



## INSPECTION OF ECONOMY WITH LENS OF PANDEMIC

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"It's a recession when your neighbour loses his job; it's a depression when you lose your own."

### Abstract

On considering the global economic crisis due to Covid-19 pandemic, this research paper will address about various economic policies and factors, their limitations and measures to overcome them. This research is based on information derived from reliable online sources.

### Introduction

The era we are living has become very interdependent for coexistence of individuals, institutions, businesses, industries, governments and countries. With the ongoing pandemic depression every economic unit irrespective of any financial level is affected directly or indirectly. Survival of the fittest is a perfect quote for this situation.

This is a constructive approach for possibilities and limitations of economic policies and severity of recession on economies. This study includes examining sectoral contributions and some other macro economic factors.

### Fiscal and monetary policies

Fiscal and monetary policies are macroeconomic tools of a nation to expand their economy or to safeguard it at times needed. They concentrate on the way finances are managed within an economy. They play a major role in preparation of budgets for the nations and to determine proper taxation and interest rates.

The health of an economy depends on the type of fiscal policy implemented as it influences revenues, expenditure and employment. Fiscal policy that tends for an expansion of economy will increase the debt burden on nations, and long term implementation of such policies will lead to a difficulty in debt management. Fiscal policy should be designed in a manner to sustain even adverse situations like recessions. Countries across the world were motivated to be less pro-cyclic in their fiscal policies from 1990's. This helped them out in debt management and also in quick recovery from 2008 Great Recession. Nations, who had more fiscal space, had shown a rapid recovery than others at that time as they had more feasibility for fiscal stimulus. Nations increased their government spending to boost their economic activity. But the most worrying aspect now is, countries are being leveraged heavily and many of the nations are already having high debt-to-gdp ratios. Private debt increased over years after Great Recession. Households are also in a credit trap.

Monetary policy concentrates on money circulation in the economy. Central banks will keep monitoring the impacts of money circulation on economy. This policy helps in controlling inflation through interest rates. At the time of economic crisis, this policy plays a major role in increasing fiscal stimulus through reducing interest rates, purchasing securities in open markets etc. Many central banks lowered their interest rates during Great Recession for fiscal stimulus. If these measures aren't successful, then Central banks will go for other measures like Quantitative Easing. Such measures inject more money into the economy. These measures may facilitate for loans and credits at low interest rates.

In the current situation of Covid-19 pandemic, it will be a big challenge to the nations as fiscal space decreased due to huge borrowings after Great recession. Almost 50% increase in global debt was seen since 2009. Hence, it will be a biggest challenge to the nations now, to build these policies and obtain effective outcomes.

## **Recession Proof Businesses**

Certain businesses will sustain in any of the economic conditions. They are basically necessity related industries as people will eat, bath, wash their cloths at any time irrespective of economic conditions. Hence food industries, grocery businesses, laundry businesses are those which can sustain any recessions. Apart from these, digital platforms will also make profits in recessions. Netflix with its user plans gained 3M subscribers in 2009 at the peak time of recession. Similarly those financial institutions with better policies and services can also sustain out of a recession. Wells Fargo sustained and even grew during Great Recession due to its effective financial services. Servicing and repair industries will sustain during recessions as people tend to go for a repair rather than purchasing new ones.

Those industries which are into mining, manufacturing, crude oil extracting etc generally carry huge amounts of leverage. Such industries will be most affected during recessions. Retail industries that are highly dependent on such manufacturing and energy industries will be shutdown if such recessions extend for more period of time. These industries may bankrupt due to heavy losses.

In the current situation of Covid-19 pandemic, almost all the business operations are completely stopped. Only those industries of basic needs are working now. Medical related industries and digital platforms are profitable businesses now. Food industry is also affected. Hence the impact of this crisis is going to be the worst to the businesses. Those industries which can service their debt, manage their resources and working capital will have an advantage to survive out of this situation.

## **Crude crude oil price vs Exchange rate of currencies**

Crude oil price across the globe is tagged to USD. OPEC nations play a crucial role in supply and pricing of crude oil. Demand for crude oil is increasing day by day due to rapid industrialisation and manufacturing. On the other hand, crude oil is also essential for transportation of both goods and individuals. In general, when the price of crude oil increases, crude oil exporting nations will be benefited and when the price of crude oil decreases, crude oil importing nations will be benefited. As USD is the currency that is in practise for global trade, in general sense the change in crude oil prices will through an impact on exchange rates of various currencies to USD. However, we can't say that crude oil price fluctuation will show a heavy impact on every country. It depends on up to what extent a particular country depends on crude oil. If a country exports/imports crude oil, and the crude oil export/import contributes highest portion of total exports/imports, then such country will experience higher fluctuations when crude oil price is changed. Russia which depends on crude oil for 65% of its exports, was struck with a steep recession in 2015 when crude oil prices in international market were fallen and its GDP growth decreased to 2.5%. It again bounced back after the crude oil prices increased in 2016. Countries having diversified exports or imports will experience lesser fluctuations. Increased crude oil prices may impact industries like

manufacturing, transportation etc. Especially small business units and MSMEs will be highly affected if crude oil prices increases. Similarly transportation cost of goods and people also increases.

The current situation of Covid-19 pandemic is completely different. Exchange rates of nations aren't benefiting against USD even though crude oil prices are very low. The reason may be, the decrease in demand and supply of crude oil, due to lockdowns across the world. But there is demand for USD now. And this may be the reason many domestic currencies across the globe are falling against USD.

## **International Trade**

Trade between the nations will have crucial impact on economies. Globalisation made goods and services available to every nation irrespective of whether they can produce them or not. Imports and exports erased the gap between the nations and facilitated investors, organisations and individuals as well. Technical and service exports remains more stable compared to normal commodities as the price fluctuations are more likely in commodities. Developed economies across the globe always maintain diversified exports of services and commodities. They generally export large amounts of finished goods and services and import raw materials. On the other hand developing nations will have less advantage as they export raw materials and import finished goods. Developing economies will not have much diversified advantage as like developed economies. This is a drawback for developing economies. That's the reason they always try to grab attention in the form of FDIs from developed economies. Due to diversified portfolio of trade, developed nations will find easy in managing their BOT and forex reserves. This isn't the situation with developing nations.

When we discuss about trade, we should also discuss trade wars. Trade war is a situation in which a nation or a group of nations ban/increase tariff rates on certain products of some other nation or group of nations. This kind of actions severely hurt the interests of investors and businesses as opportunity costs will increase and profits tend to decline.

In the current situation of Covid-19 pandemic, international trade got affected and this will have an impact on both developed and developing economies and their markets. This may even worsen if countries tend to go with trade wars.

## **Domestic Industry vs Foreign Industry**

Economy of a nation with all industries as one unit comprises Domestic Industry and Foreign Industry. The impact of foreign industries on domestic industries is an unclear phenomena even today after decades of Industrial Revolution. During financial crisis, the power of domestic industries to withstand the shocks determine the economic strength and self dependence. Demographics, tariffs over imports, taxes, consumers choice, magnitude of employment provided are the variable factors which give a competitive edge for domestic industries. Small scale industries have always been the major part of Domestic industry, which largely have boosted the economy than the large scale industries. India's GDP in 2010 was 10.5% more than that of 2009 (the year of recession). Contribution of agriculture to GDP was 17.52%.

Factors which add assured upper hand of Domestic industry are tax benefits, control of expenditure by currency, market analysis for domestic businesses is simpler and easier, communication is done effortlessly and many more.

Local industries demand and supply are less depending on international business which helps a nation build strong economy internally, holding up the employment without layoffs during recessions and inflation situation is possible on larger level too. Boosting up of economy, creating necessary opportunities from time to time, attracting foreign investments, service sector contributions etc are major plus for domestic industries. Every nation

particularly the developing nations, must create adequate balance of Domestic industry and Foreign Industry. They must exercise the taxes, import tariffs, agricultural sector benefits in a way to enhance the economy's independence from Global businesses.

## **GDP sectors and economy uplift**

Sectoral contribution to GDP and industries which play strong & large role in uplifting economy, should be focused by the governments, central banks and industrialists.

Primary sector in India is going low on contributing to GDP as agricultural production is decreasing. Other than agricultural it's mining industry which is contributing better to GDP. Contribution from secondary sector is fine until the industries of manufacturing sector aren't hit by recession. Tertiary sector being the largest contributor to Indian GDP has been provider large employment too.

As the pandemic's most important requirement is survival of mankind, it is food supplies to be produced in more quantity. So the agricultural industry in India being second largest in world must get the best boost from RBI and government. This directly increases production and pushes up daily labour employment who are badly hit at present in lockdown period. IT industry has lot of share in Indian GDP, healthcare, e-commerce and consultancy services are directly connected to IT industry. Utilizing the IT industry with lens of physical distancing and safety measures in serving directly to public does surely edify and elevate economy.

## **Macroeconomic Environment**

Macroeconomic environment of a nation is observed through the variables like capital allocation, employment, domestic and foreign investments, liquidity in market, expenses etc apart from global economic and business concerns. Economic growth can be examined too with macroeconomic stability wherein the economy is much shockproof of recession and less vulnerable with sustainability. Fiscal policy and monetary policy are the specific tools used to achieve the macroeconomic equilibrium. Long-term equilibrium is achieved when the contemporary output is equal to the expected potential output i.e GDP.

Each nation's business, trade laws, practices vary from others, so every economy is an individual unit. Considering the pandemic, structure of macroeconomy must be altered with the tools fiscal, monetary, trade etc policies, as the whole world is interrelated with the ongoing shocks, lay offs, recession, unemployment risk.

## **GDP and Taxation**

GDP of an economy has always been a complex aspect, even with a slight variation in any of taxes lead to rise/fall in GDP. The relationship between taxes and GDP is neither inversely nor directly proportional. Collective economic growth surely needs taxes to be collected on whole, particularly property, corporate, income taxes. Widening the tax base and ensuring the citizens pay their taxes will certainly yield higher tax revenue. Income and wealth must be produced before their consumption and taxes must be levied well enough before the wealth is consumed, which only can create wealth again for the government. Lower taxes to GDP will cease the government to spend on infrastructure, which leads pressure on meeting the fiscal deficit.

## **Conclusion and Recommendations:**

The current crisis caused by Covid-19 is unfathomable. Challenges are many, instant practical applications must be done in aim of safeguarding the three resources of economy employment, businesses and financial system.

Economies should follow a financial discipline and focus on spending in infrastructure as it stimulates both businesses and employment. Financial institutions should be protected as they're the pillars of economy. Basic necessities and healthcare should be prioritized and nations should focus to become self sufficient in those lines.

Exploring alternative means of energy rather than crude oil will decrease the dependency on crude oil. Developing economies especially should focus on inexpensive production ways and increase their base of exports. Trade wars are ought to be avoided for a sustained development.

Central Banks should adjust interests on agricultural loans. Provision of a new temporary tax rate for public corporations will boost production rapidly. Imports should be scrutinized on products which can be domestically produced.

Higher ethics with focus on favouring needs of the ordinary workers will support working class. Over production should be avoided. Sustainable cash flow, liquidity are to be maintained by Small-scale and Medium Sized Businesses. Innovation in every task can create new opportunities, ideas. Insurance and Pharmaceutical industries are more profitable during economic slump, investments work well in these industries at this hour of need.

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