

Chapter 10

Impact of COVID-19 on the Fiscal Health of India: A Sub-National Analysis From Odisha State

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ABSTRACT

With the emergence of COVID-19 within Odisha, preventive measures like partial or total lockdown of the state have been undertaken by the government to control its spread despite the provision of health-related infrastructure. Among the 14 major states of India, Odisha is a poor state. However, the spread of the pandemic has become massive. In this context, this chapter attempts to examine the fiscal health of India at the sub-national level from the state of Odisha. The revenue generation capacity declines to a larger extent while expenditure responsibilities in terms of health expenditures expand tremendously. Consequently, the state has to face serious difficulties in sustaining its fiscal balance. This chapter observes that the fiscal health of the state deteriorated to a larger extent during the lockdown period than the pre-lockdown period. In such a critical situation, the state needs to plan effective strategies to raise the level of income through fiscal policy allowing economic activities compromising the sanitization measures of the pandemic.

INTRODUCTION

The emergence of COVID 19 across the globe has retarded the fiscal health of the economy due to excessive health expenditures and lack of revenue generation on account of partial and total lockdown of the economy (Baldwin, Richard and Beatrice Weder di Mauro 2020). The governments of almost all countries have used nationwide lockdown, fully or partially, as a preventive measure against the spread

DOI: 10.4018/978-1-7998-6896-5.ch010

of corona virus (Arun Kumar 2020) resulting loss of economic activities throughout the countries. The economic deterioration of countries has become a debatable issue among the academicians, social scientists, researchers and policy makers (Kumar, Arun 2020; Baldwin, Richard and Beatrice Weder di Mauro 2020; McKibbin, Warwick and Roshen Fernando 2020). In this juncture, the sub-national level of government being a unit of the country having low revenue potentiality and prime responsibility to provide better health faces greater challenges to fight with the pandemic. The sub-national level of government in India is no exception to it. In Indian federalism health is a subject of the Sub-national level (state) government¹. It is the prime responsibility of the state to protect its people from the pandemic. However, the revenue potential of the state is low relative to its expenditures (Mahamallik and Sahu 2015). Among the divided fourteen major states of India², Odisha is the fourth lowest state in terms of per capita income and own revenue capacity to meet its revenue expenditure during 2018-19 (Table 1 and 2). Further, the socio-demographic output indicators show its weak performance (Table 3). However, the spread of the pandemic has become massive in Odisha which is not only a shock to human lives but also to the fiscal health of the state. In this context attempts are made in this chapter to examine the fiscal health of India at sub-national level from the perspective of the state of Odisha. Literature examined the economic impact of influenza (Meltzer *et al* 1999), the impact of 1918 Spanish flu epidemic on the economic performance of Sweden (Karlsson and Nilsson 2014), global economic effects of COVID-19 (Jackson *et al* 2021), socio-economic consequence of COVID-19 (Brodeur *et al* 2020), the effect of COVID 19 on Indian economy (Chaudhary *et al* 2020; Dev and Sengupta 2020), the impact of preventive measures used to reduce the spread of COVID 19 on marginal sections of the society (Ray *et al* 2020), income, output and employment (Arun Kumar 2020; McKibbin, Warwick and Roshen Fernando 2020; Baldwin, Richard and Eiichi Tomiura 2020; Mann, Catherine L. 2020), economic activity, fiscal and monetary policy (Cochrane, John H. Cochrane 2020) and bank's regulatory actions (Beck, Thorsten 2020; Cecchetti, Stephen G. and Kermit L. Schoenholtz 2020). This chapter observes that the fiscal health of the state is deteriorated to a larger extent during lockdown period than pre-lockdown period.

CONTEXT

The outbreak of COVID 19 has retarded the globe medically and economically. It is found that globally the total number of confirmed cases suffering from corona virus and number of deaths due corona virus as of 28th November 2020 were 61299371 and 1439784 respectively (WHO 2020). The top seven largest economies of the world (The US, China, Japan, Germany, Britain, France, and Italy), which account for 60% of world GDP, 65% of world manufacturing and 41% of world manufacturing export, have found the exponential growth cases of the disease. It is argued that since these economies are part of global value chains, their deterioration will produce supply chain contagion in all nations of the world (Baldwin, Richard and Beatrice Weder di Mauro 2020). The world output was projected to grow at -4.9 per cent in 2020. India is no exception to the suffering of the pandemic³ and its economy withstanding the nationwide full or partial lockdown throughout the country for more than eight months since March 24, 2020 as a preventive measure for the disease (Ray *et al* 2020). Among 32 States and Union Territories of India, the highest percentage of confirmed cases of the disease (20.8%) is found in Maharashtra followed by Tamilnadu (12%) and Rajasthan (8.4%) respectively during 18th March to 11th April 2020 (Table 4). The total number of confirmed cases of corona disease and deaths resulting from it were 9351109 and 41322 respectively as on the 28th November, 2020, (WHO 2020). The Gross Domestic Product of India

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