# 1. Slower Growth and a Tighter Fiscal

## Context:

- The Impact of COVID-19 will be debilitating for the global as well as the Indian economies. The International Monetary Fund (IMF) has **projected India's Growth at 1.9%,** China's at 1.2%, and the global growth at (-) 3.0%.

## Brief Background:

- Due to novel coronavirus crisis there was a sustained fall in the saving and investment rates with unutilised capacity in the industrial sector.
- We examine the growth prospects for 2020-21 from the output side, making reference to real Gross Value added (GVA). We Divide the Output Sectors in Four Groups.

## Growth Prospects:

- In group A, we consider two sectors that have suffered only limited disruption — namely agriculture and allied sectors, and public administration, defence and other services.
- In the case of agriculture, rabi crop is currently being harvested and a good monsoon is predicted later in the year. Despite some labour shortage issues, this sector may show near-normal performance.
- **The public and defence services have been nearly fully active.** For the group A sectors, it may be possible to achieve 90% of the 2019-20 growth performance
- Next, we consider the group that is likely to suffer maximum disruption (Group D). This includes, trade, hotels, restaurants, travel and tourism sector. This sector may be able to show 30% of 2019-20 growth performance.
- Group B comprises four sectors which may suffer average disruption showing 50% of 2019-20 growth performance.
- These sectors are mining and quarrying, electricity, gas, water supply and other utility services, construction, and financial, real estate and professional services.
- In the last group (Group C), we place manufacturing which has suffered significant growth erosion in 2019-20. It is feasible to stimulate this sector by supporting demand.

## Calibrating Policy Support

- Monetary policy initiatives undertaken so far include a reduction in the repo rate to 4.4%, the reverse repo rate to 3.75%, and cash reserve ratio to 3%. The Reserve Bank of India has also opened several special financing facilities.

- These actions will have a positive impact on output only after the lockdown is lifted. These measures need to be supplemented by an appropriate fiscal stimulus.
- There is also a talk of substantially reducing non-salary defence expenditure.
- **With lower petroleum prices, fertilizer and petroleum subsidies may be reduced.** These expenditure cuts are contemplated to keep the fiscal deficit under some control.

## Way Forward:

- The actual growth outcome for India would depend on: **the Speed at which the Economy is Opened up; the Time it takes to contain the Spread of virus, and, the Government's Policy Support.**
- Fiscal stimulus can be of three types: first, relief expenditure for protecting the poor and the marginalised
- Second, Demand-supporting expenditure for increasing personal disposable incomes or Government's purchases of Goods and Services and Bailouts for industry and financial institutions.
- Third, Enhancing net capital inflows including borrowing from abroad and by monetising some part of the Centre's deficit.

**Source: The Hindu**