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Impact of COVID (2019) Pandemic on Central Government Finances

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Abstract

The first signs of the COVID-19 pandemic were recognized in China in December 2019. The WHO, however, notified it in March 2020, by when the infection had already spread like a wildfire. On March 24, 2020 India imposed a 21-day national lock-down, which was further extended till May 2020. The national lock-down brought down India's GDP affecting adversely the government finances when it needed to spend more on public health care. The paper analyses the Union Budget (2020-21) and evaluates the Government response to the pandemic.

1. Introduction

The year 2020 was a difficult year globally. Although the first signs of the pandemic were recognized in China in December 2019, the World Health Organization (WHO) notified this as COVID-19 Pandemic in March 2020 only, by when the infection had already spread the world over like a wildfire. India eventually went for a 21-day national lockdown on March 24, 2020, which was extended further till May 2020.

The lockdown caused a 24 per cent decline in GDP in the first quarter of the FY-2021, although India scored high in terms of 'early response to the Pandemic'. The Government, moreover, did not anticipate the fall out of this lockdown in terms of labor migration from metropolitan cities and other town ships back to the villages.

In the absence of any means of transportation, the miserable workers began returning to their homes on foot and cycles. To their shock, they found themselves unwelcome in their own villages as the villagers feared the spread of the infection. It has been reported that the wives fought for their husbands and brought them home.

The Pandemic continued to spread despite all precautions, and India was faced with the problem of shortage of ventilators and beds in the ICUs in the hospitals. There was confusion in the developed countries as well in handling the situation. Countries such as Italy, Spain, France, the UK and the USA were all faced with a grim situation. Air travel was found to be one of the main culprits of such a fast spread of the Pandemic the world over. The United States put a travel ban only in October 2020, leaving the decision for lockdowns to the different federal states.

The GDP of most of the advanced countries contracted by 10 per cent and more in 2020 due to the Pandemic. The decline in India's GDP for the full year was stated to be by 7.7 per cent, which has been disputed by several experts. Anyway, the revenue collections of the Central government came down at a time when the need for public expenditure went up greatly.

2. Status of the Central Government Finances in 2020

The impact of the COVID-19 Pandemic on the finances of the Central government can be best measured through a comparison between the Budget Estimates (BE) and the Revised Estimates (RE) figures of 2020-21 as reported in the Union Budget (2021-22). What it shows essentially is that while the total revenue receipt of the Central government fell short of the estimates by nearly Rs. 5 lac crores, the expenditure exceeded the budgeted estimates by nearly Rs. 5 lac crores. This meant a gap of nearly 10 lac crore that had to be met through public borrowings. Since the earlier estimate of fiscal deficit was equal to Rs. 7.96 lac crores, the actual figures went up to Rs. 18.48 lac crores (Table1.).

Table1. Central Government Finances during 2020-21

		(Rs. Lakh Crore)
Revenue & Expenditure	**Budget Estimate**	**Revised Estimate**
a**) Tax Revenue** (Net of Transfers to States)	16.36	13.44
(b) **Non-tax Revenue**	3.85	2.10
Total (a+b)	**20.20**	**15.55**
(c) **Total Expenditure**	**30.42**	**34.50**
(d) **Fiscal Deficit**	**7.96**	**18.48**
Source: Union Budget (2020-21), Ministry of Finance, Government of India.		

As it was a health emergency, the whole attention of the Government was on how best to face the Pandemic. According to the Economic Survey 2020-21, the Government classified the different ministries into 'A', 'B' and 'C' categories. All those ministries that were directly or indirectly related to the health sector were put into 'A' category with the assurance that they would be provided with expenditures as required by their Ministries for mitigating the Pandemic.

Category 'B' and 'C' category Ministries, on the other hand, were required to reduce their expenditures and restrict them to spending only 20 per cent and 15 per cent of their budgetary allocations respectively each quarter. As this financial prudence was not good enough to meet the challenge, the Government resorted to public borrowings. As a result, the fiscal deficit of the government went up from the stipulated 3.5 per cent of GDP to 9.5 per cent of GDP.

The Government borrowings comprised market borrowings, National Small Savings, State Provident Funds and external debt. The big increase was in market borrowings that went up from the estimated Rs.5,35,870 crores (BE) to Rs.12,73,788 crores (RE) comprising mainly long duration Government Securities and Treasury Bills (Table 2.).

Table 2. Sources of financing the Fiscal Deficit during 2020-21

		(Rs. Crore)
	Budget Estimate	**Revised Estimate**
1. Market Borrowings	**5,35,870**	**12,73,788**
2. National Small Savings	**2,40,000**	**4,80,574**
3. State Provident Funds	18,000	18,000
4. Other Receipts	50,848	39,129
5. External Debt	4,622	54,522
6. Draw Down of Cash Receipts	(-53,003)	(-17,358)
Total	**7,96,337**	**18,48,655**
Source: Union Budget (2020-21), Ministry of Finance, Government of India.		

3. Comparison between the government response to the Pandemic in the USA and in India

According to the Economic Survey (2020-21), the Government of India adopted *a step-by-step approach* to face the unfolding crisis arising from the Pandemic. On the other hand, the U. S. Government took fiscal and monetary measures *in quick succession* by February 2020 to revive the economy as it observed the economy sliding into recession.

In retrospect, it is noticed that while India incurred a fiscal deficit of 9.5% of GDP, the USA incurred a fiscal deficit of 15% of GDP during the FY-2020. Table 3. below provides a broad overview of the initiatives taken by the two governments in the USA and in India.

Table3. Fiscal and Monetary Policies in the USA and in India to face the Pandemic

USA	India
(A) Fiscal Measures	
Relief Packages on: I. March 6, 2020, *equal to $8.3 billion* II. March 18, 2020, *equal to $3.4 billion* III. March 27, 2020, *equal to $ 2.3 trillion* (The biggest ever Relief Package in US history)	**Government of India did the followings**: I. Raised the food subsidy from Rs. 1,07,320 crores (BE) to 2, 78,338 crores (RE),

IV. April 20, 2020, *equal to $484 billion*. The above amounts were spent on the followings: a. Assistance to American families and workers, b. Assistance to Small Businesses, c. Assistance to State and Local Governments, d. Assistance to Research Institutions and American Industry.	II. Raised the expenditure on MNREGA from Rs. 61,500 crores (BE) to Rs. 1,11,500 crores (RE), III. Increased the expenditure on National Health Mission from Rs. 34,115 (BE) to Rs. Rs.35,554 crores (RE), IV. Direct cash transfer under Kisan Samman Yojana to 9 crore small farmers, on the other hand, was reduced from Rs. 7500 crores (BE)to Rs. 6500 crores (RE), V. Assistance under PM-Awas Yojana raised from Rs.27,500 crore (BE) to Rs. 40,000 crores (RE).
(B) Monetary Measures	
I. The Fed cut the inter-bank interest rate by 0.50 per cent on March 3, 2020. It further reduced this rate by another 1 per cent on March 16, 2020. II. The Fed bought Treasury Bills and Bonds as part of its Quantitative Easing programme to ensure enough liquidity in the market, III. The Fed reduced the CRR for commercial banks, IV. The Fed started new lending programme using the U.S. Government's Exchange Stabilization Fund.	I. The RBI reduced the repo rate first on March 27, 2020, from 5.15 per cent to 4.4 per cent, II. The RBI further reduced the repo rate in May 2020 from 4.4 per cent to 4 per cent, III. The RBI reduced the CRR for commercial banks from 4 per cent to 3 per cent in November 2020, IV. The RBI injected liquidity in the market amounting to 13.6 lakh crore through 'Quantitative Easing' by buying Government Securities from the secondary market.

4. Conclusion

In the light of the above, it may be worth asking if the Government of India (along with the RBI) could have done more than what it did during 2020-21? A criticism that might be levelled against the Government of India (GOI) could be that while the government in the USA appeared to take their policy decisions based on the medium-term growth in the economy, the GOI responded to the Covid pandemic merely to face the immediate crisis.

The Central Government could possibly have provided more funds to the state governments, local bodies and hospitals to undertake useful works to mitigate the sufferings of the people. The crisis could have, furthermore, been turned into an opportunity to address the existing inequality in the society. People would have willingly come in support of the Government realizing well that all are faced with the same challenge. Additional taxes on the rich could have been levied. Nothing of this sort happened.

Salaries and pensions could have been also marginally reduced and the saved amount transferred to meet the higher expenditure on ‘health’. A moratorium on ‘dearness allowance’ for government employees should at least have been declared to meet the higher expenditure on relief measures. The Government of New Zealand did act in that manner.

The crisis also provided an opportunity to the Government to review the extant allocation of public expenditures on different welfare programmes. Populist schemes such as disbursing Rs. 6000/- per small farmer per annum - amounting to Rs. 6,500 crores at the aggregate level - could have been easily dropped and transferred to programmes such as the ‘Green India Mission’ for afforestation.

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