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Govt should Act Fast to face Coronavirus' Economic Challenge

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TIME
for wait & watch approach on the impact of COVID-19 (formerly Novel Coronavirus) on Indian economy is over. Grappling with COVID-19 is immediate challenge as well an opportunity for researchers, policy-makers and businessmen.

It also calls for preparing a long-range medical and economic strategy to cope with similar future situations that would result from next arrival of infection from coronavirus family or any other technical category of microbes.

There are hundreds of coronaviruses. Some reside in animals and a few of them at times migrate to human beings. In such cases as in Bats-residing COVID-19, the world is caught surprising and defenceless when spill-over effect happens.

The Finance Ministry & Reserve Bank of India should now shift from monitoring to preparing a comprehensive package to cushion impact of virus. Assessment of combined effect of COVID-19's spread in other countries &within India have to assessed.

Which sectors are being hit currently & which would be affected most in worst-case scenario? What would be the impact on gross domestic product (GDP) under different scenarios? Would tax and non-tax revenue projections made in budget 2020-21 go haywire?

We hope Finance Ministry is doing an internal exercise on these lines to prepare fiscal stimulus for economy. It should also protect vulnerable sections of society that would get affected by fresh wave of slowdown.

The Ministry has already allowed government entities to invoke force majeure clause in contracts for purchase of goods and services in event of disruption in supply chains.

An office memorandum dated 19th February 2020 says that FMC might be invoked ***"wherever considered appropriate"*** . As for non-government entities, supply chains have been disrupted in cases where manufacturers depend solely or heavy supply of inputs from China or other countries where COVID-19 is spreading fast. The viral infection has also impacted transport and logistics business, thereby aggravating supply chain issues.

While preparing economic package to face COVID-19, Finance Ministry should draft a proposal to seek multilateral aid to make India a hub for facing global challenge of viral diseases. India might require short-term multilateral assistance too, if the disease spreads far & wide as it has in Italy and Iran.

The other day World Bank and International Monetary Fund issued a joint statement, assuring all countries help in addressing ***"the human tragedy and economic challenge posed by the COVID-19 virus"***.

There is ample scope to learn & act from emerging evidence & experience of earlier viral outbreaks over last decade. The Analysis by different entities shows that India can't escape major impact of COVID-19, which is going to create more harm across the globe for at least one year.

"Covid-19 presents the global economy with its greatest danger since the (2008) financial crisis"
, says Organisation for Economic Cooperation and development (OECD). It has thus rightly stated:
" Governments need to act swiftly and forcefully to overcome the coronavirus and its economic impact ".

In its report captioned ***'OECD Interim Economic Assessment Coronavirus:The world economy at risk'***
released on 2nd March, OECD has lowered India's GDP growth forecast for 2020 by 1.1% to 5.1% from its November 2019 forecast. It has also reduced the country's GDP growth projection by 0.8% to 5.6% from pre-coronavirus forecast.

OECD has made two set of global GDP growth projections by assuming two different intensity of spread of the infectious disease. Assuming the epidemic peaks in China in the first quarter of 2020 and outbreaks in other countries prove mild and contained, global GDP growth could decline by 0.5% from its November 2019 projection. The Report thus says:
"annual global GDP growth is projected to drop to 2.4% in 2020 as a whole, from an already weak 2.9% in 2019, with growth possibly even being negative in the first quarter of 2020 ".

Under 2nd assumption of a longer lasting and more intensive coronavirus outbreak, OECD has projected 1Â½ per cent drop in global GDP growth in 2020, half the rate projected prior to the virus outbreak.

OCED believes that
"supportive macroeconomic policies can help to restore confidence and aid the recovery of demand as virus outbreaks ease, but cannot offset the immediate disruptions that result from enforced shutdowns and travel restrictions".

Like OECD, World Health Organisation (WHO) has appealed to governments to develop incentives for pharmaceuticals, medical equipment and protective-gear manufacturers to ramp up production. It has also called for easing restrictions on the export and distribution of personal protective equipment and other medical supplies.

WHO Director General (DG) told media on 3rd March that
"we are concerned that countries' abilities to respond are being compromised by the severe and increasing disruption to the global supply of personal protective equipment â€“ caused by rising demand, hoarding and misuse".

India's protective gear, diagnostics & pharmaceuticals industries have to be scaled up to not only meet domestic requirements but also cater to global, emergency requirements. The Government has chosen the easy option to ban export of medical supplies to avoid shortages within the country.

The opportunity for Indian medical & pharmaceuticals businesses to serve the world in global emergencies can be judged from data reeled out by WHO.

As pointed out by WHO DG,
"Prices of surgical masks have increased six-fold, N95 respirators have more than tripled, and gowns cost twice as much."

He stated:
" Supplies can take months to deliver, market manipulation is widespread, and stocks are often sold to the highest bidder".

It has estimated that each month, 89 million medical masks will be required for the COVID-19 response; 76 million examination gloves, and 1.6 million goggles.

Certain other entities too have made projections about economic outlook in wake of COVID-19's contagion effect. McKinsey & Company, for instance, has assessed impact on global economy under two situations - base case scenario and conservative scenario.

In a report dated 28th February on COVID-19,it says:
"All sectors are impacted, with several seeing more severe consequences through Q2 2020 through the rest of the year Preliminary views based on base case â€“ Subject to change as the COVID-19 outbreak evolves".

As for long-term strategy to face new virulence from any other microbe from coronavirus family, all known viruses should be monitored in national mission mode. This would help us prepare a shelf of probable vaccines and other medical therapies. Such planning would reduce gestation period for developing effective treatment to manage or contain new viral diseases.

The Government should also create a fiscal stimulus/contingency reserve fund to cope with outbreak of coronaviruses as the latest one is deadliest of all similar outbreaks such as SARS, Ebola and Zika in the past decade.