# Financial Lessons to be learnt from the Pandemic

## What is the issue?

The pandemic has turned the fiscal balance upside down, but the good news is that some structural changes might develop from the experience.

## What is the impact of Covid-19 on Indian economy?

- The Indian economy was facing headwinds much before the arrival of the second wave.
- Coupled with the humanitarian crisis and silent treatment of the government, the Covid-19 has exposed and worsened existing inequalities in the Indian economy.
- **GDP**- India's GDP shrank 7.3% in 2020-21 which was the worst performance of the Indian economy in any year since independence.
- **Tourism sector**- The tourism sector contributes nearly 7% to India's annual GDP.
- The restrictions due to the second wave have crippled the tourism sector, which was already struggling to recover from the initial loss suffered by the businesses in 2020.
- **Aviation and Travel sector**- Aviation and other sector establishments faced a massive struggle during the pandemic.
- **Automobile sector**- The automobile sector remained under pressure in the near term due to the covid-19 situation in India.
- **Real Estate and Construction sector**- The real estate and construction activities faced a disruption as a large number of migrant workers have left the urban areas.
- **Fiscal Deficit**- India's fiscal deficit for 2020-21 zoomed to 9.5% of GDP as against 3.5% projected earlier.
- **Lockdowns and restrictions**- The lockdowns and restrictions that have been imposed in the past have impacted the economic recovery timeliness.
- Rising inequality and strained household balance sheets have constrained the recovery.

## What are the key learnings from the pandemic?

- The Reserve Bank's latest report on State finances for 2020-21 reveals

some key learnings.

- **Bolster local government**- There is a need to bolster the finances and political robustness of the urban local bodies and panchayati raj institutions which have done much of the heavy-lifting in managing the pandemic.
- The RBI's qualitative survey observes that their inability to meet the budgetary target of expenditure on public services in 2020-21 at the time of pandemic reflects their fiscal constraints arising out of revenue shortfalls and limited opportunities for market borrowings.
- The RBI study reveals that 22% of the municipal bodies surveyed reported a revenue loss of more than 50% in the second wave, while 11% reported an expenditure spurt of over 50% affecting their capacity to maintain infrastructure.
- Their ability to raise funds through property taxes and user charges needs to be improved.
- There must be greater fiscal transparency, revitalising the municipal bond market and boosting infrastructure finance and green finance.
- **Fiscal deficit-** The States' fiscal deficit to GDP ratio of 4.7 % in 2020-21 is expected to come down to 3.7 % in 2021-22 driven by a growth in revenue receipts of States.
- There must be a clear recognition that the fiscal deficit to GDP ratio need not be a number, but one that may be revised within a band as endorsed by the Fifteenth Finance Commission.
- An incentive-based approach to managing the fisc, such as allowing fiscal space for Discom reforms, is the way forward.
- If we have to move towards sustained economic growth, the states and the centre need to work towards a cooperative strategy through their cooperative federalism scheme to increase the vaccination drive.

## References


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