

A STUDY ON IMPACT OF COVID-19 ON PUBLIC FINANCE IN ASIA

Dr. Rajesh Harichandra Bhoite

HOD- Business Economics

AI's Akbar Peerbhoy College of Commerce and Economics, Mumbai-08

Abstract

The purpose of this paper to highlight the impact of covid-19 on the government finance in East and South Asia. Covid -19 pandemic not only affect socio-economic life of the people but also the government finance on large scale. Number of countries in Asia, are developing and have been struggling hard to have sound fiscal policy. They have been suffering from many socio-economic issues and have less GDP as compared to western and European countries. Covid pandemic affected these nations badly as, almost every country in the year 2020 was in deficit and struggled hard to spend on the health of the people. Covid deaths, covid patient treatment made government spend too much unpredictably and in non-plan expenditure mode. The public finance in Asia was more affected by Covid-19. This all made Asia to suffer. Number of countries even borrowed from ADB, IDA, World bank to meet their health expenditures and had to manage their financial administration with difficulty. In this study, which is based on secondary and official data revealed the endeavour done to highlight the position of Asian countries featuring their public or government finance situation. Economic slowdown, social recovery increased their deficits ranking them low in global financial and HDI ranking.

Key words: Covid-19, Public and government Finance, East Asia, South Asia



Aarhat Publication & Aarhat Journals is licensed Based on a work at <http://www.aarhat.com/eiirj/>

Introduction of the study
Public Finance of Asian countries:

Public or government finance is the finance which reflects economic behaviour of the government. It shows the scope where government generates income through public revenue,



Electronic International Interdisciplinary Research Journal

Volume-XI, Issues-I

Jan - Feb 2022

incur expenditure on the welfare of its people and also borrow in case they are in shortage of funds to fulfil their social and economic objectives. Every government has to have proper financial administration claiming best adjustment between revenue and expenditures. Asian countries show wide variation in their demographic, socio-economic profile. Many countries are tagged as developing where China and India are more prospering. But despite of modernisation, a majority of the people in Asia are still engaged in agriculture as their primary commercial activity. Their large population belongs to peasant community and fall under average income earner families. Poverty, inequality, unemployment, discrimination are the spectacular features of these countries. Although, many of the nations in this continent are growing fast and getting urbanised. Asia is Earth's largest and highly populous continent which covers almost 48 nations in its geographical zone. Being populous nations, they are resort to spend more on healthcare during corona pandemic. There is a challenge in administrating their fiscal policies today.

Emergence of Pandemic:

Corona virus got spread rapidly across the globe causing great tension, health concern and large number of deaths. Started from China, it spread to the world very fast and almost every country in the world got affected by its impact. It affected health of the people, killed millions of people world wide and still in existence since last one and half year threatening human kind by taking form of new variant. The concern is not about controlling it but handling the affected lives. The failure to control the pandemic spread, the global economies have got affected. The worst part is that it brought economic devastation. It has hardest hit low-income group countries in Asian Continent. According to World bank, The Pandemic has affected Asia's' growth and it is going to put more than 19 million people into extreme poverty. The more concern is about excessive borrowings of these countries during pandemic. It is forecasted that low-income counties will have debt burden soar to between \$2.6 trillion and 3.4\$ trillion in coming years (UNCTAD) and it will be difficult for them to pay these debts for long years.

Non-plan expenditure and borrowings

In yearly budget, every government allocate budget for health purpose. There is provision made for expenditure to be done on health infrastructure. In reality, in developing country it



Electronic International Interdisciplinary Research Journal

Volume-XI, Issues-I

Jan - Feb 2022

is already less and unsatisfactory. Hardly between 1 to 2 percent provision is made in budget to spend on the social infrastructure like hospitals and health care. A very few countries like USA spending more than 17 percent on health care. Due to corona pandemic, many Asian countries felt pressure and had to spend much amount on treating corona patients and safeguarding their people by giving free vaccination. Even spending was made to correct badly affected economy. Obviously, many countries asked international institutions like World bank and its associate IDA for pandemic debts. India, is not an exception. World bank, itself has approve \$4 billion for the purchase and deployment of covid-19 vaccines for more than 51 countries covering Africa and Asia. The major contribution was form IDA as a soft loan window to assists poorest nations of the world. The purpose of these lending institution is very clear to help low- and middle-income countries and strengthen their health system. Since the inception of the covid-19 pandemic, the WB has approved more than \$ 150 billion to fight socio-economic and health related issue of the poor countries. They are protecting poor and their health.

Literature Review

Federico Guerrero and Elliott Parker (2007) showed the effects of federal finance and its impact on economy for the long term. The study was carried in USA. **Fisher (1961)** discussed expenditures in term of PCI, population and growth of cities and town in 48 states of USA. He discussed various classifications of PE. **James Bukenya, et.al (2009)** studied the effect of healthcare supply chain and expenditures related to the logistics affecting economic growth in Africa. **Louis Chih-hung et. al (2008)** tried to show the association between economic growth and public expenditures in USA. **Olusegun Akanbi. A and Niek Schoeman. J (2007)** highlighted the effects of welfare spending on education and general sectors in African countries. It was a working paper. **Peacock and Wiseman (1961)** focused government expenditure in UK. They showed expenditures into three effects. They believed that public expenditures should be done according to the situation and not at a same time. **Pigou (1973)** applied cost-benefit analysis used in the public expenditure policy. He tried to show equality between Marginal cost and benefit. He measured benefits relating with economic and social infrastructure. **Reghendra Jha, et al. (2001)** carried primary study on the analysis of effect of public expenditure on health and Education in Indian states as a part of working paper.



Electronic International Interdisciplinary Research Journal

Volume-XI, Issues-I

Jan - Feb 2022

Samuelson (1955) showed the relevance of public goods provided or rendered by the government. He wrote about expenditure patterns as well. **Sangamitra and Nagarajan and Nagarajan (2006)** studied the impact of government expenditure on Education and Health in Tamil Nadu (TN) in India, specifying the beneficiaries. **Seymour Douglas Oral Williamsy (1997)** undertook a study on the impact of government expenditure on economic growth of OECD countries. The study was restricted to only countries related to OECD. **Shenggne Fan, et. al** carried a study on government spending for agriculture in Africa and gave inputs for further policy making. **Vathsala Ramji et. al (2001)** carried a study on public expenditure management in India. They elaborate how to curtail unnecessary expenditures.

Objective of the study

1. To highlight the Public Finance of East and South Asia.
2. To discuss the concern on public expenditure in these countries with reference spending during covid pandemic.
3. To conclude with some suggestions on proper administration of public finance

Significance of the study

Public expenditure of developing country is always high due to its population and economic activities. Many nations in Asia are developing and differ in their geographical size. They try to spend more on social welfare though the revenue generation though it is not satisfactory. They are resort to borrow internally and externally to meet their target expenditure and keep their citizens happy. In regular practice, they face problem in sustaining their expenditures. But during Corona pandemic, it became server and they had to crack the hard nut as they had to spend on vaccination to protect their people. Many nations spend on PDS to ensure food security, many announced compensations for lost of lives etc. there was a sudden burden of spending when economic activities also slowed down resulting into affected production, employment level and aggregate demand. There was fall in government income at one hand and huge spending on other hand, which made condition of these countries mor promising. This study is will help to find out the way of managing deficits, increasing revenue and cope up with contingencies like covid-19 in future. In short, it will highlight the lesson, developing countries should learn to handle their public finance in better way following sound fiscal administration.

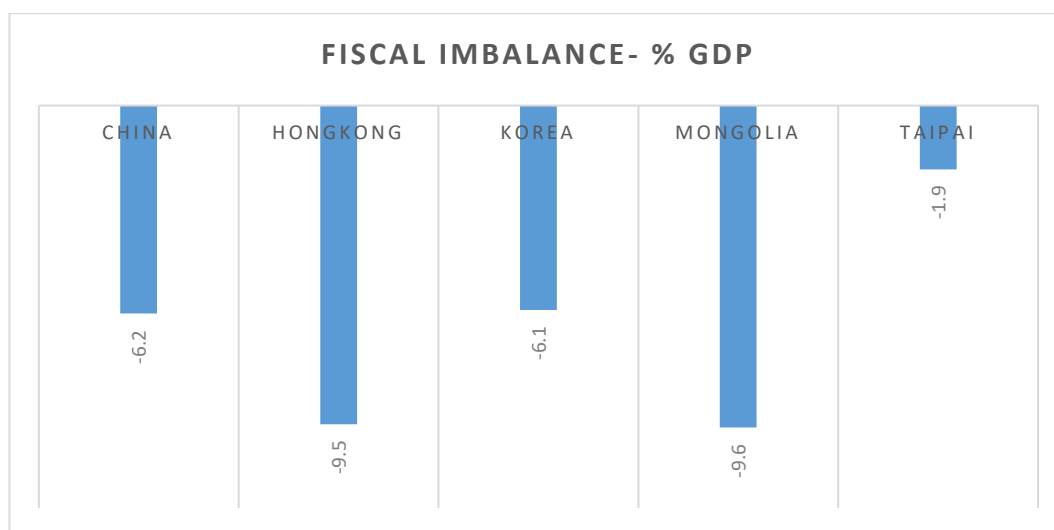
Methodology

The data used for this study is secondary and official taken from many international institutions to supplement opinion of the researcher. The data is presented in diagrammatic form to exhibit in simple way. The data is primary in nature as it collected by international institutions through comprehensive surveys.

Analysis and discussion

❖ Government Finance, Fiscal Imbalance (% to GDP 2020)- East Asia

East Asia is the largest territory including the largest country China with huge and ranking population in the world. Its neighbours are Mongolia, North and South Korea, Japan, Taiwan, Hong Kong, Macau, Tibet etc. This is one of the largest land areas in Asia. These all are the developing economies and do not have that much progress in their fiscal finance. These countries have been facing with deficit since years. In the year 2020, almost all nations have Fiscal balance in negative.



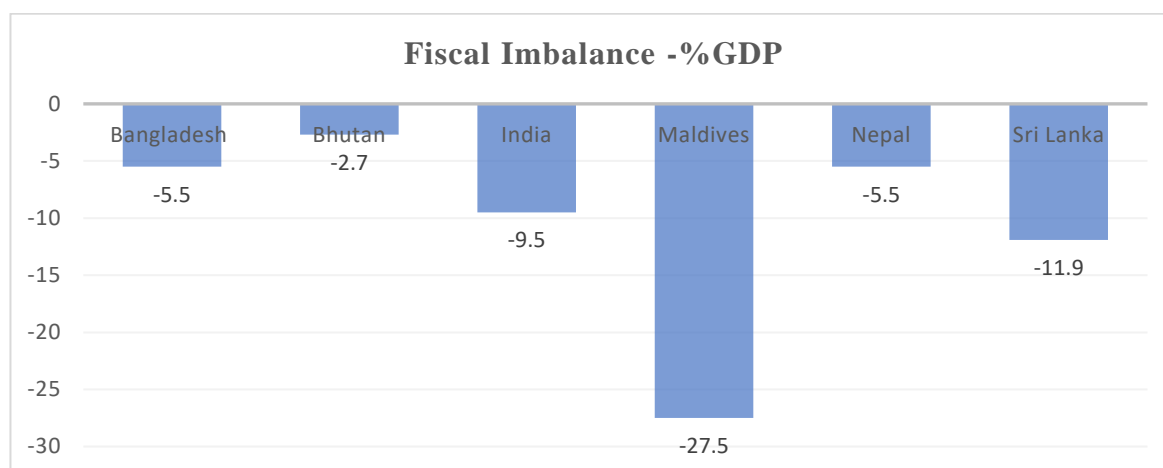
Source: ADB basic statics,2020

It is observed in that the highest fiscal imbalance was in Mongolia, -9.6 percent, followed by Hong Kong. Then China, -6.2 % followed by Korea -6.1 % and the least was with Taipai, 1.9 % as it is a small nation. The Corona impact is seen on these developing economies as they suffered with economic fluctuation, market uncertainties, industrial low performance etc. China, carried the largest population and therefor it had to spend huge on its health care causing to fiscal imbalance.

❖ Government Finance, Fiscal Imbalance (% to GDP 2020)- South Asia

South Asia, consist Indo-Gangetic plain and peninsular India. It includes countries like Nepal, Bhutan, Bangladesh, Pakistan, Sri Lanka, Maldives, Afghanistan. This one of the poorest blocs in the world. These nations are emerging economies and face number of socio-economic problems. The rate of corruption is too high which results into low revenue generation. At the same time, being populous bloc, the consumption is too high in this region. It always results into fiscal imbalance as government is hardly able to manage through public revenue, rather adjusts the gap of spending by borrowing from international institutions. During corona pandemic, in the year 2020, these countries did not show satisfactory fiscal balance.

Diagram 1.1



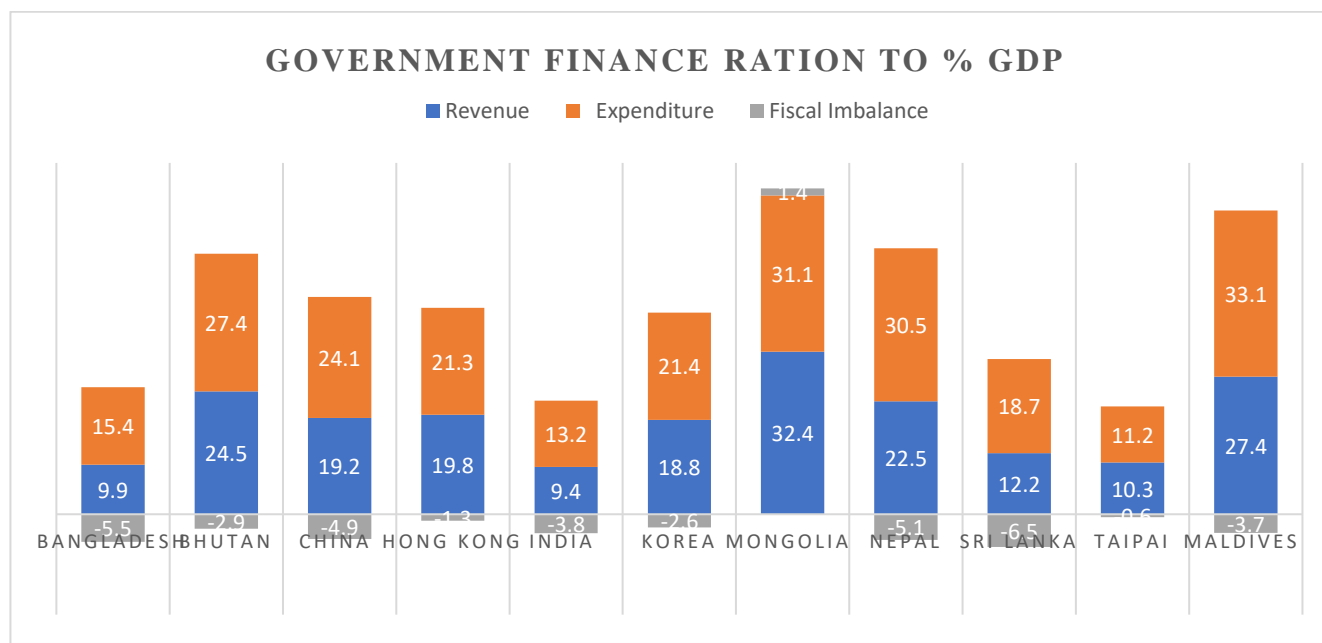
It is observed that all the nations belonging to south asia had fiscal imbalance in the year 2020. The major problem was with Maldives as it had highest FI, -27.5 followed by Sri Lanka, -11.9, India, -9.5, Nepal and Bangladesh, -5.5 respectively and Bhutan, -2.7 percent. This was the result of spending too much to accelerate economic activities and achieve objective of social welfare.

❖ Government Finance Ratio in % to GDP

The following diagram shows the Government/Public/ Fiscal finance ratio consisting Public Revenue, Public Expenditure and Fiscal deficit faced by the group of countries during the year 2020 when corona hit hard to each economy. The diagram shows the percentage of public revenue generated as an income of the government; expenditures made to sustain

welfare of the people. Due to excess expenditures, these countries faced fiscal deficit.

Diagram 1.2



It is observed that except Mongolia, all nations had fiscal deficit between -1 to -6 percent. The maximum public revenue was of Mongolia, 32.4% and its expenditure was 31.1 %, leaving behind fiscal balance and it had surplus of 1.4 percent. Whereas the highest revenue was of Maldives of which government spent full and got fiscal deficit of -3.7 %. The lowest public revenue was generated by India and Bangladesh and their public expenditure was much more, causing Fiscal imbalance of -3.8 and -5.5 percent. Almost all the nations showed pressure of public spending on various economic activities including health care system.

India has been sanctioned debt of \$1.5 billion by ADB in the month of April 2020 to face corona pandemic and spend money on disease containment, treating patients, protecting poor and vulnerable classes etc. Even World bank approved \$1 billion debt to India to accelerate its Social Protection Program providing social assistance to its poor population. The money was to be spent through Pradhan Mantri Garib Kalyan Yojana.

Suggestions:

To face the corona pandemic and monitor fiscal efficiency, governments should try to

- Reduce unnecessary revenue expenditure to reduce revenue deficit
- More public revenues should be collected by introducing new taxes



Electronic International Interdisciplinary Research Journal

Volume-XI, Issues-I

Jan - Feb 2022

- Money borrowed from international institutions should be spend honestly for the social cause
- Transparency should be maintained to gain the trust of lending institutions
- There should be increased in vaccination drive to save people from corona virus and reduce the expenditure made on the treatment of the patients.
- Borrowing should be limited as it is undesirable in the long run
- Health care services should be improved to have maximum benefit from the spending.

Conclusion

Developing countries face difficulty in having more Gross Domestic Product. Shortage of public revenue and excess public expenditure brings these nations into fiscal imbalance. Since the inception of the corona pandemic, there was sudden increase in public expenditure which resulted into negative fiscal position. These countries had to borrow from ADB, IDA, world bank to accelerate expenditures on healthcare. Pandemic taught a lesson to these countries to have a provision for spending during such kind of contingencies.

Reference

- Federico Guerrero and Elliott Parker (2007), The Effect of Federal Government Size on Long-term Economic Growth in the United States, 1792-2004, UNR Economic Working Paper Series, Working Paper No: 07-002, August.
- James Bukenya, Alabama, Chris Enyinda and Alabama (2009), The Effect of Healthcare Supply Chain Logistics Expenditures on Economic Growth in Simon Sigue, Repositioning African Business and Development for the 21st Century
- Louis Chih-hung, Chiehwen Ed Hsu and Mustafa Younis. Z (2008), The Association between Government Expenditure and Economic Growth: Granger Causality Test of US Data, Journal of Public Budgeting, Accounting and Financial Management, 20(4), Winter
- Olusegun Akanbi. A and Niek Schoeman. J (2007), The Welfare Implications of Expenditure on Education and Public Expenditure in General in African Countries, University of Pretoria, Working Paper: 2007-07, May



Electronic International Interdisciplinary Research Journal

Volume-XI, Issues-I

Jan - Feb 2022

- Peacock Alan. T and Jack Wiseman (1961), *The Growth of Public Expenditure in the United Kingdom*, National Bureau of Economic Research, Princeton University Press, Princeton, London.
- Pigou. A.C (1973) ,*The Range of Government Expenditure Selection in R.W Houghton (Ed), Public Finance, Second Edition.*
- Reghbendra Jha, Bagala Biswal and Urvashi Biswal. D (2001) ,*An Empirical Analysis of the Impact of Public Expenditures on Education and Health on Poverty in Indian States*, Queen's Economic Department Working Paper No: 998, March
- Samuelson. P. A (1955), *The Pure Theory of Public Expenditure*, *Review of Economics and Statistics*, XXXVII, November.
- Sangamitra and Nagarajan and Nagarajan (2006), *Government Expenditure on Education and Health in Tamil Nadu: Who Benefits?* in D.K.Srivastava, M.Narasimhulu , *State Level Fiscal Reforms in the Indian Economy, Volume:2*, Deep and Deep Publications Pvt Ltd, New Delhi, India.
- Seymour Douglas Oral Williamsy (1997), *The Impact of Government Expenditure on Economic Growth in the OECDs: A Disaggregated Approach*, Caribbean Development Bank/ World Bank, July 27.
- Shenggne Fan, Babatunde Omilola and Melissa Lambert (2009), *Public Spending for Agriculture in Africa, Regional Strategic Analysis and Knowledge Support System*, Working Paper No: 28, April.
- Vathsala Ramji, Sujatha Suresh and Srinivasan. V.K (2001) ,*A Study on Management of Public Expenditure by State Governments In India*, The Indian Institute of Economics, Hyderabad (For Planning Commission, Government of India), India.

<https://www.adb.org/>

<https://ida.worldbank.org/en/ida>

Worldbank.org