

# Economy, Pandemic and Uncertainty: Challenges for India

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**Abstract - The outbreak of the Covid-19 pandemic is an unprecedented shock to the Indian economy. The economy was already in a parlous state before Covid-19 struck. With the prolonged country-wide lockdown, global economic downturn and associated disruption of demand and supply chains, the economy is likely to face a protracted period of slowdown. Both policy tools come with substantial economic costs representing a trade-off between the optimal health policy tool and the economic interests of a country. Till now, as the cost of externality is very high because of absence of vaccination and treatment of this disease, the State must impose more aggressive policy in the form of near complete lockdown or in some cases complete lockdown of the economy to reduce the probability of being infected.**

**Index Terms - Pandemic, Covid 19, Economic, downturn, demand, supply, slowdown, lockdown.**

## INTRODUCTION

The novel Coronavirus outbreak (SARS Corona Virus II or COVID 19) has resulted in a public health emergency with severe consequences for the World Economy. It is an unprecedented shock to every economy in the World, including the Indian economy. The outbreak originated from Wuhan, China and has spread across 185 countries with US, Spain and Italy being among the worst hit countries along with China. Lack of any known vaccine to prevent the spread of the virus or any approved treatment along with high reported death rates have resulted in a wave of fear across the world. Many countries have announced lockdowns restricting people to their homes, to contain the transmission of the disease by carriers. This is one tool in the effort to slow the domestic transmission of the disease so that the healthcare capacity of a country remains adequate to the number of patients with a severe version of the disease.

The world has witnessed several epidemics such as the Spanish Flu of 1918, outbreak of HIV/AIDS, SARS

(severe acute respiratory syndrome), MERS (Middle East Respiratory Syndrome) and Ebola. In the past, India has had to deal with diseases such as the smallpox, plague, and polio. All these individually have been severe episodes. However, the Covid-19 which originated in China in December 2019 and over the next few months rapidly spread to almost all countries of the world can potentially turn out to be the biggest health crisis in our history. Many experts have already called this a Black Swan event for the global economy.

India recorded the first case of the disease on January 30, 2020. Since then, the cases have increased steadily and significantly. At the time of writing of this chapter (July 2nd week, 2020), India has recorded the third highest Covid-19 caseload in the world after the United States and Russia with more than a million confirmed cases and more than 25,000 deaths (Ministry of Health and Family Welfare, 2020). The doubling rate has steadily gone up to around 18-22 days and the daily new confirmed cases are around 28,000-30,000. However, the growth in active cases is lower than the growth in total cases implying a relatively high recovery rate which has continued to improve. Also, unlike other affected countries the number of daily new cases is yet to reach the peak in India. Globally there have been more than 13 million confirmed cases and close to 6 lakh deaths (World Health Organization, 2020).

India was quick to act as it imposed several measures such as visa advisories, mandatory testing, and quarantine of passengers from foreign countries, temporary suspension of visas, restricting all air travel and eventually announcing a complete lockdown of economic activity across the country except for essential services. The move was aimed at containing the spread of the virus across the country, especially since India's healthcare capacity is unevenly distributed. The Pandemic comes at an inopportune

time, as India had just started recovering from a sharp slowdown that originated from the second quarter of FY 2018-19 (Ministry of Health and Family Welfare, 2020). Therefore, the exogenous shock will accelerate the downturn and extend it further as governments across the world announce lockdowns which restrict economic activity.

Lockdowns come with significant costs in terms of loss of economic activity. With much of the working population restricted to their homes, production is naturally limited and growth negative. It is obvious that tax revenues, private government investment and many other economic aggregates will be correspondingly affected. Thus, the lockdown adds to the negative impact of the crisis triggered by the Pandemic. We are therefore staring at one of the sharpest declines in global growth during calendar year 2020. The contagion fear before the lock down, which will remain after the lock down, constitutes a huge demand shock for contact services, which involve dense collections of people like air, 4 rail & bus transport, Tourism, Restaurants & Hotels, Entertainment and Malls. The Pandemic is therefore a combination of a Real Supply and a Demand shock to the economy, which in turn affects the financial system.

The Global financial Crisis was a financial system collapse, which propagated into the Real economy. In that sense they are opposites. However, once the effects reach from one to the other, lots of similarities emerge with respect to the financial elements of the current crises and how to deal with them. The Real elements are different and the fiscal measures to deal with it, must be different. As the Pandemic affects all sections of society equally, it has made many more citizens aware of and sensitive to, the condition and situation of other socio-economic groups in society and how to provide mutual support. It has also increased our understanding of the "Dignity of Labor". The services of all health workers, from the cleaner in the hospital, the nurse aids and nurses & up to the doctors is now more widely appreciated, as are the services of the virtually anonymous delivery boy. We must celebrate and expand these gains after the crisis passes.

Measured relaxations have been permitted in areas outside the 'containment or high-risk zones' including opening of non-essential establishments, and businesses. Domestic flights have been allowed

subject to the guidelines issued by the government to ensure safe travel of the passengers amidst the pandemic. However, restrictions on educational institutions, places of public gathering such as shopping malls, gymnasiums, swimming pools, cinema theatres, entertainment parks, places of religious worship, operation of metro train services etc. continue. While vehicular movement within states is allowed there remains in place a night curfew period in almost all states. The re-imposition of the lockdown has delayed any chance of economic recovery that was anticipated once the first phase of 'unlocking' had begun in June. The overall magnitude of the impact of the pandemic will depend upon the duration and severity of the health crisis, the extent to which intermittent lockdowns are required in different regions of the country and the way the situation unfolds as and when the nationwide lock-down is finally lifted and normal economic activity is permitted. The loss to the economy has already been substantial.

#### LITERATURE REVIEW

The pre Covid-19 economic scenario in India- India was facing worst-ever deceleration before even before Covid-19 hit. Even before the full force of the pandemic hit India (which was really in April-June quarter in terms of livelihoods; and July onwards in terms of lives with both cases and deaths rising), the slowdown was already worse than the one the Indian economy went through in 2011-12. GDP growth fell continuously for eight quarters (except for a .08 percentage point blip between December 2018 and March 2019. It was 8.2% in March 2018 and had fallen to just 3.1% in March 2020. March saw just a week of the lockdown (which would eventually last 68 days, albeit with some relaxations). Even before the full force of the pandemic hit India (which was really in April-June quarter in terms of livelihoods; and July onwards in terms of lives with both cases and deaths rising), the slowdown was already worse than the one the Indian economy went through in 2011-12. Back then, quarterly GDP growth fell from 10.3% in March 2011 to 4.9% in June 2012. However, the economy started recovering after 2011-12. Annual GDP growth fell from 8.5% in 2010-11 to 5.2% in 2011-12. This contraction was followed by a sharp recovery until 2016-17. This has not been the case this time and GDP

growth has been falling continuously since 2017-18. Consumption demand is the biggest driver of economic growth in India. In 2019-20, Private Final Consumption Expenditure (PFCE) had a share of 57% in India's GDP. PFCE growth collapsed to 2.7% in the March 2020 quarter, the lowest since June 2012. Given the strengthening headwinds to consumption demand, firms started shelving investment plans. This can be seen in Gross Fixed Capital Formation (GFCF) contracting at an increasing rate for three consecutive quarters ending March 2020. A collapse in investment demand has adverse implications for future growth potential of the economy. It was only government expenditure which was acting as a counter-cyclical force to some extent.

#### Impact of the crisis

Global supply chains, trade, transport, tourism, and the hotel industry have been affected severely because of the pandemic. The WTO (World Trade Organisation) indicated a declining trend in world trade volume in the early 2020 and is expected to be debilitated further by the adverse shock of the health crisis. The OECD (Organisation for Economic Cooperation and Development) estimates suggest that if the shutdown continues for three months with no offsetting measures, annual growth of global GDP could be between 4-6 percentage points lower than it otherwise might have been. In that case, the growth rate of real GDP would be negative for many countries during the post-pandemic regime. The IMF's latest assessment is also roughly similar: global growth could be lower by 3 percentage points or more in 2020 relative to 2019 because of the outbreak of COVID-19 (IMF, 2020). The global economy is expected to collapse into greater recession in 2020. Indian economy, as for the economy of other countries, has experienced a significant structural break at the beginning of the last quarter of 2019-20 directly because of lockdown of the domestic economy and indirectly by the global recession because of the outbreak of the COVID-19 pandemic. Spill overs are also being transmitted through domestic and global financial markets. These effects would accentuate the growth slowdown which started since the first quarter of 2018-19 in India (National Statistics Office, 2020). A sequential slowdown started in the Indian economy from first quarter of 2018-19 and the growth rate reached below 5 per cent in third quarter of 2019-20 (National

Statistics Office, 2020). The widening incidence of COVID-19 will produce the downward pull further. Private investment measured by gross fixed capital formation (GFCF) showed actual fall in the second quarter of 2019-20 and the rate of fall increased in the next quarter. Negative growth was observed in foreign trade (both exports and imports) during this period as well. The decline in merchandise exports started in second quarter of 2019-2020 because of the fall in shipment of engineering goods, gems and jewellery, cotton, and handloom products. Growth in aggregate demand is sustained by consumption demand driven mainly by the upward movement in government expenditure (GFCE). The slower growth of consumption expenditure on final goods by the households (PFCE) in 2019-20 as compared to previous financial year was caused by the deceleration in real wages and downturn in labour-intensive exports. Demand for consumer durables like small passenger vehicles continued to decline in February 2020. The rise in revenue expenditure partly due to pay hike by the 7th Pay Commission and decline in gross revenue under corporation tax deteriorated fiscal deficit of the central government during 2019-2020. On the supply side, the slowdown in growth of gross value added (GVA) was caused by the deceleration in industrial and services activities (National Statistics Office, 2020). Agriculture and allied activities, on the other hand, accelerated in the second half of 2019-2020. Industrial deceleration led by the manufacturing sector deepened the slowdown because of low domestic and external demand. Services sector activities contributed the most to (GVA) although its growth rate declined in 2019-20. Agriculture and allied activities also provided momentum to some extent to GVA in second and third quarter of the past financial year. The industrial sector remained declining because of low demand conditions.

The lockdown of the domestic economy in the wake of the outbreak of COVID-19 has disrupted manufacturing activities which experienced negative growth just before the outbreak (National Statistics Office, 2020). In the manufacturing sector, dislocations of labour adversely impacted automobiles, electronic goods and appliances, and apparel. Services such as trade, tourism, airlines, the hospitality sector and construction have been affected badly in a greater extent. The conventional signals for forecasting are heavily conditioned by the depth,

spread and duration of COVID-19 and other characteristics of the pandemic, and forecasting at this moment is really a challenging task (Ferguson et al. 2020). However, it could be easily understandable that the slowdown could be more long-drawn-out in the awful situation as the duration of COVID-19 extends longer. Different sectors of the economy will be affected adversely depending upon its intensity, spread and duration of the pandemic. According to World Bank's estimate, the expected growth rate of India's economy would be around 2 per cent during 2020-21 fiscal year. Asian Development Bank has estimated that growth rate of India's economy reduced to 4 percent during this period.

The policies adopted by the government of India during the Covid-19 period-

India is a developing economy. The 21-day nationwide lockdown announced by the Prime Minister on 23<sup>rd</sup> March 2020 slowed down the supply side of the economy and jeopardized the economic wellbeing of millions. A job loss of about 40 million people, mainly in the unorganized sector, was reported by MRD, with the labour sector under MGNREGA suffering the most due to unavailability of jobs. The GDP has also consistently fallen since Q4 of FY18. As the lockdown continued, the demand for food supply increased. However, all the major food chains, cafes, bars and even online food stores like Swiggy and Zomato faced a major slump after receiving an advisory notice from NRAI that insisted that all restaurants stop all operations till 31st March. Online grocery stores also faced severe damage due to restrictions on delivery vehicles. Employment of about 114 million people came under a major threat and it was estimated that over 75 million MSMEs would face damage or closure of lockdown extended by four more weeks. The E commerce sector faced its own challenges in terms of chain deliveries and even in working towards basic consumer demands and satisfaction. They were ultimately forced to look for new distribution channels that operate on directing to consumer routes.

The COVID-19 outbreak –

The COVID-19 outbreak is caused by the severe acute respiratory syndrome, SARS-CoV-2 virus that first manifested in December 2019 in Wuhan city in Hubei province of China. The outbreak revived the memories

of a similar previously known virus, namely, 2019-nCoV (SARS), which started from Guangdong province of China and went on to generate cases in 37 countries between 2002 and 2003. However, SARS was then controlled, but the potential evolution of coronavirus is still not well understood. Amidst the significant public health risk being posed by COVID-19 to the world, the World Health Organization (WHO) declared a public health emergency of international concern and pronounced COVID-19 as a global pandemic.

Globalization increases the chances of infectious diseases to spread from one country to the other. With strong connectivity across the globe, the impact of the disease goes beyond the conventional mortality or the morbidity (those who are incapacitated or unable to work for a period). There are many direct and indirect channels through which an infectious disease outbreak influences the economy, but such economic effects do not fit into the standard approach of measuring the economic costs of disease. In recent years, there have been numerous outbreaks of livestock and crop diseases, costing billions of euros to individual countries. To highlight such scenarios, the “cost of illness” approach, which focusses on the opportunity cost of resources that are either consumed during medical care and treatment such as hospital fees, physician and nurses services, medicines, etc, or the present or future cost to the society for morbidity, disability, or loss of output due to reduced productivity or workers' death. Economic analysis based on this approach evaluate the possible monetary estimates of an influenza epidemic in the United States, that the highest economic cost is due to death and that people of age 65 years and above, should be vaccinated first. However, most of the studies have attempted to evaluate the economic effects of widespread infectious diseases based on private and non-private medical costs associated with the disease or the demographic consequences of the epidemic. The outbreak of SARS, which started from Guangdong province of China between 2002 and 2003, infected some 10,000 individuals, killing around 1,000 people, which are quite low, and also led to a very disproportionate economic impact. M. D. Wang and Jolly compile the epidemiological evidence on SARS breakout and conclude that higher mortality rates are found in the regions where hospitals played a significant source of transmission. The experience from these previous

disease outbreaks provides valuable insights that may assist in developing corrective measures to eradicate COVID-19.

Over the second half of 2019, and before the outbreak of COVID-19, India's economy was already sputtering with slow growth to 4.7% last year. Further, the unemployment was at a 45-year high, and the Indian industrial output for eight core sectors fell by 5.2% last year. The COVID-19 shock has changed the scenario, with all the forecasts for 2020 being revised downwards, for instance, India Ratings and Research has cut India's GDP forecast to 3.6% from 5.5% for the financial year 2020–2021 and Moody's further cut its GDP forecast for 2020 for India from 5.3% projected earlier to 2.5%. Despite the limited room for policies, there is a widely shared expectation that things would gradually improve in 2020, led by the broad set of emerging economies, with a return to potential global growth by 2021 (United Nations Conference on Trade and Development, 2020). The gap between the reality on the ground, calling for bold and concentrated policy measures, and a persistent belief in a self-correcting world economy, stigmatized suggestions of a need for more impactful policy interventions, instead of conceding to monetary tweaking and “structural reforms.”.

COVID-19 pandemic has ravaged the global economy and poses a risk to augment the current socio-economic issues such as inequality, poverty, and gender disparity. India has been particularly affected severely due to an already slowing economy. It is, therefore, vital to understand how policymakers are planning to tackle this crisis effectively.

The Indian government is working to revive the economy devastated by COVID-19 pandemic by introducing a slew of monetary and fiscal policy measures. However, the stimulus package and cash transfers in India are not expected to be as large as in the western countries like the United States and Germany due to limited fiscal space. Besides, specific industries in India like tourism, hospitality, retail, and construction are affected more than the others. Hence, it is crucial to understand how these sectors will be kept afloat. India is also home to a large population involved in unorganized sector earning daily wages. These are the people who migrate to cities from their respective villages for better lives. Large scale reverse migration to villages from cities is seen during the lockdown in India casting a shadow over the

livelihood of these individuals. Further, demand creation is an essential aspect of reviving the economy post-COVID-19 pandemic. Changes in taxation structure, particularly GST can out some extra money in the hands of people which is likely to prevent demand destruction. The COVID-19 pandemic has also been tuff on globalization which was already affected by rising protectionism. While many countries including India are aiming to promote self-reliance and localization, it shall be interesting to see how today's inter-connected economies shall balance their country-specific challenges.

Lastly, the economic impact of COVID-19 pandemic is expected to leave a long-term impact due to major disruptions in almost all sectors of the economy. It is vital to analyse long-term economic reforms apart from the stimulus package to mitigate the risk of a prolonged slowdown post-COVID-19. Former RBI governor Raghuram Rajan opines that economically, India is facing the greatest emergencies since independence and insists the government must consult people with proven expertise and capabilities, instead of relying on the overworked people from the Prime Minister's Office.

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## RESEARCH OBJECTIVES

The broad objective of this paper is an attempt to study the economic impacts and uncertainty of the Novel Coronavirus Pandemic broad objective, the specific objectives of the present study are as follows:

1. To evaluate and study the impact of Covid-19 on the Indian Economy
2. To analyse the policies and actions taken by the Government of India
3. To analyse the conditions of financial sector, MSMEs, Informal Sector and Agriculture.

## RESEARCH METHODOLOGY

This section discusses the research methodology adopted to attempt to address the research objectives of this paper. Extensive secondary research has been

conducted to evaluate the objectives at national and state levels. Different research papers, journals, websites and databases were analysed. The RBI site, money control site, news sites such as Hindustan Times, The Hindu and other official government and non-government databases were also thoroughly perused. Due credit has been given wherever necessary.

#### Indian Economy in pre Covid-19 period

The Covid-19 pandemic has infected at least 6 million people and killed over 395,000 across the world. It has also created a huge economic disruption. An April 2020 estimate by the International Monetary Fund (IMF) said global gross domestic product (GDP) would contract by 3% in 2020. Even in 2009, the year after the global financial crisis, world GDP contracted by only 1.7%. The economic pain of the pandemic will be felt the world over. But it will play out differently. How it does will depend on three factors. First, the economic situation before the pandemic hit. Second, how the pandemic interacts with existing economic and social fault lines. And third, the policy response to the pandemic. GDP (gross domestic product) growth rate has been on a downward trajectory since 2015-16. According to the official statistics, GDP growth slowed down to 4.2% in 2019-20, the lowest level since 2002-03. Industry, which accounts for 30% of GDP, shrank by 0.58% in Q4, 2019-20. Unemployment reached a 45-year high. A major driver of growth in any economy is investment by the private corporate sector. In the pre-Covid19 period, nominal values of private sector investment have been declining. The total outstanding investment projects between 2015-16 and 2019-20 declined by 2.4%, whereas new projects announced fell by 4%, as per data from the CMIE (Centre for Monitoring Indian Economy). Consumption expenditure had also been falling, for the first time in several decades. High frequency indicators (RBI, 2020) of urban consumption demand show that sales of passenger vehicles as well as consumer durables growth contracted in February 2020. Overall, urban consumption appears to have lost steam in Q4. Among the indicators of rural consumption, motorcycle sales and the consumer nondurable segment remained in contraction in February 2020, reflecting weak rural demand. The lock-down would have dampened any

chance of revival of consumption demand and private investment.

A few specific factors make India's position particularly vulnerable as it tries to deal with the ongoing economic crisis.

#### Informal sector -

India has a vast informal sector, the largest in the world, employing close to 90% of its working population and contributing more than 45% to its overall GDP. This sector was hit by two consecutive shocks in a short span of time, from 2016 to 2019. The first shock was Demonetization in November 2016 when 86% of the money in the economy became unusable overnight owing to a government decree, followed by the haphazard introduction of the Goods and Services tax in 2017.<sup>7</sup> While demonetization was a big enough monetary shock, it did not fundamentally disrupt demand and supply mechanisms for too long. There was a temporary lack of means of payment.<sup>8</sup> We now know in hindsight that people found workarounds in the forms of electronic payments, informal credit, converting black money into white, using old notes etc. In the case of the current crisis, the demand is not there, the supply is not there, and hence the underlying revenues are not there. This is therefore much more problematic. With the Covid-19 outbreak, the already struggling informal sector has been disproportionately affected.

#### The banking and corporate sectors

During crisis times, one sector of the economy that is required to play a crucial role in terms of alleviating the pressures on the real economy is the financial sector. The need of the hour is to keep credit flowing to all categories of economic agents- firms, households etc., to help them tide over this crisis. In a bank dominated economy, particularly at a time when the stock market is touching new lows every day, the financial intermediaries that most firms will turn to are the banks. Actions taken by banks would be crucial in addressing this economic challenge. Banks also play a vital role as institutional participants in the debt market. However, the banking sector in India is badly broken. Banks, especially the public sector banks, have been struggling to deal with mounting losses from non-performing assets on their balance sheets. The problems in the banking sector have been adversely affecting credit growth and by the time the

pandemic hit India, these problems had begun to hurt the debt markets as well which also play an important role in the context of financial intermediation. This could rapidly become a serious choke point as the Indian economy struggles to come to terms with this unprecedented shock.

Why did India's economy start slowing? At an event in December last year, chief economic advisor Krishnamurthy Subramanian claimed that "the current (economic) slowdown is a lot more on the cyclical side". We now have GDP data up to 2019-20. The Indian economy has been losing growth momentum for three consecutive years beginning 2017-18. GDP growth was 8.3% in 2016-17. It fell to 7% in 2017-18, 6.1% in 2018-19 and 4.2% in 2019-20. The economy has never lost growth momentum for three consecutive years since 1991-92. And it has happened only twice before. Between 1989-90 and 1991-92, and before that from 1970-71 to 1972-73. The year 1990-91 saw massive disruptions due to the first Gulf War. And 1971 was the year of the Bangladesh war. These are extraordinary shocks.

Over the last few years, India has been dealing with the Twin Balance Sheet (TBS) stresses in the banking and corporate sectors. This was a consequence of high levels of non-performing assets (NPAs) in an inadequately capitalized banking system, combined with over-leveraged and financially weak firms in the private corporate sector. The government and the banking regulator (RBI) took a series of steps to address the crisis. These included putting the weakest ten banks under a Prompt Corrective Action framework which prevented them from expanding their books, initiating investigations by the Central Vigilance Commission (CVC), Central Bureau of Investigation (CBI) etc. against senior officials of the banks, and directing banks to trigger the Insolvency and Bankruptcy Code (IBC, 2016) against defaulting firms and accept large haircuts even when capital to provide for the losses was not sufficient. In some cases, senior officials of banks were arrested for allegedly fraudulent credit transactions.<sup>9</sup> In February 2016, the Supreme Court issued a ruling which held that employees of all banking companies, foreign as well as domestic, are "public servants" under India's Prevention of Corruption Act, 1988 ("POCA"). This implies that all bank employees now face the risk of investigation and prosecution under the POCA for issues related to corruption. Nearly any decision about

NPAs could come under the scanner. This single step is likely to deter bank officers from taking commercial decisions. This is particularly worrisome, given the expansive description of corruption under POCA and minimal restrictions on investigations, as highlighted by commentators at the time.<sup>10</sup> These measures arguably led to a rise in the risk aversion in the banking system.

As the NPA crisis began plateauing out, the financial system faced another blow when a large non-banking finance company (NBFC), IL&FS (Infrastructure Leasing and Financial Service) defaulted on its debts in September 2018. This sent shockwaves through the banking system as well as the debt markets- the two biggest funding sources for the NBFC sector. The reaction of the bond markets was reflected in a sharp increase in credit spreads of all financial sector bond issuers. The total volume of bond issuances dropped significantly, not just for financial sector firms but for all borrowers. Banks continued lending, primarily encouraged by the RBI and the government, but this lending was limited to a handful of highly rated NBFCs. The IL&FS episode further worsened the risk appetite of the banks and triggered risk aversion in the debt markets as well. One direct consequence of the heightened risk aversion in the banking system has been the lack of growth in commercial credit supply. Banks, especially the public sector banks (PSBs) which account for close to 90% of the NPAs, severely cut back lending to the private corporate sector. By FY2017, net bank credit was growing at a decade's low of 2.69% per year. By FY2018, PSBs were lending mostly to NBFCs, and private sector banks were mainly lending to retail customers. Credit to industry had declined dramatically whereas credit off-take in personal loans segment accounted for the largest share (RBI, 2020). Post the IL&FS crisis credit spreads on corporate debt securities remained elevated and overall bank lending, after an initial spurt in the last quarter of FY2019 (mostly lending to NBFCs), tapered off. Commercial credit witnessed a sharp decline of almost 90% in the first half of FY2020. In the months of February and March, 2020, the near-demise of Yes bank, a large private sector bank, triggered the risk of deposit squeeze for private sector banks which would further curtail credit growth.<sup>11</sup> As a result, credit off-take during 2019-20 (up to March 13, 2020) was muted with non-food credit growth at 6.1% being less than half the growth of 14.4% in the

corresponding period of the previous year (ICRA Report, 2020). This was also the lowest growth rate of non-food bank credit in nearly six decades.

While part of the fall in commercial credit growth may have been due to lack of demand given the balance sheet crisis in the private corporate sector, anecdotal evidence suggests that reluctance in banks to extend credit has also been a big factor. As admitted by the RBI Governor himself in recent times (italics and highlight added): “In view of subdued profitability and deleveraging by certain corporates, risk-averse banks have shifted their focus away from large infrastructure and industrial loans towards retail loans.” The consequences of heightened risk aversion in the banking system have begun hurting the debt markets. In a situation where bank credit growth has been at a multi-decade low, debt market especially the short-term debt market plays a vital role in financing firms. Banks’ holding of non-SLR bonds has declined sharply which means they are averse to credit risk (RBI, 2020). Banks are instead holding more G-Secs than the SLR requirements and the excess SLR of all banks – PSBs, private, and foreign has gone up sharply which means the credit risk aversion is across the board.

Just as the debt market was beginning to regain its appetite for corporate debt securities in the aftermath of the NBFC crisis of 2018-19, it was hit by the Yes Bank episode. As part of the restructuring of Yes Bank, its additional tier 1 (AT1) bonds were written down completely. 14 These AT1 bonds are an important component of capital for banks. Roughly Rs 89,000 crore worth of bonds were outstanding in the banking system, at the time of this write down. These were widely held by mutual funds, pension funds and even retail investors.

#### Limited policy space

Given the state of the economy and especially the state of the financial institutions, the policy levers available to the government to deal with the economic crisis are limited. When the effects of 2008 Global Financial Crisis (GFC) were felt in India, the domestic economy was in a better shape having experienced a credit boom and a high growth rate for the preceding years and the government was also in a position to implement both monetary and fiscal stimulus measures. More importantly, the financial institutions were not so badly damaged. In contrast, the fiscal deficit of the

government was already high in the pre-Covid-19 period and had breached the target as specified in the FRBM Act (Fiscal Responsibility and Budget Management Act). The fiscal deficit of the central government in 2019-20 was 4.6% of GDP against the target of 3.5% of GDP. This has been the highest fiscal deficit since 2012-13. The finance minister in her Budget Speech of February 1, 2020 had pegged the target for FY2021 to 3.5% (RBI, 2020) which will be breached by a wide margin. The FM had already used the escape clause provided under the FRBM Act to allow the relaxation of target for 2019-20. The clause allows the government to relax the fiscal deficit target for up to 50 basis points or 0.5%. This shows that the government now has very little fiscal room. As the crisis unfolds, falling tax collections, declining revenues of public sector enterprises and rise in health sector expenses will further hamper the ability of the government to support the economy. Even without any additional expenditure, the deficit would go up substantially because of the decline in tax revenues and disinvestment receipts. Net tax revenues in April 2020 fell by a staggering 70% compared to April 2019. If state-level deficits are added, then the overall fiscal deficit in 2020-21 could very well exceed 10% of GDP, even without considering the off-balance sheet items. Financing such high levels of deficit poses a serious challenge.

Monetary policy has its limitations too which had become apparent in the run-up to this crisis. In response to the growth slowdown, the Reserve Bank of India (RBI) embarked on a path of monetary expansion. Between October 2018 and December 2019, it freed up around Rs. 4 trillion of liquidity through open market operations<sup>15</sup> and reduced the repo rate<sup>16</sup> by 135 basis points to 5.15% – the lowest since March 2010. Yet, credit growth did not pick up, primarily due to the heightened risk aversion in the banking sector, as discussed earlier, and low credit demand from the stressed private corporate sector. Monetary policy transmission in India has been weak owing to structural deficiencies such as illiquid bond market, large sections of the population left out of the formal financial system etc. In addition, an impaired banking system and lacklustre investment demand from the private corporate sector, will further hamper the transmission of a policy rate cut to aggregate demand and hence growth. In other words, the combination of demand and supply shocks are hitting

the Indian economy at a time when the tools to deal with the crisis are mostly ineffective, namely fiscal, monetary, and financial. Over and above this, the external sector of the economy has been weakening as well. The nominal value of exports of goods and services – another important driver of growth – witnessed a decline by 8.49% in Q4, 2019-20.

#### Impact of the crisis

##### Overall Macro Impact

The countrywide lockdown has brought nearly all economic activities to an abrupt halt. The disruption of demand and supply forces are likely to continue even after the lockdown is lifted. It will take time for the economy to return to a normal state and even then, social distancing measures will continue for as long as the health shock plays out. Hence demand is unlikely to get restored in the next several months, especially demand for non-essential goods and services. Three major components of aggregate demand – consumption, investment, and exports are likely to stay subdued for a prolonged period.

In addition to the unprecedented collapse in demand, widespread supply chain disruptions will continue for a while due to the unavailability of raw materials, exodus of millions of migrant workers from urban areas, slowing global trade, and shipment and travel related restrictions imposed by nearly all affected countries. The supply chains are unlikely to normalize for some time to come. Already several industries are struggling owing to complete disruption of supply chains from China. The longer the crisis lasts, the more difficult it will be for firms to stay afloat. This will negatively affect production in almost all domestic industries. This in turn will have further spill over effects on investment, employment, income, and consumption, pulling down the aggregate growth rate of the economy.

At this stage, the possible duration of the underlying health crisis remains uncertain. In addition, there are multiple unknown factors such as the true extent of impairment suffered by the different sectors of the economy, the magnitude of deterioration of the balance sheets of economic agents such as firms and households, the ability of both the formal and informal sectors to bounce back to normalcy once the lockdown is fully relaxed and most importantly, the potential destruction of the productive capacity of the economy. Therefore, it is difficult to fully comprehend the extent

of the damage that the Indian economy is currently incurring. Some of the statistics available now already highlight the severity and duration of the slowdown the economy may experience going forward. After some amount of recovery in economic activity in June 2020 it appears that the slowdown has resumed once again in most of the sectors. The improvement seen in most high-frequency indicators in June after the dramatic collapse in the April-May period has begun to wane since mid-June (POSOCO, Citi Research, 2020). This is presumably due to the renewed lockdowns all over the country and damage to consumer sentiment and overall economic productivity.

Electricity demand declined to 30% below last year's levels and gradually recovered thereafter. Since June end there has been no further moderation in the pace of deceleration in electricity demand. Vehicle registration related transactions declined dramatically in end March and April, began improving since May but have begun falling again in the first couple of weeks of July. (Citibank Research, 2020)

Overall cargo throughput at majority of the Indian ports was down by around 20% year on year in March and April, particularly in cargo segments such as petroleum products, thermal coal, and containers. This contraction was recorded even though the port sector is counted among 'essential services' and was primarily due to the shock to global trade and reduced domestic industrial activity owing to the lockdown. Railway freight which is an important indicator of economic activity was down by more than 35% year on year in April and began recovering slowly since May, a trend which has continued in July. India's aviation, tourism and hospitality industries have already sustained maximum damage because of the Covid-19 outbreak, and after the lockdown, it is questionable to what extent they will be able to ride out this storm. The shutdown is bound to push India's fast-growing aviation industry into peril. The Centre for Asia Pacific Aviation (CAPA) has assessed that the Indian aviation industry will post staggering losses worth nearly \$4bn this year. There will also be large scale cascading effects for the hospitality and tourism industries. Hotels and restaurant chains across the country are closed right now. They are unlikely to witness a pick-up in demand even when the lockdown is relaxed. Their businesses will suffer for several months, sparking worries of large-scale layoffs.

The World Travel and Tourism Council has projected that travel could fall by 25% in 2020 putting to risk 12-14% of the jobs in the sector. This translates into 50 million jobs at risk, globally. According to estimates from CMIE's Consumer Pyramids Household Survey, travel, and tourism accounts for five per cent of total employment in India (nearly 20 million jobs). Hotels and restaurants account for another 4 million jobs. Employment in the travel and tourism industry has already been declining since late 2017. These sectors are going to be disproportionately affected during the on-going crisis. Google has released a mobility report, which shows changes in the footfalls and length of stays at different types of places across the country during the lockdown period against a baseline. The baseline they use is the median value for the corresponding day of the week, during the 5-week period Jan 3- Feb 6, 2020.

With all non-essential businesses closed, most industries have been witnessing a drastic decline in sales. Revenue losses will force businesses to either close or opt for wholesale retrenchment of workers. Operations of many companies in specific sectors will not see business getting back to normal even after the lockdown ends, as the labour has moved out. Even capital-intensive sectors such as real estate, consumer durables, and jewellery may not see a demand revival for several months or quarters.

Data from the Consumer Pyramid household level survey of the CMIE shows that the overall weekly unemployment rate went up drastically from an average of 9% in March to around 23% in May and to as high as 35% by early-June. It was higher in the urban areas compared to the rural areas. In June the unemployment rate fell sharply to 11% reflecting the first round of relaxation of lockdown restrictions. There was also a significant recovery in the labour participation rate. Since then, the unemployment rate has been stagnant at 11%. This is still higher than the pre-lockdown rate but significantly less than what was recorded during the peak of the lockdown from end March to end May. The labour participation rate recovered faster than the unemployment rate but in July this too has been slowing down indicating some sort of a plateauing out.

The firms in the private corporate sector which have been deleveraging for the last few years in response to the TBS crisis and those with relatively deep financial pockets, will perhaps be able to tide over this episode,

also depending on which sector they are operating in. A large number of firms will however struggle to survive. They must pay rents, salaries, debts etc., even as their revenues will steadily keep falling as people change lifestyles and cut back on expenditures.

Many of these firms will end up defaulting on their loans due to persistent fall in revenues. The firms that were near insolvency will end up in the bankruptcy process (which too is likely to get jeopardised further owing to the lockdown measures), and those that were undergoing insolvency resolution process under IBC will most likely get pushed to liquidation. Several large business houses have already invoked the provisions of force majeure to stall the payment of license fees, rents etc., and to restrain the invocation of penalties. This further highlights the severity of the problem at hand.

Over and above the domestic problems, the Indian economy will also continue to get affected by the global recession that may last for a while. This is bound to have spill over effects through financial and trade linkages of India with the rest of the world. Already foreign investors have been pulling money out of the Indian financial markets and are fleeing to safe assets as stock markets have crashed.

#### Agriculture and Rural Activities

The agriculture sector is critical as large number of workers and the entire country's population are dependent on this sector. The performance of agriculture is also key to the state of rural demand. In the preCovid-19 period, agricultural GDP experienced an average growth rate of 3.3% per year in the six-year period 2014-15 to 2019-20 with intermittent fluctuations<sup>22</sup>. The provisional estimates of the National Statistical Office (NSO) show that GDP growth in agriculture has increased from 2.4% in FY19 to 4% in FY20. It was also relatively better at 3.5% in Q3 of FY20. However, the terms of trade have moved against agriculture during 2016-17 to 2018-19 due to bumper crop and horticultural production which caused a decline in food prices. Terms of trade for agriculture seems to have improved in 2019-20 as the nominal agricultural GDP growth was 11.4% as compared to real growth of 4%.

Growth in rural wages was subdued in the pre-Covid-19 period, particularly for agricultural labour in both nominal and real terms, partly due to the slowdown in the construction sector (RBI, 2020).

The adverse impact of Covid-19 on agriculture has been much less as compared to manufacturing and services. However, the initial lockdown did affect agricultural activities and the necessary supply chains through several channels: input distribution, harvesting, procurement, transport hurdles, marketing, and processing. Closure of restaurants, transport bottlenecks etc reduced the demand for fresh produce, poultry, and fisheries products, affecting producers and suppliers.

A study by Narayanan (2020) indicates that when the initial lockdown was imposed in March, farmers were stuck with harvest as APMC (agricultural product market committee) mandis closed in several states thereby disrupting food supply disruption from the production to the consumption centres. The study indicates that the government should focus on post-harvest activities, wholesale and retail marketing and initiate procurement operations. Some state governments have already taken initiatives.

Since supply chains have not been working properly, vast amounts of food started getting wasted leading to 18 massive losses for Indian farmers. Media reports show that the closure of hotels, restaurants, sweet shops, and tea shops during the lockdown affected the milk producers adversely. Due to lack of demand, the dairy farmers dumped the milk in the drains. Unable to export their produce many farmers are also dumped their seasonal products such as grapes etc.

Poultry farmers have been badly hit due to misinformation particularly on social media at one stage, that chickens are the carriers of Covid-19. Millions of small poultry farmers across the country particularly in the states of Maharashtra, Karnataka, Orissa, and Andhra Pradesh were struggling after sales have crashed 80% over these false claims. Some of these developments have since then got reversed.

There is evidence that despite being considered an essential service, agriculture and food supply chains were impacted in the initial days of the lockdown. However, over the last two months, activity seems to have been recovering to some extent as agriculture markets adapted to the lockdown. Accordingly, the prices of cereal and vegetables which had initially gone up have been reversing.

Agriculture growth is expected to be between 2.5% to 3% in FY21 as India is likely to have a bumper crop production. Rabi crop period witnessed high production of wheat, mustard, gram, sesame etc.

Similarly, Kharif production is going to be good due to normal monsoon this year. Agriculture, therefore, is a saving grace for the Indian economy as manufacturing and services would record negative growth in FY21. However, it is not clear whether farmers will get remunerative prices as the country is still facing supply chain problems due to continued partial lockdown. A survey by Azim Premji University shows that 37% of farmers were unable to harvest, 37% have sold at reduced prices and 15% were unable to sell the harvest.

It may be noted that in rural areas, non-farm incomes and employment have been rising. In fact, a NABARD survey shows that only 23% of rural income is from agriculture (cultivation and livestock) if we consider all rural households. Around 44% of income is from wage labour, 24% from government/private service and 8% from other enterprises. It shows that income from non-farm sector is the major source in rural areas. In the pre-Covid-19 period, rural incomes were partly affected because of lower real wage growth<sup>24</sup>. Media reports reveal that the rural wages are declining due to the arrival of migrant workers from the cities. However, the lockdown has affected urban areas more than rural areas. In June and July 2020, the rural recovery outpaced that of urban areas. The demand for tractors also rose in rural areas.

On the health risk in rural areas, it is true that presently the problem is much more serious in urban areas because of high density. But it can spread to 70% of the India's population who live in rural areas. Many migrant workers have gone back to rural areas. There is a risk of Covid-19 spreading to the farmers, agricultural labourers, workers, and others working throughout the food supply chains. The agriculture and rural population must be protected as social distance will be practiced relatively less in rural areas.

#### Informal sector

Even in the pre-COVID-19 period, the informal sector was reeling under shocks from demonetization and a poorly rolled out GST. While the objective of the GST reform and demonetisation was laudable, its hasty implementations have negatively affected the informal economy. There is wider evidence that demonetization has also had more negative effects on the informal sector than on the formal sector (Balamurugan and Hemalatha, 2017; Agrawa, 2018; Ghosh, Chandrasekhar, and Patnaik, 2017). Hundreds of

millions of small businesses operating in the informal sector that depend on cash have suffered losses and closed. A staggering 6.18 million job-loss between 2012 and 2018 was seemingly a result of the demonetization and GST fallout (Kannan & Raveendran, 2019). The informal sector has already been hit hard by the economic downturn and much of it may not be recorded in official statistics.

#### MSMEs

The world is battling with modern horrors like the COVID-19, which has left the entire world befuddled and, in the lurch, as to how one virus has brought the entire world to a standstill. This devastating virus which is declared by the WHO as the pandemic has taken over almost 195 countries in its grip.

This virus is mounting a very serious threat to the global economy as well, which is already in grave peril. There is no doubt that the Indian economy, which is already sputtering, is growing at one of the lowest rates in the last six years. And now, a new set of economic challenges unleashed by this virus is leaving many sectors in tatters.

It is a well-known fact that in the global supply chain, China plays a very pivotal role for India and its MSME sector as well, this sector is largely dependent on China for its raw material. For example, Indian drug makers source almost 70 per cent of their ingredients from Chinese factories and Chinese goods worth \$30 billion. Thus, complete lockdown of China and partial lockdown of India has led to various issues ranging from shrinkage of exports, cessation of production, non-availability of manpower, the uncertainty of consumption, and liquidity squeeze in the market as well.

According to the Confederation of All India Traders (CAIT) which represents 70 million traders in India and most of them are MSME. The trade impact for India is estimated to be around Rs 380 lakh and the chemical sector is expected to take a big hit of Rs 12 crore 90 lakhs. Micro, small, and medium enterprise is the sector which was already reeling under huge distress firstly because of demonetisation, then because of poorly implemented GST followed by the prolonged economic slowdown and finally, the biggest of all - the COVID-19 which is going to aggravate the crisis in this specific sector further.

As the COVID-19 pandemic in India has already entered the second stage and as many experts are

saying that we will be entering into the third stage very soon that involves the spread of this pandemic from cluster to community. After the country is put under lockdown till May 3 one thing is pretty sure that the MSME will be taking a maximum hit and that the distressed sector will render many people jobless and will lead to the closure of thousands of industrial outlets forever.

According to a study commissioned by All India Manufacturers Organisation (AIMO), India is currently home to over 75 million MSMEs and close to 25 per cent of these firms would face closure, if the lockdown imposed due to the COVID-19 goes beyond four weeks while a whopping 43 per cent will shut shop if panic extends beyond eight weeks. MSME forms the backbone of the Indian economy and is one of the most crucial segments that let the economy grow by leap and bounds. The sector which provides employment to over 114 million people and contributes to more than 30 per cent of the GDP is going through one of the tough phases, thus actions are required immediately.

Taking into consideration the widespread havoc wreaked by the COVID-19, the government needs to come up with a constant tracking mechanism and should announce immediate relief measures to shore up the confidence in this very important sector which has taken a beating due to a flurry of disruptions introduced by the government. A stimulus financial package is required to re-energise the market economy. Many countries like the USA and China have rolled out many new measures to save MSMEs from the COVID-19 threat. It is high time the government should do its bit otherwise it would be too late to undo the mistake.

#### Financial markets

Since the outbreak of Covid-19, there has once again been turbulence in the debt markets. Credit spreads of corporate debt papers have risen sharply to levels higher than what was witnessed in the aftermath of the IL&FS crisis of September 2018. Debt mutual funds, even those that invest at the short end of maturity – liquid funds, ultra-short duration funds etc. have taken serious hits to their net asset values (NAVs) making investors nervous. These funds are considered investments second only to bank deposits in terms of safety and hence decline in their NAVs is a matter of concern.

Confluence of several factors has led to the current turmoil in the debt market. Foreign institutional investors (FIIs) have been steady investors in Indian debt over the last few years due to arbitrage between international interest rates and Indian rates along with a generally stable currency. As the Covid-19 pandemic began spreading across countries and especially affected the US, growing risk aversion and flight to safety led these investors to sell large volumes of Indian debt paper, in addition to stocks. Overall, FPI outflows were of the order of USD 7.1 billion in 2019-20 (up to March 31, 2020). In addition to this, March is generally tight liquidity period in India. Advance tax payments, financial year ending, etc. result in greater demand for cash during this period.

These factors along with the general risk aversion triggered by the Covid-19 outbreak and the associated business disruption are likely to push firms to redeem their investments in debt funds and stockpile cash. This has already created extra ordinary redemption pressures on mutual funds. Ideally, mutual funds would respond to these redemption pressures by selling the debt securities that they have been holding to interested buyers in the secondary market.

However, we are now facing a peculiar situation wherein the mutual funds are not able to do so because of high risk aversion on part of the biggest liquidity suppliers in the markets – the banks. Indian banks have been largely absent from participating in the secondary debt market. Banks' investments in commercial papers, bonds, debentures and shares of public and private corporations, as reflected in non-SLR investment, were lower during H2:2019-20 (up to March 13, 2020) than a year ago (RBI, 2020).

With the largest liquidity pool away from the secondary markets mutual funds are left with no option other than distress selling securities at whatever price they get to meet the redemptions. This has severely impacted their NAVs which may further exacerbate investor concerns leading to more redemptions and triggering a vicious cycle.

The equity market has been hitting new lows every day since the outbreak of Covid-19. In March 2020, panic selling due to the pandemic shaved off 23% market capitalisation of companies listed on the National Stock Exchange (NSE) within a span of just a single month.<sup>26</sup> The BSE S&P Sensex behaved similarly, losing 23% of its value during March 2020. Although the sell-off was witnessed across-the-board, it was

more severe for industries that are hit the hardest by the Covid-19 pandemic and the consequent lockdown, such as tourism and hotels, real estate, asset financing services, banks, metals industry, automobile and ancillaries, textiles, electricity, mining and food product companies.

#### Government Initiatives

##### General Information

Government of India announced on 24 March 2020 certain relief measures regarding COVID-19 outbreak. On March 26, a Rs. 1.7 trillion (USD 22 billion) relief package was announced by the finance minister

##### Employment-related measures

###### Food related

Everyone under Pradhan Mantri Garib Kalyan Anna Yojana (about two-thirds of the population) got 5 kg of wheat and rice for free for 3 months. Also, 1 kg of the preferred pulse was given for free to each household under this scheme. The distribution was done through the Public Distribution Scheme (PDS) and availed in 2 instalments.

###### Direct benefit transfer related

The government gave the first instalment of Rs. 6,000 to farmers under the PM-KISAN scheme upfront for fiscal year starting April 2020. About 8.69 crore farmers benefitted from this instantly. MNREGA workers: An increase in wages from Rs. 182 to Rs. 202 benefitted 5 crore families. 3 crore senior citizens, widows and disabled got a one-time ex-gratia amount of Rs. 1,000 in 2 instalments over 3 months. 20 crore women Jan Dhan account holders were given an ex-gratia amount of Rs. 500 per month for 3 months, to run their household.

Women in 8.3 crore families below poverty line covered under Ujwala scheme got free LPG cylinders for 3 months. The government doubled collateral-free loans to Rs. 2,00,000 for the 6,30,000 SHGs, that help 7 crore households. The District Mineral Fund, worth about Rs. 31000 crores were used help those who were facing economic disruption because of the lockdown.

###### Healthcare related

The finance minister announced medical insurance cover of Rs 50 lakh per healthcare worker. About 20 lakh health workers benefitted from this insurance scheme.

### **Organized sector related – Social security**

The Employees Provident Fund Organization (EPFO) announced that employees who contribute to EPF could withdraw up to 75 percent of the account balance or 3 months' basic salary and dearness allowance, whichever is lower.

The government announced that it will pay the employee provident fund contribution both employer and the employee (12 per cent each) of establishments which employ up to 100 employees (90% of whom earn up to Rs. 15,000 per month) from March 2020 to May 2020. This support was extended for another 3 months from June to August 2020.

Employer and employee contribution were reduced from 12% to 10% percent each for 3 months (i.e., May, June, and July 2020). This was applicable to all employers (other than government companies and companies covered in the point before)

EPFO extended the due date for payment of contribution for wage month of March 2020 from 15 April 2020 to 15 May 2020 (30 days grace period)

In view of the government's decision declaring COVID-19 as a pandemic, the Pension Fund Regulatory and Development Authority (PFRDA) allowed partial withdrawals from the NPS to fulfil financial needs towards treatment of the COVID-19 illness of a member, his/her spouse, children (including adopted child), or dependent parents.

### **Immigration**

Lockdown 1.0 - India was on a 21-day lockdown from 25th March 2020 to 14th April 2020. All domestic and international travel had been suspended.

All foreign nationals who were stranded in India during Covid-19 crisis whose Visa expired between 1<sup>st</sup> February 2020 and 30<sup>th</sup> April 2020 were granted an automatic extension of their Visa till 30<sup>th</sup> April 2020 after applying for the same, as per the Circular issued by the Ministry of External Affairs

Exit of such foreign nationals without levy of overstay penalty was also granted

- Lockdown 2.0 – All above mentioned changes extended till 3rd May 2020. Further, foreign nationals could leave India up to 14 days from 3rd May 2020 i.e., 17th May 2020 without levy of overstay penalty
- Lockdown 3.0 – All above mentioned changes extended till 17th May 2020. Foreign nationals whose visa have expired or would be expiring

during the period from 1<sup>st</sup> February 2020 till the date on which prohibition on international air travel of passengers from India is lifted by the Government of India, would be extended on 'GRATIS' basis on submission of online application by the foreigners. Such extensions would be granted for a period up to 30 days from the date of lifting of prohibition on international air travel of passengers from India without levy of overstay penalty.

- Lockdown 4.0 – All above mentioned changes extended till 31st May 2020.
- Visa free travel facility for OCI card holders who were not in India, was kept in abeyance till the date of lifting of prohibition on international air travel of passengers.
- Lockdown 5.0 – The lockdown was extended in Containment Zones till 30th June 2020, and prohibited activities were re-opened in a phased manner in areas outside Containment Zones.
- As per the press release issued by Ministry of Home Affairs on 1st June 2020 Government relaxed the visa & travel restrictions for certain categories of foreign nationals who needed to come to India. It had been decided to permit the following categories of foreign nationals to come to India:
  - Foreign businessmen coming to India on a Business visa.
  - Foreign health researchers, healthcare professionals, engineers, and technicians for technical work at Indian health sector facilities, including factories and laboratories subject to letter of invitation from a recognized and registered pharmaceutical company, registered healthcare facility or accredited University in India.
  - Foreign Design, Managerial, Engineering, or other Specialists travelling to India on behalf of foreign business entities located in India.
  - Foreign Technical specialists and engineers travelling for installation, repair and maintenance of foreign-origin machinery and equipment facilities in India, subject to invitation of a registered Indian business entity.

- Following categories of OCI Cardholders stranded abroad, have been permitted to come to India:
  - Minor children born to Indian nationals abroad and holding OCI cards.
  - OCI cardholders who wish to come to India on account of family emergencies like death in family.
  - Couples where one spouse is an OCI cardholder and the other is an Indian national and they have a permanent residence in India.
  - University students who are OCI cardholders (not legally minors) but whose parents are Indian citizens living in India.

#### Economic stimulus measures

Relief measures were announced by Reserve Bank of India on 27 March 2020 & 17 April 2020, they were as follows:

- Reduction of policy repo rate by 75 basis points from 5.15% to 4.40%.
- RBI will conduct auctions of TLTRO (Targeted Long-Term Repo Operations) of up to three-year tenor of appropriate sizes for a total amount up to Rs. 2 lakh crores (USD 26 billion) at a floating rate, linked to policy repo rate (50% corporates, 25% for development institutions for onward lending to agricultural, housing and MSMEs and 25% for NBFCs and MFI)
- CRR of all banks was reduced by 100 basis points to 3% starting March 28 for 1 year. This was done to release liquidity of Rs. 1,37,000 crores across the banking system MSF raised from 2% of SLR to 3% with immediate effect.
- Liquidity coverage ratio for banks reduced from 100% to 80% likely to release liquidity.
- These liquidity measures were undertaken to inject liquidity of Rs. 4.74 lakh crore (USD 63 billion) to the system.

#### Relief for MSMEs

- Rs. 3 Lakh crores (USD 39 bn) collateral free loan with 100% credit guarantee
- Rs. 20,000 crores (USD 2.6 bn) subordinate debt for stressed MSMEs

- Rs. 50,000 crores (USD 6.5 bn) equity infusion for MSMEs with growth potential and viability through Fund of Funds
- New definition of MSMEs – investment limit revised upwards; additional criteria of turnover introduced
- No global tenders for government contracts up to Rs. 200 crores (USD 26m)
- E-market linkage to be promoted as replacement of trade fairs and exhibitions
- MSME dues to be cleared within 45 days

#### Relief for NBFCs

- Rs. 30,000 crores (USD 3.9 bn) liquidity infusion for NBFCs/HFCs/MFIs
- Rs. 45,000 crores (USD 5.9 bn) partial credit guarantee scheme for NBFCs

#### Relief for Power utilities

- Rs. 90,000 crores (USD 11.7 bn) liquidity infusion to DISCOMs against receivables guaranteed by State government for exclusive purpose of discharging liabilities to power generating firms

#### Regulatory measures

- All lending institutions were permitted to allow a moratorium of three months on repayment of instalments for term loans outstanding as on March 1, 2020
- Lending institutions permitted to allow deferment of 3 months on payment of interest w.r.t all such working capital facilities o/s as of March 1, 2020
- Moratorium period to be excluded while computing 90 Day NPA norm for asset downgrade.
- Time period allowed under RBI framework for resolution extended by 90 days (210 + 90 days)
- Further deferring implementation of last tranche of 0.625 % of capital conservation buffer to Sept. 30, 2020

#### Real estate sector and EPC/Contractors:

- Extension of up to 6 months to be provided by all Central Agencies (like Railways, Ministry of Road, Transport & Highways, Central Public Works Dept, etc.)

- Government agencies to partially release guarantees, to the extent contracts are partially completed
- Registration and completion timelines were extended by up to six months for all registered real estate projects
- Concurrent extension of various statutory compliances under RERA

#### Insolvency and Bankruptcy Code (IBC):

- Threshold of default under section 4 of the IBC has been increased from Rs 1,00,000 to Rs 1 crore with the intention to prevent triggering of insolvency proceedings against MSMEs.
- Fresh admission of Insolvency cases for default arising after 25 March 2020 under IBC, 2016 suspended for six months (extendable by another six months) to stop companies at large from being forced into insolvency proceedings in such force majeure causes of default.
- Loans for COVID-19 excluded from definition of default
- Government to proposed new guidelines for MSMEs

#### Other measures and sources

##### Exports of medical equipment

- Prohibition on exports of following:
  - Surgical masks/disposable masks (2/3 ply), textile material for masks and coveralls, sanitizers, all ventilators including any artificial respiratory apparatus or oxygen therapy apparatus or any breathing appliance/device
  - Hydroxychloroquine (allowed on certain cases on a government-to-government basis only) and formulations made from hydroxychloroquine
- Restriction (export permitted under a license) on exports of Diagnostic kits

##### Imports of medical equipment

- Exemption from customs duty and health cess, (w.e.f. 9 April 2020 to 30 September 2020) on import of following:
  - Artificial respiration or other therapeutic respiration apparatus (ventilators), Face masks

and surgical masks, Personal protection equipment (PPE), COVID-19 testing kits

- Inputs for manufacturing of aforesaid four items (subject to certain conditions)

#### Corporate affairs:

- No fees to be charged for late filing during moratorium period (01 April 2020 to 30 September 2020, 6 months) in respect of any document, return, statements, etc. required to be filed with MCA (Ministry of Corporate Affairs)
- The mandatory requirement of holding board meeting within 120 days of last meeting shall be extended by period of 60 days. Relaxation is till 30 September 2020. Applicability of CARO, 2020 has been shifted to FY21 instead of FY20. (CARO is Companies Auditors' Report Order)
- Companies Act requirement of creating deposit reserve of 20% of deposits maturing in FY21 and investing 15% of debentures maturing in FY21 before 30 April 2020 may be done before 30 June 2020
- Decriminalization of certain defaults under the Companies Act 2013 and simplification of mechanism to deal with defaults
- Lower penalties for default of small companies, one-person company, producer companies and start ups
- Companies permitted to list securities directly in foreign jurisdiction
- Private companies who list debt securities on stock exchange not to be regarded as listed companies

#### Measures to ease the lockdown

- Schools, Restaurants, Sport, and events were prohibited until May 17, National flights are Authorized for emergencies and certain needs

Even after all these measures, you see a major slump in the Indian economy after liberalization or since the availability of quarterly data (1996). The economy has majorly contracted after June. While India's GDP saw the sharpest contraction on record, the number is expected to undergo further revisions as data collection was severely impaired during the lockdown.

The headline figure is at the upper end of what most analysts were estimating, but some have cautioned that in the absence of real time data, the number doesn't reflect the gravity of the economic distress.

From hotels to trade, electricity generation, manufacturing, and construction, almost every segment of the Indian economy showed a sharp contraction during the first three months of the financial year. The only sector that posted growth was agriculture, at 3.4%.

By all accounts, a quick recovery is unlikely in India, and it is only in the last three months of the year that growth is expected to return to positive territory. Cases continue to spike, and lockdowns are ongoing in several areas. As a result, consumer demand, which determines 60% of GDP, is unlikely to return in a hurry as most people are stepping out only to buy essentials.

India's economy was already faltering when Covid-19 struck. Last year, unemployment touched a 45-year high, and growth dipped to 4.7%, the lowest in six years. Output was shrinking as demand fell and banks were burdened by a mountain of debt.

One month into the lockdown, 121 million Indians had lost their jobs, according to the Centre for Monitoring Indian Economy (CMIE), an independent think tank. Experts, however, believe that many of these jobs are in the informal sector, largely agriculture, the mainstay of India's economy.

While most industries, from manufacturing to services to retail contracted, agriculture and agri-businesses have bucked the trend.

Exemptions from the lockdown, a bumper harvest, and the delayed arrival of Covid-19 in rural areas seems to have helped (Indian Ministry of Statistics, 2020).

In retrospect, if one looks at India's import and export data in terms of PPE kits and other medical devices needed during the pandemic, you can ultimately acknowledge that the major issue for the Indian government is to accommodate the budgetary issue.

#### POLICIES IN RESPONSE TO COVID-19

- To tackle with this unprecedented challenge, the government of India announced a relief package to the tune of 1% of the country's GDP, reduced interest rates, extended realization period of export proceeds, loans and EMIs, and reduced the CRR. While the government and central bank are

taking these measures to handle this crisis, nobody can be sure if these measures are adequate and effective, as this will depend on how soon the spread of the virus is contained in the country. However, understanding the depth of the impact of COVID-19 pandemic on the Indian economy is vital to formulate the policy and measures to contain this economic impact.

- The response to COVID-19 pandemic requires a coordinated effort like in any other disaster. India also declared COVID-19 outbreak as a notified disaster and aims to systematically respond to this pandemic calling its response so far as pro-active, pre-emptive, and graded.
- The Indian government announced a \$22.6 billion (around 1% of the GDP) economic stimulus package to provide direct cash transfers and food security measures to millions of poor people hit by a nationwide lockdown triggered by the coronavirus pandemic. This proposal was put forth two days after a 21-day nationwide lockdown was announced. However, with an intent to control the spread of the deadly virus, Prime Minister Narendra Modi extended the 21-day lockdown by additional 3 weeks up to May 03, 2020, which further leads to the urgent need for the centre to announce more robust fiscal measures. Many economists anticipate that the centre will have to announce a much bigger financial package than the one earlier, of around \$39 billion to address the needs of the vulnerable and affected segments of the economy.
- The proposed financial package emphasizes on providing food security and direct bank transfers for poor households, and daily wage earners, who need immediate help. The responses to the fiscal stimulus are least concentrated around the other industrial sectors and do not provide concrete measures to tackle problems faced by them, namely—exports, tourism, transportation, horticulture, retail, imports, crude oil, and fuel. The prominence of words such as health, hygiene, hungry, migrant, families, employees, and customer suggest that the government has focused more on the demand- and supply-side issues. In terms of the demand side, consumption has got impacted due to the loss of jobs and a decline in income levels, whereas on the supply side, the

disruptions in production have spread across the world. All businesses, regardless of size, are facing severe challenges, especially those in aviation, tourism, and hospitality industries with concurrent declines in revenue, insolvencies, and job losses. Further, with widespread panic and fear, overall confidence of consumers has come down, leading to the postponement of buying decisions, which pulls the demand from sectors, including tourism, aviation, apparel, hospitality, and cinema industries

- This paper attempts to understand the impact of COVID-19 pandemic on the Indian economy by analysing the interviews of policymakers and experts on the Indian economy. The systematic response of the policymakers to keep the economy afloat may be studied by segregating these interviews in seven themes.

#### 1. Fiscal policy and the stimulus package

The Indian government announced a \$22.6 billion (around 1% of the GDP) economic stimulus package to provide direct cash transfers and food security measures to millions of poor people hit by a nationwide lockdown triggered by the coronavirus pandemic. This proposal was put forth two days after a 21-day nationwide lockdown was announced. However, with an intent to control the spread of the deadly virus, Prime Minister Narendra Modi extended the 21-day lockdown by additional 3 weeks up to May 03, 2020, which further leads to the urgent need for the centre to announce more robust fiscal measures. Many economists anticipate that the centre will have to announce a much bigger financial package than the one earlier, of around \$39 billion to address the needs of the vulnerable and affected segments of the economy.

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#### 2. Industry-specific measures

Tourism, hospitality, and aviation are among the worst affected sectors that are facing the maximum brunt of the present crisis. Closing of cinema theatres and declining footfall in shopping complexes have affected the retail sector by impacting the consumption of both essential and discretionary items. Consumption is also getting impacted due to job losses and a decline in income levels of people, particularly the daily wage earners due to slowing activity in several sectors, including retail, construction, entertainment, and so forth on the supply side, the shutdown of factories and the resulting delay in the supply of goods from China has affected many Indian manufacturing sectors, which source their intermediate and final product requirements from China. Some sectors like automobiles, pharmaceuticals, electronics, chemical products, etc. are facing an imminent raw material and component shortage. Specifically, with the closure of factories in China, the Indian pharmaceutical companies' dependence on China for active pharmaceutical ingredients (APIs) became a matter of concern for health security, and in such a case, the government encourages India's API manufacturers to expand capacity and promote pharmaceutical manufacturing hubs.

Growth seems to be the primary source of concern for the respondents. At the same time, jobs, debt, inflation, and innovation are other prominent factors to be taken into consideration while formulating policies to control the negative impact of the virus infection on specific industries. Moreover, health, hospitals, and medicine manufacturing are amongst the least discussed aspects, indicating that in the face of such pandemic, there is a need to support health and economic well-being of the citizens and, it is crucial to

prioritize health spending for medical equipment, and COVID-19 testing; compensate doctors and nurses and further to make sure that the hospitals and clinics have enough protective resources to function effectively. Innovation, which does not seem to be a concern from the ongoing discussions, can play a vital role in the form of artificial intelligence technology during this outbreak in every aspect, such as traffic management, infection detection, logistics supply chain, and so forth.

### 3. Small business and daily wagers

The crisis has already transformed into an economic and labour market shock, impacting not only production and supply of goods and services but also demand (consumption and investment). Travel bans, border closures, and quarantine measures have resulted in job-less workers with no-incomes. Sustaining business operations in such scenarios is particularly tricky, particularly for the Small and Medium Enterprises (SMEs).

An Action Plan has been prepared by the G20 members to protect lives, safeguard people's jobs and incomes, restore confidence, preserve financial stability, and help those countries that need assistance relating to the public health issues and minimize the global supply chain disruption. Additionally, with the growing number of confirmed cases of coronavirus, the government extended the lockdown, and further introduced lockdown 2.0, providing specific sectors to become partially operational from April 20, 2020. Keeping in mind the interests of the farmers and daily wage earners, economic activities in certain areas have been permitted (with restrictions) including the movement of cargo, and farming operations so that the farmers may work on the field, fisheries, plantations, animal husbandry, and commercial and private establishments including e-commerce companies, manufacturing, and other industrial establishments to create job opportunities while maintaining safety protocols and social distancing.

Our subjects emphasize the health-related issues and the requirements of the poor, daily wage earners as well as the small and medium enterprises. It indicates the focus on the growth, GDP, cash, and economic package that was directed to provide financial and food assistance to the poor. However, words such as values, sentiments, uncertain, fear, stress, and distress also reflect on the psychological and mental health issues that demand immediate assistance. Medicine,

medical service, health, ventilators, treatment products are the words that revolve around public health. McKibbin and Fernando (2020) maintain that especially in developing nations, an outbreak of a disease is spread more rapidly due to overcrowding, poor public health, and interactions with wild animals, which can kill people of nay socio-economic groups in any society. Hence, large investments in public health and development are recommended through global cooperation amongst all the countries.

### 4. Current economic measures

The current economic measures refer to the actions and measures implemented by the Indian government in response to the COVID-19 virus attack. The 21-day nationwide lockdown was announced in India on March 24, 2020, However, with the increasing number of active cases to 8,988 and deaths toll rising to 339, the lockdown eventually got extended till May 03, 2020. The lockdown was further followed by the \$22.5 billion stimulus package announced on March 26, 2020.

With the outbreak of COVID-19, a series of measures continued for the ultimate purpose of eradicating the spread of this pandemic, and further, the Prime Minister Narendra Modi extended the ongoing lockdown till May 03, 2020. While the measure was taken to save lives, but the extended lockdown would further have a massive impact on the jobs and livelihoods of many people. Many Indian entities have legal linkages with companies in countries with a large number of confirmed COVID-19 cases, signifying that a slowdown in the business activity of these foreign markets shall have a complementary negative impact on the Indian companies.

### 5. Goods and services tax (GST)-related measures

Other than the economic measures to cope with the COVID-19 lockdown, liquidity in the economy also needs to be ensured to keep the economy rolling. Reserve Bank of India (RBI) has taken monetary measures to infuse liquidity into the economy. These decisions include a three-month EMI moratorium of loans and credit cards to provide relief to many borrowers. Emergency measures like increasing ways and means advances limit by 30% for all states and union territories, an extension of realization of export proceeds, cutting the repo rate by 75 basis points, and reducing cash reserve ratio (CRR) by 100 basis points reduced the liquidity costs and provided relief to state governments and the overall banking system). These

measures are directed at benefitting exporters, particularly the pharma sector, due to the increased demand of India-made drugs to combat COVID-19 overseas. Certain tweaks in the income tax and goods and services tax (GST) rates are also needed to complement these monetary policy decisions. The government has already deferred the date for filing income tax returns from March 31, 2020 to June 30, 2020, while giving extension for filing GST returns for smaller companies for March, April, and May to June 2020 (Mondal, 2020). Manufacturing and Micro, Small & Medium Enterprises (MSMEs) are two sectors hit hard by lockdown on top of an already weakened domestic demand. The supply chain has also been disrupted with a short supply of raw material from abroad. To combat this double whammy, the government has already released the pending GST and customs refund, which may benefit all industries, including MSMEs. Besides, the government has also relaxed the GST reconciliation obligation, which may be a relief to the businesses. However, more measures are required to provide more relief to taxpayers. Certain industries that are suffering more including tourism, hospitality, and aviation, are looking forward to enhanced measures, including further tax waivers.

#### 6. Global outlook and challenges

As of now, COVID-19 is leaving a blanket impact across countries and industries and is likely to be significant, especially if the virus is not contained quickly.

China accounts for around 17% of the global GDP at purchasing power parity and hence shall substantially impact the economy globally, including economic slowdown, trade, supply chain disruption, and so forth (The JP Morgan, 2020). The COVID-19 outbreak has already brought considerable human suffering and major economic disruptions, with containment efforts including quarantines, border closures, wider final demand for imported goods and services, wider regional declines in international tourism and business travel. Accordingly, the annual globe GDP growth is estimated to drop to 2.4% in 2020, from an already weak 2.9% in 2019 (Organisation for Economic Co-operation and Development, 2020)

In India, the focus is still on the economic factors, including growth, GDP, the market rate of return, etc. India is likely to report its worst growth performance since the 1991 liberalization for this fiscal year as the economy is significantly affected by the pandemic

outbreak. Additionally, with interviews indicating capital flows, debt, health, currency and exchange rates, India's rupee slid 5.5% in the first quarter, contributing to a 33% loss for the benchmark stock index in dollar terms., and about \$15 billion left the country's stocks and bonds in March, which was the highest amongst the Asian countries. reports that emerging and developing economies face unparalleled reversals in capital flows and currency pressures while dealing with weaker health systems and limited fiscal space to recover. Economic inequalities should be the focus of the policymakers, as they pose serious threats against the post-outbreak recovery. Policy measures shall target supporting employment growth, stringer labour marker regulations leading to income security, education, and healthcare provisions.

#### 7. Long-term economic impacts

COVID-19 has changed the world fundamentally with locked down nations to protect their people while the businesses stay on hold, the wheels of economic growth have been brought to a halt. The immediate announcement of the nationwide lockdown left a lot of daily wage earners and poor people helpless, with no access to food and no cash in hand. The current scenario is also evident where the primary concern is on the food, poor, workers and employees, their employment, wages, and income. Additionally, overnight lockdown further resulted in the poor people migrating to their hometowns, as they did not have the money or a place to live.

To date, the fiscal response to the pandemic has been unprecedented. Such policies will result in massive debt relative to GDP. In such cases, especially the emerging countries would require grants and loans which may be assisted, with coordination among the nations. Former finance secretary Subhash Garg opined that with the massive spread of COVID-19 cases, the government might have to face additional expenditure demand of about \$39 billion from the state governments to support the small informal businesses and millions of workers rendered jobless due to the lockdown. Such expenditure would lead to a long-term financial burden on the economy.

Further, there is a need to divert the attention towards the healthcare, livelihood, and welfare of the people belonging to the informal sector, including the labour and migrant workers. Infection fighting and disaster relief are the top priorities. Additionally, many economists anticipate the lack of workforce post-

lockdown since the migrant workers may not return to work soon, and even the companies would have to implement substantial measures for workers' safety and to provide other benefits, multiple shifts to maintain workforce efficiently. There is an urgent need to take immediate steps to not only contain the spread of the virus but also to address the most affected sectors of the industry. With some measures already been announced by the government, several other industries, including auto, aviation, tourism, and hospitality are still expecting a complete sector-specific economic relief. A combination of monetary, fiscal, and financial market measures is needed to help in minimizing the impact of the outbreak on the businesses and people. Therefore, based on our analysis of the interviews of economic experts, we suggest the following policy implications to kickstart the economy during and after the lockdown.

#### CONCLUSION

The lockdown might help to flatten the curve but would not be able to eradicate the virus from society until effective vaccines are developed. This might take time and the state cannot be reliant on the lockdown for long. The disruptions in the supply chains, increasing unemployment and dropping revenues are serious concerns for the whole country. Revival of the Tourism industry is crucial, once the economy reopens, as it would be a challenge for the state, given the decline in its revenue earnings; the worldwide effect on the airline industry would also hit India in the coming year as well. Apart from these, the real estate sector has also been hit; allocation of defence budget (excluding pension, 1.5 per cent of the GDP) for the next financial budget might also decrease from the previous year given that there is a fall in marginal increase of the outlay for the past two years. However, it is imperative that the government realizes the aftershock affect to mitigate these issues when the economy emerges from the pandemic, even though the uncertainty persists. There is a trade-off between the severity of the recession and the health consequences of the pandemic. The severity in terms of number of people infected is reduced with the people's decisions to cut down economic and social activities and consumption. The same course of actions, at the same time, to control the pandemic aggravate economic recession. The courses of action in the form of locking

down the economy to fight against the pandemic has created shocks both on aggregate demand and aggregate supply. The supply side shock appears because of the reduction of labour supply to reduce health risks due to exposure of COVID-19. The demand side shock appears because people reduce their consumption basket to reduce the risk of pandemic. The containment policies undertaken by the State in most of the countries including India in the form of economic lockdown primarily to maintain social distance exacerbate recession but raise welfare by reducing the probability of new infection and death toll caused by the pandemic. Net increase in welfare depends on economic hardships suffered by households and businesses. In a country like India over 90 per cent of the workforce are in informal employment and majority of them work as daily wage earners purely on temporary basis. The share of the marginal workers as defined in the Census of India is also significant. Thus, economic hardships due to lockdown would be significantly higher in India than in the OECD countries.

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