet to be released*

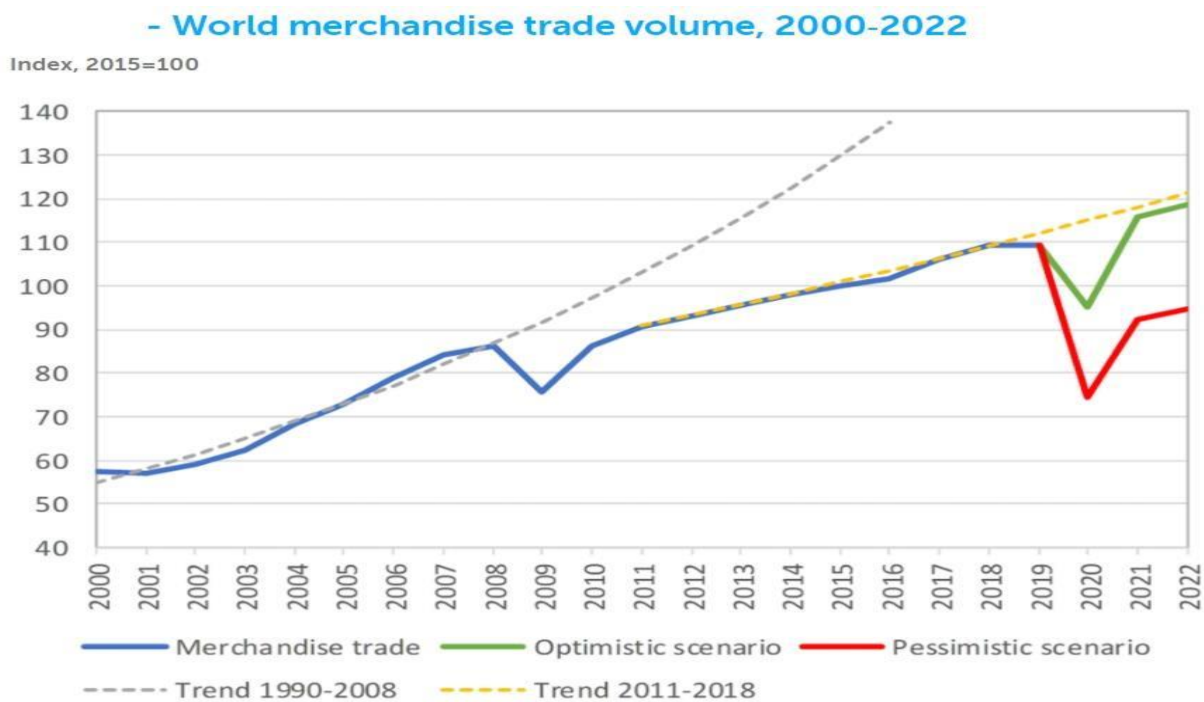
The RBI data of Q2 (Apr-Jun) for the year 2020, released recently in September, shows the true impact of the declined economic activity during the lockdown period. The above table shows an increasing trend of the Net Current Account Balance which increased from Rs 4,037 crore in Q1 to Rs 1.5 lakh crore in Q2. This surplus is not because there was more inflow of foreign capital from previous quarters but because of the much reduced inflow, as compared to the same quarter in 2019, and subsequently less increase in the outflow. In Q2 of 2019, the total inflow of foreign money was about Rs 11.2 lakh crore whereas in 2020 for the same quarter the total inflow was only Rs 9.3 lakh crore making a difference of about Rs 1.9 lakh crore in inflow. Similarly, the difference in the outflow of currency was Rs 4.4 lakh crore, meaning foreign goods and services were not purchased as much, compared to the Q2 of 2019. For the Capital account, the Net FDI in Q2 of 2019 was around Rs 97,313 crore whereas for Q2 of 2020 it was negative i.e Rs -2,973 crore meaning that India received less FDI as compared to its capital investment abroad. Net Foreign Investment also took a hit with a reduction in surplus from Rs 1,30,992 crore in Q2 of 2019 to Rs

1,895 crore in Q2 of 2020. All these data point towards the reduced economic activity in both India and foreign countries as a result of trade and travel restrictions amidst COVID-19 pandemic.

Fiscal measures across the World and India

The COVID-19 crisis, being a global pandemic, is also seen as a global financial crisis. A majority of the countries have been severely affected by the pandemic economically. Global trade saw a huge hit with production and consumption taking a hit in various big and small economies. The global merchandise trade took a hit during the 2008 financial crisis once and now the COVID-19 crisis has aggravated the trade slump even more (refer Fig 7). Economists at WTO are of the opinion that the trade slump due to pandemic would be greater as compared to the 2008 financial crisis; however, trade is set to rebound but the pace of recovery is uncertain.

Fig 7: World Merchandise Trade Volume 2000-2022



Source: IMF

These global figures of trade also depict the financial issues faced by countries domestically. This section will look at a few major developed and developing economies and the status of their fiscal indicators and compare them with the Indian context.

The US

With the end of the financial year on 30th September, 2020, the US had reached a record federal deficit of $3.1 trillion. This was the biggest size in proportion to the economy since World War II. In percentage terms, the deficit was around 15.2% of the GDP of the US. The treasury department is yet to release the official figures; however, the above figures by Congressional Budget Office (CBO) are expected to be near accurate. With the current National Debt of the country standing above $27 trillion, the debt to GDP ratio has reached to about 137.74%. Yes, the US is highly indebted and the COVID-19 crisis has significantly raised this debt.

Contrary to most countries, the fiscal response to the crisis by the US has been majorly focused on above-the-line measures. These measures involving direct spending by the government and increasing the overall government expenditure, have been over 10% of the GDP. The below-the-line measures providing loans, equity etc which increase liquidity and do not affect the government account books, have been around 3% of the GDP.

The fiscal measures to tackle the public health and economic effects of the COVID-19 crisis have varied from country to country. On a global level, the distinction between emerging market economies and advanced economies in government spending during the crisis is quite evident. The fiscal response by emerging market economies has been estimated at around 5% of GDP which is quite less than what the advanced economies have been estimated to spend. "Yet fiscal deficits are projected to widen sharply to 10½ per cent of GDP on average in 2020, more than double the level last year" (Gasper, Lam and Raissi, 2020). The overall global average of government debt is projected 10 percentage points upward from last year to around 63% of global GDP. Direct cash transfers to vulnerable households have become prevalent in emerging economies like South Africa and India. South Africa has also temporarily expanded its unemployment support. Whereas China has focused more on the production side with aiding the vulnerable firms and expanding its social safety net along with its medical facilities and digital infrastructure.

A brief overview of Indian government's fiscal measures

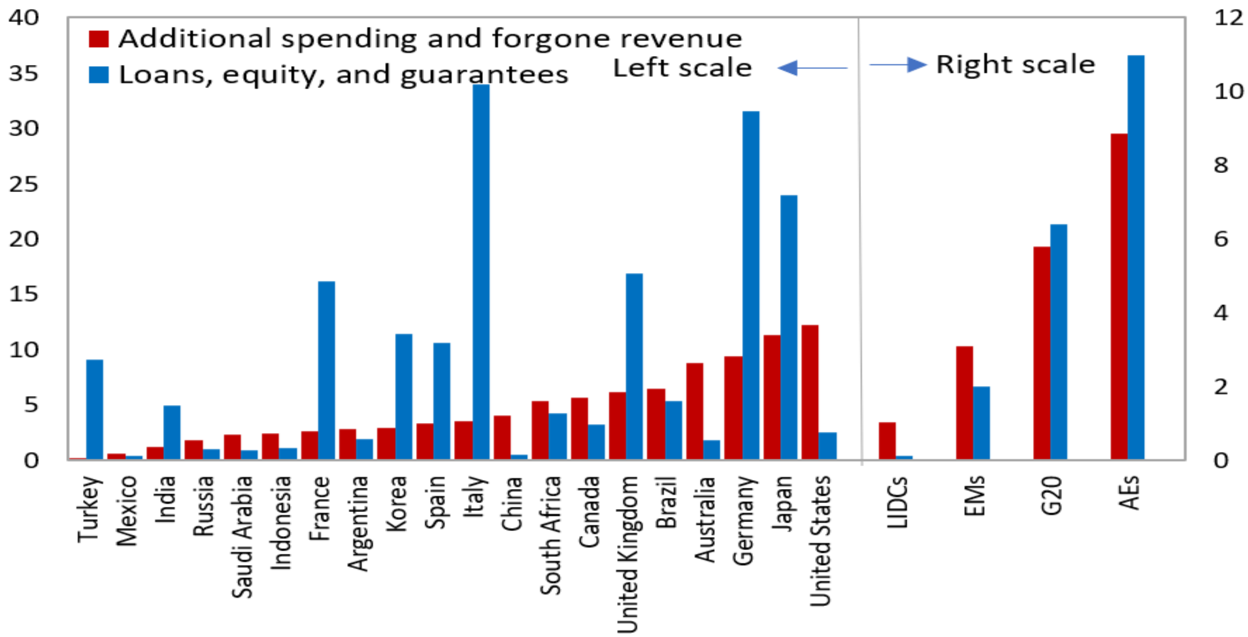
To get an insight into the government's fiscal measures, the measures have been divided into three categories of above the line measures, below the line measures and contingent liabilities. The above the line measures are responsible for increasing the government's expenditures whereas the rest two do not make changes in government's accounts. The infamous 'Atmanirbhar Bharat Package' announced by Hon'ble Prime Minister Narendra Modi in May 2020 consisted of various below-the-line and above-the-line measures. The total of Rs 20 lakh crore which amounts to about 10% of the GDP also includes various previous schemes, relief funds and liquidity infusion packages announced earlier that were subsumed under this package. As the detailed breakup of the package already exists on various government websites, this section will focus more on the distribution of the measures and package into the above and below the line measures to determine the fiscal scenario and understand the burden on government expenditure.

Above the line measures: Above-the-line measures are those that increase the burden on government exchequer by increasing the financial burden on the government. In the context of COVID-19 relief measures and providing a boost to the economy, it is important to understand the difference between 'fiscal stimulus' and 'liquidity infusion'. Liquidity infusion as the name suggests is responsible to increase the liquidity of cash in the market. Credit guarantee schemes, easing loans, new fund creations etc. amount to increasing the overall liquid cash in the market. A fiscal stimulus on the other hand increases the aggregate demand and hence increases the purchasing power. It provides proper infrastructural support through investments, income transfers etc. It has been seen in the past that liquidity measures do not work great during the time of a contracting economy or recession and therefore well targeted fiscal stimulus packages provide better support to the people and businesses. A fiscal stimulus is generally understood as an above-the-line measure as it directly increases government spending whereas liquidity infusion is considered as a below-the-line measure.

According to data released by the IMF and the detailed breakup of Atmanirbhar package provided by the government, it was found that the above-the-line measures taken by the Indian government to provide relief from the COVID-19 crisis amount to only 2-3% of the GDP. A package of Rs 1.49 trillion was announced on March 26 to provide direct money transfers to the poor, unemployment support, insurance coverage for healthcare workers etc. Adding to this package, MGNREGA workers and migrant workers were provided relief through food rations and money transfers along with other measures. More extended provisions to poor households were provided in the form of food rations amounting to Rs 900 billion. And later in August, the government announced more unemployment benefits for workers covered under the Employees State Insurance Corporation (ESIC) scheme. These measures in total amount to about 1.8 - 2 % of India's GDP.

Below-the-line measures: These measures have seen the most of the government's efforts. A majority of these were aimed at providing liquidity infusion. A liquidity infusion for the MSME sector was announced, amounting to Rs 500 billion. The Atmanirbhar package also includes the bank recapitalisation package provided by the RBI amounting to around Rs 8 lakh crore. Overall, the below-the line measures have been around 5.2% of the GDP.

Fig-8: Country Fiscal Measures in Response to Covid-19 Pandemic



Source: World Economic Outlook Report, June, IMF

In conclusion, the Indian government has mostly tried to keep the burden off the government account book as much as possible. The above-the-line measures around 2% of GDP and below-the-line about 5% of GDP give an account for the same. To contrast it with the other developing countries, IMF data shows (refer Fig-8) that the average above-the-line measures by developing countries is around 4% of their respective GDP which is double that of India's. Thailand and Brazil have spent around 9% of their GDP on above-the-line measures, whereas India has done fairly better than other developing countries in taking below-the-line measures. Developing countries' average in below-the-line measures is around 2.3% of their GDP whereas India stands way above with around 5.2% of the GDP.

Findings & Recommendations

As the world moves away from the Great Lockdown towards the 'Unlock' phases, the economic activities have begun, but are yet to show optimistic signs of a hard rebound and recovery. Fiscal measures have been exhausted in developing nations and newer monetary tools have come into effect. While developed economies are still ready to face the economic consequences while prioritising healthcare, the developing world is yet to see the healthcare policies adopted to be able to control the spread of the pandemic. Household specific support has not been able to control the spread or provide much relief and migration in search of livelihoods has resumed.

In the Indian context of fiscal policy, the report has reached to the following findings:

The fiscal indicators in trouble : From increased revenue deficit to increasing expenditure, from high fiscal deficit to increase in government borrowing and from negative GDP growth to a scenario of slow recovery, the fiscal indicators along with macro indicators show the dire situation of the Indian economy. This report has found that the pandemic has affected the revenue figures and increased government expenditure to unprecedented levels that will ultimately take the fiscal deficit to the highest ever levels. The RBI has released Q1 data for BoP which shows imports have collapsed more than exports and hence a current account surplus is seen. Future trends for BoP in Q2 and Q3 are likely to see similar trends with aggravated surplus because of highly decreased economic activity. Lastly, the Debt to GDP ratio is set to increase by about 17 per cent to about 90 of India's GDP, according to IMF officials. This figure rather makes sense as the internal borrowing of the government increased highly due to the COVID-19 relief measures.

The Shrinking Fiscal Space for Intervention : This report has analysed the fiscal policies since the start of the lockdown and various fiscal indicators have shown the effect of those policies on the government account book. This report finds that there is shrinking fiscal space for intervention of the government in matters related to relief packages, funding healthcare services and lack of fiscal stimulus for kickstarting the economy. With a fiscal deficit undoubtedly going beyond the FRBM cap and definitely going above 7%, the government cannot afford to borrow more for relief packages as the overall national debt is also on the rise. Going with the recent updated real and nominal GDP figures predicted by the World Bank, the fiscal deficit can also go beyond the 7%-

8% bracket, as found in this report. There seems to be immense pressure on the government to control the rising fiscal deficit and public debt, and therefore it is highly unlikely that there will be any huge relief or stimulus measures in the future in this current FY 2020-21.

This report has made the following recommendations

Policies to compensate for packages: While there exists a small fiscal space for the government to provide direct monetary relief from the pandemic crisis and kickstarting the economy, moving towards policy changes through executive and legislative measures can prove to be fruitful. To decrease the COVID-19 spread, better guidelines and stricter patrolling of public spaces must be done to reduce the burden on hospitals. Even though India has entered the community phase transmission of virus, the spread can be controlled through effective monitoring and compliance. While transitioning from lockdown to unlock, better directives and guidelines of social distancing and sanitation must be put out for operations ranging from the minuscule to the big. On the economic front, the policies related to ease of doing business must be promoted and certain labour laws must be transformed to boost the economic activity and benefit the workers as well.

Below-the-line Vs Above-the-line measures: Infrastructural reforms are necessary to boost the economy and simultaneously provide direct relief to COVID-19 affected people and businesses. In this regard, the above-the-line measures will prove effective and hence the government should not completely stop with these measures just to stay away from high debt. In times like these, India can allow the fiscal deficit to rise and the public debt to GDP ratio to go a little high and help for an effective recovery. However, above-the-line measures can only be taken to a certain extent and hence to keep the burden off the government account books and simultaneously provide relief from the pandemic and boost the economy through funds, the government must plan effectively for below-the-line budgeting. Relief funds and people’s contribution must be mobilised in an effective manner. While various chief minister’s relief funds and PM CARE fund exist, they have failed to show transparency in the process and the use of the funds. Effective planning to utilise these funds can help provide relief and boost the economy at the required space.

Conclusion

This report looked at various fiscal indicators and moved on to analyse the fiscal measures taken

by the government amidst the COVID-19 crisis in the backdrop of these fiscal indicators. The findings are reflective of the shrinking fiscal space and increasing fiscal deficit. Recommendations made in the report take into account the findings and propose measures to keep a further burden off the government accounts book to a certain extent. Considering there would be a huge requirement of government funding to roll out the COVID-19 vaccination programmes, the government expenditure has to be prepared for this onset. The reports are suggesting slow recovery for the economy and various socio-economic data have suggested that the crisis will push an extra 40 million people in India into extreme poverty. The Great Lockdown has become one of the greatest downfalls of socio-economic structures that exist today.
There is an urgent need for the world to revisit the socio-economic structures and efforts must be made to make them crisis-proof to a certain extent. Humanity is yet to face bigger challenges of climate change in the future and its effects will be much more dangerous than that of the COVID-19 pandemic. Hence, we have a chance to revisit our priorities as global citizens by taking lessons from this crisis and plan the future socio-economic and political structures that support sustainability and the overall development of every human being.

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