International Journal of Advances in Engineering and Management (IJAEM)
Volume 2, Issue 9, pp: 584-589 www.ijaem.net ISSN: 2395-5252

Impact of the Stimulus Package on the Economy of India

Sunitha B K, Kunal Jain, Divya R, Kushal Jain
Head of the Department Center for Management Studies (JAIN DEEMED TO BE UNIVERSITY)
Student Center for Management Studies (JAIN DEEMED TO BE UNIVERSITY)
Student Center for Management Studies (JAIN DEEMED TO BE UNIVERSITY)
Student Center for Management Studies (JAIN DEEMED TO BE UNIVERSITY)

Date of Submission: 15-11-2020 Date of Acceptance: 30-11-2020

I. INTRODUCTION

Stimuli as well explained in science, the detectable change in environment which is triggered due to a series of events (Pavlov 1902). Similarly our economy is also is chain of reactions, from demand and supply, to inflation and deflation in Micro-economics, to monetary and fiscal policies of central bank and government in Macro-economics. Every unexpected event in the world has economy impacts and makes the government's at hand adapt to the prevailing conditions and make required remedies in both monetary and non-monetary forms to save the economy.

Stimulus package also known as relief packages are tax rebates, loans, incentives given by a government to save the country from financial crisis and to stimulate the economy. In the recent times of the economic downfall and the world suffering from COVID-19, countries across the world have announced stimulus packages, including 2 Trillion$ by U.S.A and almost 270 Billion$ by India.

The current coronavirus pandemic has not only resulted in the loss of human lives but also distressed economies. The effect of this pandemic is even higher in emerging economies like India due to already slowing growth rates, poor health infrastructure, and a significant population living in extreme poverty, dropping the GDP of the countries to -24%. Even though the government has taken various policies and measures to tackle these problems, it's not 100% certain that these measures will be adequate, being one the most effected countries in terms of number, immediate action is need of the hour. But to analyse and understand the depth of the impact of COVID-19 pandemic on the Indian economy is important to formulate the policy and measures to contain this economic impact. This paper attempts to understand the impact of COVID-19 pandemic on the Indian economy by employing a qualitative research design, based on sentiment analysis to understand already done research papers and experts opinion concerning the socio-economic impact of COVID-19. This research study makes a theoretical as well as applied and factual contribution to the field of study. On one side, it contributes to the field of pandemic research, public health management, and disaster management, whereas on the other side, we propose a set of measures for the policymakers from India and other emerging nations of the world.

II. LITERATURE REVIEW

India had announced its first stimulus package after the 2008 crisis that had caused a global financial recession, though it is said that India was not hit by the crisis as much as the other countries but whatever happens in the west influences and impacts India as well. India had announced two stimulus packages after the 2008 crisis. The second package was announced after a very short time after announcing the first package. The need of announcing those two packages were because of the following reasons:

1. The effect of the global slowdown had a relatively modest effect on India
2. The impact was on urban industrial areas
3. India already had a country-wide rural poverty alleviation programs, which were financed outside of the stimulus package.

India announced a fiscal stimulus worth $ 4.1 billion – 0.3 percent of its GDP – in December 2008. And India announced a second stimulus worth $4 billion in January 2009, which was a financial rescue package, focusing on capital injections into state-run lenders and financing help for non-bank finance companies.

These packages resulted in quickly boosting demand. But with several supply bottlenecks in place, particularly power, water, roads and railways, etc, very soon, 'too much money was chasing too few goods' .And no wonder, higher inflation in general and food inflation in particular, was a natural outcome. The political difficulty in rolling back what was meant

International Journal of Advances in Engineering and Management (IJAEM)
Volume 2, Issue 9, pp: 584-589 www.ijaem.net ISSN: 2395-5252

to be temporary spending to boost a troubled economy made it a long- term challenge to manage the deficit.

Several indicators had pointed toward a slowdown in the economy. Industrial growth during April–January 2008–09 was 3.0 % as compared to 8.7 % during the corresponding period in 2007–08. Similarly M3 growth as of 13 February 2009 was 19.9 % as compared to 21.6 % its previous year and the annual rate of inflation in terms of WPI was 0.44 % in early march 2009, indicating slackening of demand. As a result of the fiscal stimulus packages put in place the fiscal deficit during April–January 2008–09 was 174.3 % higher than the corresponding period in 2007–08 and the revenue deficit was 278.0 per cent higher, indicating pressures on the fiscal deficit and a departure from the FRBM. However, net tax revenue to the centre during April–January 2008–09 was higher by 1.6 per cent compared to the corresponding period in 2007–08.

As a consequence of the global liquidity squeeze, Indian banks and corporates saw their external sources of funding drying up. Hence, demand for credit spilled over into the domestic market, bringing domestic financial and credit markets under pressure. Some of the funds borrowed internally were begin converted in dollars to meet the overseas debt servicing obligations of the corporates. This put the rupee under pressure and there was a significant depreciation of the home currency. Foreign exchange reserves fell as some of these were used to defend the rupee against the dollar.

India's trade data for January 2009, the latest available, showed a 16 per cent drop in exports and 18 per cent decline in imports and would appear to reinforce the slowdown story. However, this drop was in dollar terms. Trade data, when denominated in rupees showed positive growth

There was another package introduced in 2011 which was majorly related to the food inflation happening that time but the root cause of the inflation and the need for introducing that package was somewhere related to those two packages announced in 2008 and 2009. It is interesting to observe that after India had passed the FRBM Act in 2003, it was trying to contain fiscal deficit, and as a percentage of GDP, the combined fiscal deficit of the Centre and the States was coming down steeply from almost 10 percent in 2001-02 to 4 percent in 2007-08, which was a commendable achievement on fiscal front. As is clear the revenue deficit was close to zero and primary deficit had a marginal surplus. No wonder, 2013 was also the period that experienced lowest rates of inflation in the country.

Additionally, it is observed that, except for commodities with support prices, agriculture prices tend to be more responsive to monetary shocks, whereas prices of many goods produced by the manufacturing sector of the economy are stickier in the short-run due to long term contracts. In other words, monetary shocks are not neutral at-least in the short run and not at least for the primary agriculture products. Now, the fact is evident of the underlying trends in the food inflation numbers. Empirical analysis shows that there is faster response of prices of food articles to domestic shocks (be it monetary or weather) and somewhat a lagged reactions of prices of manufactured food products. So while we hypothesize various factors influencing prices of food articles, it is important to take into account important supply side factors, especially production of agricultural products captured through agricultural - GDP, which in turn was influenced by weather shocks among other factors, and farm wage rates, which have been influenced lately by government policy through MNREGA under its fiscal stimulus package.

Taking ahead from the econometric analysis, which clearly reveals that the biggest culprit behind high food inflation is abnormally high fiscal deficit. This is followed by rising farm wages and global food prices. In particular, the 'fiscal stimulus' that was given to the economy in 2008-09 and 2009-10 to avert the global economic recession, is one of the prime reasons behind the inflationary pressures in India in 2013.

The most recent package announced by the Indian government on May 12, 2020 was worth Rs.20 lakh cr. The details of this package was broken-down by the Finance minister in five consecutive days. The stimulus package is a mix of fiscal support, monetary support, ease of doing business processes, as well as some fundamental reforms. The package also largely focused on land, liquidity, labour and laws. The package included the previous stimulus announced by the Indian government after the first 21-day lockdown that began on 25th March. The 1.7 lakh crore package mainly concentrated on helping those who were worse hit by the virus. About 800 million people were given free cereals and cooking gas apart from cash through direct transfers for approximately three months.

Firstly, let's compare India's and the USA's (which happens to be the richest economy in the world) stimulus package in their respective economies and make a comparative analysis as to

how much money and percentage of the package has been allotted to a specific sector.
In this breakdown of the package we'll understand how the 20 lakh Crore is allotted by the Indian government in its economy:

- 8 Lakh Cr of liquidity infusion by the central bank.
- 1.7 Lakh Cr of Old stimulus package previously announced.
- 3 Lakh Cr for MSME's in form collateral free automatic loans.
- 2 Lakh Cr of concession credit facility to the Indian framers.
- 1 Lakh Cr in MNREGA Fund. (Journal by PTI, 2020)
- 90000 Cr of liquidity infusion in Power Discoms sectors.
- 8500 Cr for migrant workers food and healthcare.

And in this breakdown of the package we'll understand how the 2 Trillion $ package is allotted by the U.S through the CARES Act (Corona Virus Air Relief and Economic Security Act), in its economy

- 130Billion$ for Medical and Hospital industries.
- 500 Billion$ in Economic Stabilization Fund.
- 350 Billion$ Small Business Loans Program (Pay Check Protection Program).
- 250 Billion$ Unemployment Insurance.
- 250 Billion$ assistance in form of – Tax rebates, Tax credits & Advances.
- 150 Billion$ Assistance of State and Municipal government.
- 14 Billion$ Relief on Student loans.
- Further 484 Billion$ in Pay Check Protection Program.

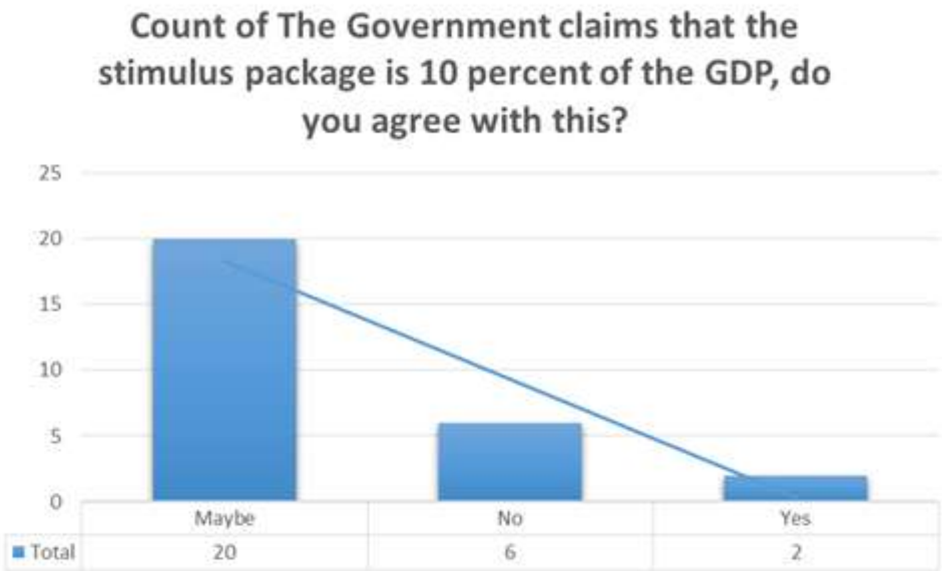
Even though the Indian government announced this huge package, which the government claims to be 10 percent of the GDP size, fails to address the immediate concerns. As the central and combined deficit forecasts for FY2020/21 (April-March) to 7 per cent and 11 per cent of GDP respectively, from 6.2 per cent and 9 per cent previously. The government announced various schemes and regulatory reforms which aims at supply side issues and fails to address the demand side issues. Keeping the fiscal measures in mind, the stimulus package adds up to only 1 percent of the GDP size. The measures taken by the government does not offer immediate solution, rather a deep growth-impact process in the medium term of over three years (Foreign Brokerages). These are the few assumed loses of the economy as the current concern are failed to match, GDP will likely contract by 12 per cent in the June quarter, and by 0.1 per cent in FY21 (the analysts at BofA and Nomura). BofA said the Reserve Bank will go for a 0.75 per cent more of rate cuts by October and conduct open market operations of USD 75 billion to find the fiscal deficit.

III. ANALYSIS

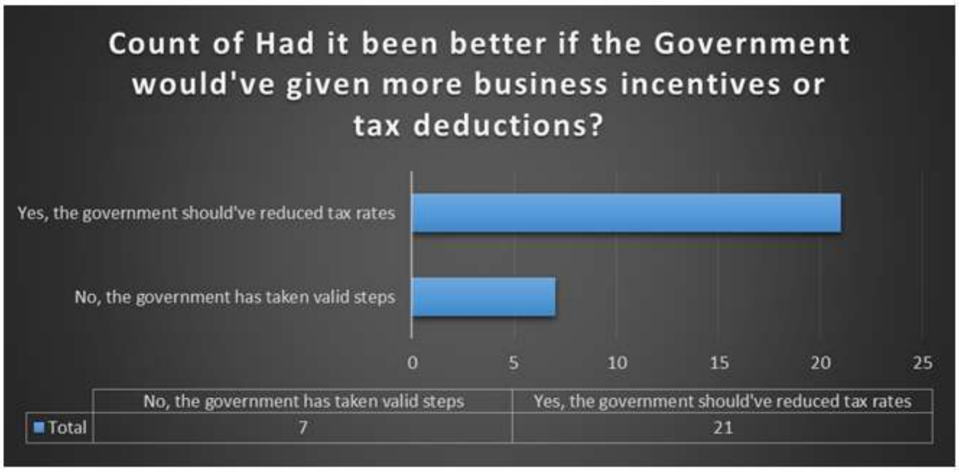
COVID-19 has not greatly affected the expenditure of individuals as most of the money spent on recreational activities is now being spent on grocery items or healthcare needs. Individuals have also increased their online shopping, which again contributes to their expenditure. The main reasons for the increase in online shopping are:
1) Exciting offers. 2) A large variety of options. 3) Scrolling through products even if it isn't required, this leads to some of the other attractive products which an individual tends to buy. 4) More free time (boredom shopping).

The economic conditions of individuals and their families have been affected to some extent. Mainly because there hasn't been enough earning throughout the COVID-19 phase. Though the government of India claims that the stimulus package announced by them is 10 percent of the GDP, a lot of individuals do not fully believe in them because they are not aware/lack knowledge about the money spent.

International Journal of Advances in Engineering and Management (IJAEM)
Volume 2, Issue 9, pp: 584-589 www.ijaem.net ISSN: 2395-5252



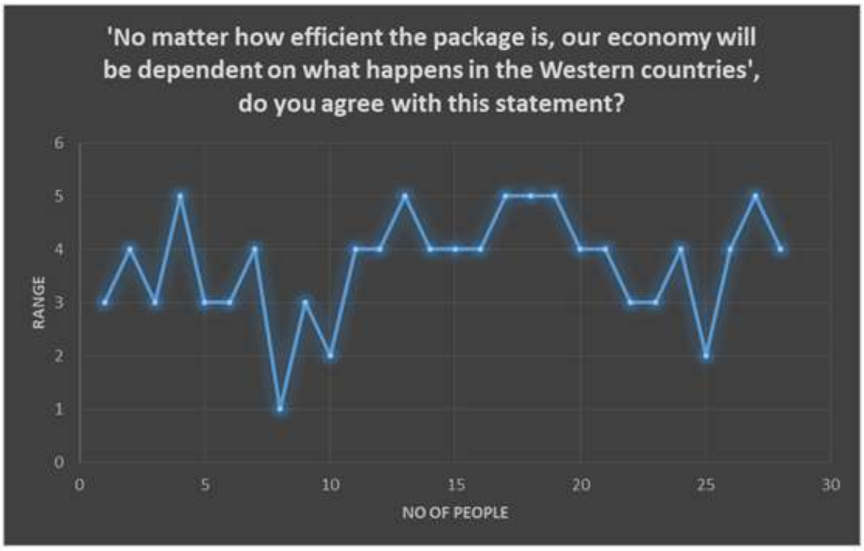
The survey done showed that more that 85% people had no clear knowledge about the allocations of the money in the package Irrespective of the government giving tax deductions and relaxations, the general public expected the government to reduce the tax to a greater extent. As the government is not spending its entire stimulus amount at once, we hope to see another stimulus package to be announced soon to revive the economy.



Though some tax deductions where given by government, when asked people expected more of such so that it would help get on your feet faster and bring the economy to normalcy.

COVID-19 has inflicted two major shocks on the economy of America. One being 'Supply' - a large number of goods and services produced in the economy requires face-to-face interaction; social distancing so necessary to reduce the spread of the virus has majorly impacted the capacity of production. The second being the 'Demand' shock - there is a large income fall as unemployment increases. Individuals are now more aware of where the money is spent. These shocks reinforce each other which leads to a downward spiral of economic activity.

International Journal of Advances in Engineering and Management (IJAEM)
Volume 2, Issue 9, pp: 584-589 www.ijaem.net ISSN: 2395-5252



The Picture become more clear after this survey , that a lot of success of the package is mainly dependent on the performance of western countries.

The US government has announced a package of $2 trillion, which is claimed to be 10 percent of the GDP size. The objective of this package is to revive the economy and to support those who are unemployed. The plan allocates $250 billion to boost unemployment insurance for those losing jobs, $301 billion in direct cash transfers to individuals, and $349 billion in loans to small businesses to help make payroll, rent, and utility payments. Another $150 billion flows as direct aid to states, while almost half a trillion dollars will be set aside to support the Federal Reserve System's new lending facilities, aimed at providing needed liquidity to the banking and business sectors. None of these programs entail direct spending by the government.

IV. CONCLUSION

The two packages announced in the year 2008 and 2009 were that the short-run outlook for the Indian economy was unclear. Real GDP growth had shown strong signs of slipping. Even the most dynamic service sector had been facing a slowdown. Exports and industrial growth were down as were the credit off take. The stimulus packages announced by the government and the Reserve bank of India had their desired effect. For example, the Indian auto industry, which was heading towards a decline recorded positive growth of 0.71 per cent in total vehicle sales in fiscal 2008–09. In terms of components of the auto industry domestic passenger car sales rose by 1.31 per cent to 1, 219,473 up from 1,203, 733 units in its previous year, similarly sales of two wheelers recorded positive growth. There was widespread optimism that the services and manufacturing sector had recorded reasonable growth. The sharp fall in the rate of inflation had provided room for more aggressive interest rate cuts by the Reserve Bank of India. India's banking system remained robust, although the burden of servicing the larger debt because of the stimulus packages will not be insignificant. Furthermore, although equity markets had registered steep declines the wealth impact on domestic residents was limited since a large number of Indians did not participate in equity markets and they still don't.

And talking about the conclusion of the recent package, though it is very early to predict the effects of the package since the effect has still not been shown but comparing all the scenarios, the GDP of the India is definitely going to crash as the unemployment has increased in vast. There is also a lack of cash flows in the market, though the government in its breakdown of the package announced Rs.8 lakh crore of liquidity to be infused by the RBI. Taking the steps of the government into consideration and the present scenario, the government aims at announcing more fiscal and monetary support packages. The government plans to not spend all their ammunition at one go, rather use it as and when highly required. Therefore, this 20 lakh crore stimulus package is not the last package.

REFERENCES

[1]. DuvvuriSubbarao. (2009). Impact of the Global Financial Crisis on India Collateral Damage and Response. rbidocs.
[2]. Sameer khatiwada. (2009). Stimulus Packages to Counter Global Economic Crisis:A review. International Institute for Labour Studies 196, 2009, 2009
[3]. Subbarao, D. (2009), 'Impact of the Global Financial Crisis on India: Collateral Damage and Response', Tokyo.
[4]. RaghbendraJha.(2009). The Global Financial Crisis and Short-run Prospects for india
[5]. Gagan Deep Sharma, Gaurav Talan, Mansi Jain. (2020).Policy response to the economic challenge from COVID-19 in India Journal of Public Affairs, e2206.
[6]. HiranyaNath Space and Culture.(2020). Macroeconomic impacts and policy issues in India.
[7]. S MahendraDev, RajeswariSengupta,Indira Gandhi Institute of Development Research, Mumbai. (2020). COVID-19 - impact on Indian economy.
[8]. T.K Reddy. (2012). Impact of Fiscal Stimulus on Stock Market and Economy : An Indian Scerario
[9]. MuznaAvi, Manavi Gupta. (2020)Learning in times of lockdown: how Covid-19 is affecting education and food security in India

Articles

- https://transfin.in/impact-of-covid-19-on-indian-economy-will-covid-19-india-economic-package-help-indias-economic-recovery
- https://www.financialexpress.com/economy/economic-package-covid-19-pandemic-indian-economy-stimulus-package-nirmala-sitharaman/2024044/
- https://economictimes.indiatimes.com/news/economy/policy/indias-mammoth-covid-19-package-much-smaller-than-it-seems-says-fitch-solutions/articleshow/758236
- https://economictimes.indiatimes.com/markets/coronavirus-impact-on-economy