"Covid-19 and the Policy Responses in India."

BELAVADI NIKHIL[1]

Research Scholar,
Department of Commerce, School of Business Studies,
Central University of Karnataka,
Kadaganchi, Aland Road,
Kalaburagi, Karnataka, India.
Pin: 585367
ORCID: 0000-0003-1700-5345 (orcid.org/0000-0003-1700-5345)

DR. SHIVAKUMAR DEENE[2]

Assistant Professor,
Department of Commerce, School of Business Studies,
Central University of Karnataka,
Kadaganchi, Aland Road,
Kalaburagi, Karnataka, India.
Pin: 585367

Dr. Sanjeev Kumar[3]

Assistant Professor,
Department of Commerce,
Smt. GaliRukminammaChenga Reddy Memorial,
Government Commerce and Management College,
Bellary, Karnataka.

Abstract:

This article analyses the changes in monetary policy decisions made in five major economies around the world in the aftermath of the Covid-19 outbreak in India. How the fiscal and monetary policies responded to the pandemic situation and how the economy was controlled and protected from the danger are discussed in the study in detail. During the pandemic, the contribution of fiscal and monetary policies is discussed in this article.

Keywords: Covid-19, Fiscal Policy, Monetary Policy, Indian economy.

Introduction:

Monetary policy is defined as central banks' decisions and actions to manage the money supply and credit availability in the economy. In the current environment, the majority of economies use monetary policy initiatives to promote economic growth and momentum. One of the most important monetary policy tools available to policymakers is the management of interest rates in the economy. Policy interest rates are used to control the supply of money in the economy, as rising interest rates reduce the supply of money, limiting demand for money as the acquisition of funds becomes more expensive.

Monetary policy theory dictates that policymakers lower interest rates to increase production capacity and aggregate supply because the economy is experiencing inflationary pressures. Inflationary and deflationary pressures are cyclical fluctuations in the economy. Normal business cycles, on the other hand, are disrupted by the occurrence of unprecedented events and crises, which shock the normal economic flow and halt economic variables. Economic shocks have unpredictable consequences, such as changes in the consumer price index or inflation, as well as changes in the economy's output, aggregate supply, and consumption demand.

Monetary policy tools, both conventional and unconventional, aim to achieve price stability while facilitating economic growth and development. Controlling lending and bank interest rates is a traditional method of controlling the economy's monetary base. As the economy struggles, policymakers try to restore normalcy by giving industries a small boost by lowering interest rates and easing credit availability. This ensures that productive capacity is increased and the output gap within the economy is narrowed.

Increased credit availability allows for an increase in consumption demand because it increases aggregate supply, lowering the overall price level in the economy. Policymakers can maintain financial and economic stability in the face of cyclical economic fluctuations by taking a hands-on approach to credit availability management. However, as previously stated, there are a number of unforeseen errors or shocks that may have an impact on economic operations.

Given the scarcity of research studies examining the effects of monetary policy on the development of major economies in Covid-19, as well as the scarcity of existing literature on the relationship between monetary policy and the pandemic, this study is motivated to add to the existing literature on this topic by providing evidence from the effects of monetary policy in different countries affected by the Coronavirus pandemic. It seeks to clarify how the monetary policies of various economies affect the real economy and price level during the Coronavirus pandemic. The Covid-19 pandemic is one such unprecedented event that has jolted the global economy.

Following the discovery of a viral outbreak in China, the World Bank issued guidelines to prevent the virus from spreading. National shutdowns, import restrictions, and travel restrictions are just a few of the safeguards that have stifled the countries' growth and productive capacity. The current article examines how the coronavirus outbreak has influenced the monetary policies of the world's major economies, which include the United Kingdom, Japan, Brazil, China, and India.

Background of the Pandemic in India

On January 30, 2020, the first case of COVID-19 in India was reported, and the number of cases continues to rise, particularly during the pandemic's ongoing second wave. For the first wave, the strict national lockdown was extended several times, followed by a gradual re-opening with restrictions in select containment zones. In 2021 (Q2), most states implemented localized state-wide lockdowns in the second wave. COVID-19 had a significant and far-reaching economic impact. As a result of unprecedented lockdowns to control the spread of COVID-19, GDP contracted sharply (-24.4 percent year on year) in 2020 (Q2)

Reopening of the Economy

Following the first COVID-19 wave and initial nationwide lockdown, the government announced several relaxation measures in non-hotspot geographical areas, effective April 20, 2020, to support economic activity on April 15, 2020. On April 29, 2020, the government authorized inter-state movement of stranded people, including migrant workers, to be managed by state-designated nodal authorities. Domestic air travel resumed on May 25, with some graded relaxations in economic activities permitted in orange and green zones. On May 12, the Prime Minister announced a 10-point-of-GDP relief package, which included previously announced monetary and fiscal measures.

On July 29, the central government issued 'Unlock 3.0' guidelines, paving the way for a phased resumption of activities throughout the country and limiting the lockdown to containment zones until August 31. On August 29, the government issued ('Unlock 4.0') to reopen the economy further in September, gradually removing restrictions on metro rail beginning on September 7th, and allowing for social, academic, sports, entertainment, and other gatherings of up to 100 people. On September 30, the federal government issued "Unlock 5.0" guidelines, allowing state/union territory governments to make graded decisions about reopening schools and coaching institutions after October 15.

The congregational capacity has been increased to 200. Following a second COVID-19 wave, the majority of states have announced new lockdown measures for the second quarter of 2021. On January 3, 2021, the AstraZeneca vaccine and Covaxin received emergency use authorization (EUA) from India's Central Drugs Standard Control Organization (CDSCO) (developed by local firm Bharat Biotech). Both are produced entirely in India. The Prime Minister announced the launch of the world's largest vaccination campaign on January 11, 2021, with the goal of vaccinating approximately 300 million people in the coming months. As of May 1, vaccines are now available to anyone over the age of 18; vaccine manufacturers are now permitted to sell 50% of their product on the open market.

Key responses of Fiscal policy on Pandemic.

India's central government fiscal support measures can be divided into two broad categories: (i)above-the-line measures, which include government spending (about 3.5 percent of GDP, of which about 2.2 percent of GDP is estimated to have been utilized in the past fiscal year), foregone or deferred revenues (about 0.3 percent of GDP falling due within the past fiscal year), and expedited spending (about 0.3 percent of GDP falling due within the past fiscal year); and (ii) below (about 5.3 percent of GDP). Above-the-line expenditure measures in the early stages of the pandemic response were primarily focused on social protection and healthcare.

Transfers in kind and cash to low-income households (1.2 percent of GDP), wage support and employment for low-wage workers (0.5 percent of GDP), healthcare insurance coverage, and healthcare infrastructure are some examples (0.1 percent of GDP).

Additional public investment (increased central government capital expenditure and interest-free loans to states (0.2 percent of GDP)) and support schemes targeting specific sectors were announced in October and November 2020. The latter includes a Production Linked Incentive scheme, which is expected to cost about 0.8 percent of GDP over five years, a higher fertilizer subsidy allocation benefiting agriculture (0.3 percent of GDP), and assistance for urban housing construction (0.1 percent of GDP).

Several measures to reduce the burden of tax compliance across a wide range of industries have also been announced, including the postponement of some tax-filing and other compliance deadlines, as well as a reduction in the penalty interest rate for late GST filings. Similar measures to reduce the burden of tax compliance were reintroduced in April and May 2021 in response to the recent surge in infections. Credit support for businesses (1.9 percent of GDP), poor households, particularly migrants and farmers (1.6 percent of GDP), distressed electricity distribution companies (0.4 percent of GDP), and targeted support for the agricultural sector (0.7 percent of GDP) are among the measures that have no immediate direct impact on the government's deficit position.

In response to the recent increase in infections, the central government announced in April 2021 that 800 million people would receive free food grains in May and June (at an estimated cost of 260 billion rupees), similar to the additional food rations provided in 2020. (Which had expired in November 2020). In addition, the central government extended an interest-free loan scheme for state capital expenditures to FY2021/22 (150 billion rupees) and accelerated the distribution of Disaster Response Fund to state governments (from June to May). Finally, to increase availability, customs duties and other taxes on vaccines, oxygen, and oxygen-related equipment were waived.

Key responses of Monetary policy on Pandemic.

The Reserve Bank of India (RBI) has cut repo and reverse repo rates by 115 and 155 basis points (bps) to 4.0 and 3.35 percent, respectively, since March 2020, and announced liquidity measures such as Long Term Repo Operations (LTROs), a 100-bps cut in the cash reserve ratio (CRR), and an increase in the marginal standing facility (MSF) to 3 percent of the Statutory Liquidity Ratio (SLR) (now extended to September 30, 20. Both the Reserve Bank of India (RBI) and the Securities and Exchange Board of India (SEBI) have temporarily relaxed debt default on rated instruments by lowering the required average market capitalization of public shareholding and shortening the minimum listing period. The adoption of the net stable financing ratio, as well as the final stage of the phased implementation of capital conservation buffers, have both been delayed by six months (the delay was later extended till October 2021). The Reserve Bank of India (RBI) launched a facility to assist state governments in meeting short-term liquidity needs on April 1 and relaxed export repatriation restrictions.

Previously, the RBI implemented regulatory measures to increase credit flows to the retail sector and micro, small, and medium-sized enterprises (MSMEs), as well as regulatory forbearance on asset classification of MSMEs and real estate developer loans (later extended to NBFC loans) (later extended to loans from NBFCs). The priority sector categorization for bank loans to NBFCs has been extended for on-lending in fiscal year

2020/21, and CRR maintenance for all additional retail loans has been waived. Between April 17 and 20, the RBI also announced (a) a TLTRO-2.0 (funds to be invested in investment grade bonds, commercial paper, and non-convertible debentures of NBFCs) and (b) special refinancing facilities for rural banks, housing finance companies, and small and medium-sized enterprises;(c) a temporary reduction in the Liquidity Coverage Ratio (LCR) and restrictions on bank dividend payouts; (d) a moratorium on asset classifications during the loan moratorium period, with a 10% provisioning requirement, and a 90-day extension of the time period for resolving large accounts in default. In addition, the state's Ways and Means Advance (WMA) restrictions have been raised by 60% and prolonged until March 2021. The Reserve Bank of India (RBI) has urged financial institutions to analyse the impact of the COVID-19 shock on their asset quality, liquidity, and other metrics, as well as to take prompt contingency measures.

On April 27, the RBI announced a special liquidity facility for mutual funds and a fixed-rate 90-day repo operation for banks solely for meeting the liquidity requirements of mutual funds, as well as regulatory easing for liquidity support provided under the facility, which was later extended to banks' own deployed resources; and the SEBI reduced broker turnover costs and filing fees on offer documents for public offerings, rights offerings, and share buybacks. On May 13, the government announced three business-related measures: I a 100 percent collateral-free lending programme, (ii) subordinate debt with partial guarantee for stressed MSMEs, and (iii) a partial credit guarantee plan for public sector banks on borrowings from non-bank financial organisations, housing finance companies (HFCs), and micro finance institutions.

The government also announced (i) a Fund of Funds for MSMEs and (ii) a special purpose vehicle (SPV) to purchase qualifying non-bank financial enterprise and housing finance company short-term debt, which will be fully guaranteed by the government and managed by a public sector bank. The RBI announced additional regulatory easing on May 22, including an increase in the big exposure limit, relaxation of some state government finance standards, credit support for exporters and importers, and an extension of the term for small business refinancing facilities. The benefit under the interest subvention and prompt repayment incentive schemes for short-term agricultural loans was extended by the RBI on June 4 until August 31, 2020.

On June 12, the GST Council announced that the interest rate paid on late small business files would be cut in half. On June 21, the Reserve Bank of India (RBI) advised banks to assign a risk weight of 0% to credit facilities issued under the emergency credit line guarantee scheme. On August 6, the Reserve Bank of India (RBI) announced that banks can restructure existing loans to MSMEs classified as "standard" (as of March 1, 2020) without having to downgrade the asset classification. By March 31, 2021, the borrower account will be restructured. Banks must keep an additional 5% provision for restructured accounts in addition to their standard provision.

As a result of COVID-19, the RBI has announced a resolution plan for business and personal loans classed as "standard" as of March 1, 2020. By the end of December 2020, resolution had to be started, and qualifying loans were to be classed as "standard" until the resolution plan was completed. Provisioning of 10% was necessary when the resolution plan was implemented. Banks were allowed to keep new SLR securities purchased commencing September 1, 2020 under the held-to-maturity rule up to a cumulative limit of 22 percent through March 31, 2021 on August 31. Parliament made a modification to the Indian Bankruptcy Code (IBC) on September 22, making insolvency cases illegal until December 25, 2020.

The suspension of the IBC was later extended until March 31, 2021. On October 9, the RBI declared that risk weights for new house loans sanctioned till March 31, 2022 will no longer be tied to loan amount, but will instead be connected to LTV ratios; the maximum single counterparty exposure limit for retail loans by banks has been increased from 5 to 7.5 crore. The Reserve Bank of India (RBI) notified OMOs of state government securities on October 16. On October 21, on-tap TLTROs with a tenor of up to three years and a total value of up to 1,00,000 crore were announced, with a variable rate tied to the policy repo rate.

The RBI has extended the Liquidity Adjustment Facility and the Marginal Standing Facility to regional rural banks since December 2020 to assist them in improving their liquidity management. On January 8, 2021, the RBI announced a phased restart of operations under the revamped liquidity management framework, including the variable rate reverse repo auction. In February 2021, the reductions in cash reserve requirements for MSME loans for banks were extended until December 2021.

The RBI announced new liquidity and financing initiatives on May 4, 2021, including on-tap liquidity support for COVID-related healthcare infrastructure and services, as well as special Long-Term Repo Operations (SLTRO) for small finance institutions.The COVID-related stressed retail and MSME debt resolution plan was revived (with MSMEs getting an extension), allowing lenders to use loan restructuring until September 2021. Lenders can also extend repayment moratoriums or loan tenors for a total of two years for debts restructured under the prior (August 2020) resolution scheme. Finally, until the end of March 2022, banks can employ countercyclical provision buffers to make particular provisions for non-performing loans. In late May, the RBI extended the deadline for meeting several payment system criteria as well as the ECLGS plan to September 30, 2021.

Conclusion

Monetary policy allows policymakers to control the amount of money and credit in the economy. Expansionary and contractionary monetary policies are two types of monetary policies that pursue two different paths. Officials are looking for a strategy to bring the economy out of a slump by injecting credit and promoting economic development out of the two. Because economies experience business cycles, depressions, and recoveries as part of their cyclical economic fluctuations, policy interest rates are frequently lowered and raised in response to changes in real GDP and inflation.Unprecedented events and/or natural disasters, on the other hand, can cause cyclical changes in business cycles, undermining the economy's productive capacity in the short term while also having long-term consequences. The coronavirus epidemic, declared by the World Health Organization in January 2020, was one such event that emerged on the global economic landscape. The virus quickly spread and became a global epidemic, prompting officials to enact a slew of safety measures such as national lockdowns, travel bans, and public curfews.The cascade of events that followed impacted worldwide economic production and consumption. This event might be seen as a catalyst for reforms in global monetary policies in order to protect economies' productive capacity and avoid economic recession.

Because the event is still fresh, the event window is small, and the post-event window is nonexistent, the long-term economic impact of the Covid-19 crisis on global economies cannot be properly assessed at this time. It would be interesting to examine the current state of monetary policy changes as a result of changes in inflation and real GDP rates caused by the global pandemic by the end of 2020.

References

1. Bernanke BS. The new tools of monetary policy. Am Econ Rev. (2020) 110:943–83. 10.1257/aer.110.4.943.
2. Cologni A, Manera M. Oil prices, inflation and interest rates in a structural cointegrated VAR model for the G-7 countries. Energy Econ. (2008) 30:856–88. 10.1016/j.eneco.2006.11.001.
3. Braggion F, Christiano LJ, Roldos J. Optimal monetary policy in a 'sudden stop'. J Monetary Econ. (2009) 56:582–95. 10.1016/j.jmoneco.2009.03.010.
4. Ellison M, Tischbirek A. Unconventional government debt purchases as a supplement to conventional monetary policy. J Econ Dyn Control. (2014) 43:199–217. 10.1016/j.jedc.2014.03.012.
5. Zhang R. News Shocks and the Effects of Monetary Policy (2019). 10.2139/ssrn.3348466.
6. Guerrieri V, Lorenzoni G, Straub L, Werning I. Macroeconomic Implications of COVID-19: Can Negative Supply Shocks Cause Demand Shortages? NBER Working Paper No. w26918, 1–37. (2020). 10.2139/ssrn.3570096.
7. Stock JH. Reopening the Coronavirus-Closed Economy, Vol. 60. Technical Report. Hutchins Center Working Paper (2020).
8. Cavallo EA. International Capital Flow Reversals. Working Papers. IDB Publications (2020).
9. Eichengreen B, Gupta P. Managing Sudden Stops. Central Banking, Analysis, and Economic Policies Book Series, 25 (2018).
10. Edwards S. Financial openness, sudden stops, and current account reversals, *Am Econ Rev*. (2004) 94:59–64. 10.1257/0002828041302217.
11. Tyagi, Anita. "Fiscal policy: as a stabilization tool for discretionary and non discretionary policies." *International Journal of Economics, Commerce and Research (IJECR)* 6.3 (2016).
12. Raheja, Yash, and Priti Pandey. "Impact of COVID-19 on Revenues and Real Estate Strategy of Retail Business in the Indian Emerging Market." *International Journal of Business and General Management (IJBGM)* (2021).
13. Kottiyattil, Aparna Vijayaraghavan. "A Study on Impact of COVID-19 on Stock Market Indices." *International Journal of Financial Management (IJFM)* (2021).

14. Khan, Ruby. "Economic Growth Stimulation Under Vat or Gst Regime; Case Study of Saudi Arabia and India." *International Journal of Economics, Com-merce and Research (IJECR)* 10 (2020): 17-28.
15. Al-Jebory, Asam Mohamed. "The effectiveness of fiscal policy proxies on economic growth in Iraq 1980-2015." *International Journal of Business and General Management (IJBGM)* 5.6 (2016): 31-40.