



An Analysis Of The Impact Of COVID-19 On Indian Economy And Policy Measures

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Abstract

The Indian economy has experienced an unexpected shock since the start of the Covid-19 pandemic. Before COVID-19 hit, the economy was already in a terrible situation. The economy is anticipated to experience a prolonged period of decline due to the extended nationwide lockdown, the global economic collapse, and the resulting disruption of supply networks and demand. The length and intensity of the health crisis, the length of the lockdown, and how things develop after the lockdown is removed will all affect how much of an economic impact there will be. This article outlines the pre-Covid-19 state of the Indian economy, evaluates the shock's possible effects on different economic sectors, examines the measures the central government and Reserve Bank of India have so far announced to mitigate the economic shock, and offers a set of policy recommendations for particular industries.

Key words: COVID-19, RBI, Lockdown, sector, slowdown, impact, measures.

1. Introduction

On Thursday, January 30, 2020, officials stated that the World Health Organisation (WHO) had deemed the recent coronavirus epidemic a public health emergency of worldwide concern. The WHO suggested referring to the illness as "2019-nCoV acute respiratory disease." Public health officials throughout the world are concerned as the 2019 novel corona virus (2019-nCoV), which originated in Wuhan, China, has spread to 24 other nations. On March 13, 2020, the WHO reported that over 132,000 individuals had been infected and over 4,900 people had died worldwide. The situation report on Coronavirus disease 2019 (COVID-19), released on March 8, 2020, states that laboratory-confirmed cases of COVID-19 are currently being reported in more than 100 countries. As per reports, there were 105586 confirmed (3656 new) cases worldwide, 80 859 confirmed (46 new) cases with 3100 fatalities (27 new) cases in China, and 24 727 confirmed (3610 new cases) with 484 deaths (71 new) outside

of China. (March 2020, WHO Situation Report-48). Coronaviruses are enveloped RNA viruses, ranging from 60 nm to 140 nm in diameter with a crown-like appearance, found in mammals particularly in humans and birds. Coronaviruses are known to have mutated and recombined behaviour causing respiratory, enteric, hepatic, and neurologic diseases.

2. Methodology of the study

The study is entirely analytical and based on secondary data from government portals such as Make in India and Skill India, as well as NSSO publications, books, journals, magazines, articles, and media stories.

3. Objectives of the study

- To understand the concept of COVID-19
- To assess the scenario in India at the onset of COVID-19 pandemic
- To analyse the impact of COVID-19 on different sectors in India
- To analyse the measures taken by India to ameliorate the effects of COVID-19.

4. India's position – Pre COVID-19 period

When it comes to the disruption of supply and demand and the ensuing economic slowdown, the shock is manifesting itself in almost the same way in every nation on the planet. However, considering the status of the Indian economy prior to COVID-19, the problem may be more severe and long-lasting. After a few years of poor performance, the economy had significantly deteriorated by the time the first Covid-19 case was reported in India. According to official data, GDP growth in 2019 decreased to 4.7%, the lowest level since 2013. It was the highest unemployment rate in 45 years. At the end of 2019, the eight main sectors' industrial output fell by 5.2%, the most in 14 years. In recent years, private sector investment has been stagnating and dropping, and for the first time in decades, consumption expenditure has also been declining. Both the increase of consumer durables and passenger car sales decreased in February 2020, according to high frequency indicators of urban consumption demand. Overall, Q4 consumption in cities appears to have slowed. In February 2020, the consumer nondurable category and motorbike sales, two measures of rural consumption, continued to decline, suggesting that rural demand was weak. Any hope of a recovery in private investment and consumption demand will be stifled by the lockdown.

5. Impact of COVID-19 on major sectors.

5.1 Unorganized sector

Nearly 90% of India's working population is employed in the country's largest informal sector, which accounts for over 45% of its GDP. From 2016 to 2019, this industry experienced two successive shocks in a brief period of time. The first shock was demonetization in November 2016, when a government order rendered 86% of the economy's money instantly useless. This was followed by the botched implementation of the goods and services tax in 2017. Demonetization was a significant enough monetary shock, but it did not significantly alter supply and demand for an extended period of time. For a while, there were no ways to pay. In retrospect, we now know that individuals discovered workarounds in the form of informal credit, electronic payments, using old notes, turning black money into white, etc. Since there is no supply and no demand in the current crisis, there are no

underlying revenues. Thus, this is far more problematic. The already troubled informal sector will be disproportionately impacted by the Covid-19 pandemic.

5.2. Raw material and spare parts industry

China is the source of over 55% of India's imports of electronic components. Because to the prolonged lockdown and coronavirus outbreak, imports have been reduced by 40%. India is thinking about encouraging domestic production as a solution to this issue in order to lessen its reliance on China. Additionally, China is India's third-largest export partner for raw materials such as cotton, mineral fuel, organic chemicals, and so on. Because of the total lockdown, exports have been halted, resulting in a significant trade deficit for India.

5.3 Hotels, restaurants and tourism

Demand has significantly decreased as a result of the total shutdown. It is difficult for owners to recoup fixed costs. For five to six months, there won't be any need for hotels since people will want to avoid travelling, which lowers hotel demand. India is a stunning cultural and historical destination that draws both local and international tourists all year long. They have halted the entire tourism value chain, which includes agents, restaurants, and hotels. In the near future, individuals will likely avoid travelling for tourism, and the tourism industry is expected to suffer greatly. Fifty-five percent of India's GDP comes from the service sector. The tourist and hospitality sectors are predicted to suffer losses of \$2.1 billion in March and April alone.

5.4 The banking and corporate sectors

The banking sector in India is badly broken. So far, the problems in this sector were adversely affecting credit growth. Now this has 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. 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 (Sengupta and Vardhan, 2017, 2019).

5.5 Education and Skill sector

To prevent a big crowd, all educational institutions are closed. There are 933 universities and 39931 colleges in India as of 2018–19. COVID-19 has affected schools nationwide, with closures occurring for several weeks during the critical period of the academic year's conclusion. Particularly low-cost private schools are probably more affected by teaching and learning. The majority of higher education institutions are not entirely prepared to use online learning.

5.6 Textile sector

This industry makes up 2% of the GDP. Cotton is produced mostly in China. For textile raw materials such as synthetic yarn, synthetic fabric, buttons, zippers, and hangers, India is entirely dependent on China. Cotton yarn is another product that India sells in large quantities to China. The outbreak has now caused low demand in China, which has caused prices to drop in India. Opportunities for local sourcing can be examined by garment manufacturers. Production in the textile and clothing sector is predicted to drop by 10–12% during the April–

June quarter. With over 45 million direct employees and a significant number of daily wage workers, this industry is one of the biggest employers in the nation. Layoffs of low-wage workers and temporary factory closures have already started.

6. India's policy measures to tackle the effects

6.1 Agriculture

Farm work and farming operations, agencies that purchase agricultural products at minimum support prices, mandis that have been notified by state governments, the movement of machinery and manufacturing related to harvesting and sowing within and between states, and packaging units for fertiliser, pesticides, and seeds are all exempt from the lockdown guidelines issued by the Union Home Ministry. However, there are a number of implementation issues.

The police and municipal government have not received many of the circulars. Consequently, the efficient transportation of vital food and agricultural products has been impacted. Clear application of the guidelines is required. The panchayat and other grassroots organisations should be involved to prevent harassment of farmers, sellers, and farm harvest transport.

6.2 Policy package for informal sector workers

The Finance Minister unveiled a Rs. 1.7 lakh crore package on March 26, 2020, with the primary goal of creating a safety net for those who have been most negatively impacted by the COVID-19 lockdown, such as the unorganised sector workers—particularly those earning daily wages—and the impoverished in both urban and rural areas.²⁹ The following elements make up the "Pradhan Mantri Garib Kalyan Yojana":

- Free additional 5 kg wheat or rice per person for 3 months;
- 1 kg free pulses per household for 3 months;
- Free LPG for Ujjwala beneficiaries for 3 months;
- Rs.2000 to 87 million farmers under PM Kisan Yojana in 10 days;
- Increase in MGNREGA wages to Rs.202 from Rs.182;
- Rs.500 per month to 200 million female Jan Dhan account holders for next 3 months;
- Ex-gratia of Rs.1000 to poor senior citizens, widows and disabled;
- Rs.20 lakh collateral-free loans to women self-help groups;
- Govt. to contribute EPF to companies with less than 100 workers;
- Non-refundable advances of 75% or 3 months wages from PF account;
- States to use Rs.31 crore from construction workers welfare fund;
- States to use district mineral fund for medical activities.

The aforementioned actions are a good start because they can alleviate the suffering of low-income individuals and informal labourers in the near future. However, there is a need for a substantial increase in financial assistance for the impoverished due to the crisis's historic enormity. This package's new spending would only

represent about 0.85% of the projected GDP. Compared to the issue, the package is insufficient. Additionally, it essentially consists of modifying some of the advantages of current methods.

6.3 RBI's policy actions

1. The repo/reverse repo rates were cut by sizeable amounts, to 4.40/4.00% from 5.15/4.90%. The 91- day Treasury bill rate, dropped to 4.31% from 5.09% on 26 March.
2. Typically, banks can use the repo window to borrow money from the RBI for a certain period of time. A new "targeted long-term repo operations" (T-LTRO) mechanism with a Rs. 1 trillion cap was announced to complement this facility. Because they are exempt from marking to market the investments made with these borrowed funds for the next three years, banks might find this appealing. The money borrowed here must, however, be used to purchase investment-grade corporate bonds, commercial paper, and non-convertible debentures at the level of their holdings as of March 27, 2020.
3. The cash reserve ratio (CRR) was reduced by 1 percentage point, bringing it down to 3% of deposits ("net demand and time liabilities"). This is the first time the CRR has been changed in the last 8 years.
4. According to banking regulations, banks must identify and offer for a loan when there is a payment delay. In the case of a default, banks must place loan accounts in special mention categories in accordance with the Prudential Framework for Resolution of Stressed Assets. Depending on whether the payment is past due for 1–30 days, 31–60 days, or 61–90 days, the account should be categorised as SMA-0, SMA-1, or SMA-2. This rule has since been changed by the RBI to allow payments that are due between March 1, 2020, and May 31, 2020. The loan account in question will remain recognised as a standard asset and the SMA classifications will no longer be applicable if a firm applies for and is granted a moratorium.

7. Analysis of policy announcements

7.1 Monetary policy

When economic agents are able to comprehend and predict the MPC's actions, monetary policy works best. Since India is currently developing the credibility of the inflation targeting (IT) framework and the MPC process, this learning and comprehension process is still in progress. Therefore, it would have been expected that the MPC statement would go into great detail to explain its macroeconomic outlook and why it thought the rate drop aligned with its pledge to maintain the 4% inflation target. However, it didn't do that.

The rate decision was not explained in the MPC statement in relation to any other aspect of a macroeconomic prediction, including a revised inflation forecast. In fact, it provided absolutely no explanation for the size of the rate cut that was selected. The public is not guaranteed that the rate cuts would be undone when inflation starts to increase again because the announcement of the changes was not made inside the conventional IT system.

7.2 Banking regulation

The RBI has granted banks and other lending institutions regulatory authority to choose which of their clients require a 90-day deferment under the March 27 package. Because it enables banks to differentiate between the

three categories of businesses, the choice to permit but not mandate moratoria is a wise one. Nevertheless, the plan has some shortcomings:

1. Transparency has been lost because no system was developed to categorise the rescheduled loans. Investors will only supply capital at a cost increased to reflect this information risk premium because they are already anxious due to accounting shocks at Yes Bank and other financial institutions. Additionally, the borrowing corporate sector will bear the brunt of these increases in bank costs.
2. Regarding the treatment of EMIs on retail loans, there appears to be a great deal of misunderstanding. For instance, it's possible that a large number of borrowers skipped one loan payment in February 2020. It's unclear if their February EMI will become 90dpd in May if they are granted a moratorium on their EMI payments for March, April, and May. The borrowers' credit histories would be impacted if that occurs, since their accounts will become non-performing assets (NPAs) and they will be reported to the credit bureau. It appears that the NBFCs' bank loans are exempt from the moratorium. This is an issue. NBFCs may have to provide their clients a three-month moratorium because they have already experienced severe financial difficulties since 2018. However, their financial stress will worsen if they themselves are unable to take advantage of this deferment. The MFIs are particularly affected by this. The T-LTRO mechanism was unveiled by the RBI, but as most NBFCs don't issue bonds, they are unlikely to profit from it.
3. Lastly, and perhaps most significantly, it is unclear what will happen when the moratorium period ends. Given that many of the businesses who benefited from the moratorium go on to default, how will banks clean up the mess that will be left behind? We know from experience that it will be challenging to settle the upcoming wave of non-performing assets.
4. Additionally, there is a chance that, now that a "temporary" embargo has been put in place, pressure may mount for its continual extension. In the event that the RBI is unable to resist, we will soon return to the post-2008 "extend and pretend" phase, in which banks, investors, and the RBI are all operating in a fog since nobody will be aware of the actual scope of the bad loan crisis.

7.3 Liquidity injection

According to the RBI, the latest policy measures will release Rs 3.74 trillion in bank funds. It is a positive step that the RBI announced the T-LTRO, which allows banks to borrow money as long as they invest in secondary market products. If the banks can get over their risk aversion, this could help them resume their much-needed involvement in the debt market. Given the unstable economic climate, it is likely that many banks will avoid the debt markets despite this plan due to concerns of bond issuer default. Given the increased risk aversion in the banking industry, it is also doubtful whether increasing liquidity in a system that already has plenty of it will increase loan growth on its own. Therefore, it is unclear what the marginal benefit of the RBI increasing liquidity in a system already in surplus mode would be. Private banks will find it challenging to raise capital in light of the stock price decrease, and the government will find it challenging to recapitalise public sector banks due to the tight budget.

Demands for "forbearance" from the RBI will result from a capital shortage in the face of growing non-performing assets. Such regulatory leniencies would ultimately cause the banking industry to conceal its losses and continue to operate with inadequate capital for a while.

When the Covid-19 shock hit India, the economy was still recovering from the TBS problems, the seeds of which were sown in the years of regulatory forbearance of the post-2008 period. Postponement of NPA recognition helps to 'extend and pretend'. Soon the problem becomes too big to tackle and the damage to the economy becomes long-lasting. If allowed now, this will lead to system wide crisis as it did in 2016-17 post the asset quality review by RBI.

8. Conclusion

COVID-19 has posed an unprecedented challenge for India. Given the scale of the population, the economy's instability, especially in the financial sector before COVID-19, and the economy's reliance on informal employment, lockdowns and other social distancing measures would be highly disruptive. This should only be the first step, even though the federal and state governments have recognised the issue and taken action. Policymakers need to be prepared to increase their response as events unfold in order to mitigate the impact of the shock on both the formal and informal sectors and establish the framework for a V-shaped recovery. They must simultaneously restrict the use of discretion and ensure that the solutions remain rooted in a framework based on rules in order to avoid long-term harm to the economy.

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