



# Indian Economic Policy response to Covid-19 pandemic – An analysis

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## **Abstract:**

The economic impact of Covid 19 (Corona Virus) on Indian Economy has been largely devastating and disruptive. Indian Economy was shattered and faced worst scenarios. According to Ministry of Statistics, in the fourth quarter of the fiscal year 2020, India's economy has grown at a meager 3.1%. Krishnamurthy Subramanian, the present chief economic adviser to the Government of India said that "this drop is mainly due to the corona virus pandemic effect on the Indian economy". Unemployment rose from 6.7% on 15<sup>th</sup> March to 26% on 19<sup>th</sup> April 2020 and then back down to pre-lockdown levels by mid-June. During the lockdown, an estimated 14 crore (140 million) people lost employment, while salaries were cut for many others. More than 45% of households across the nation have reported an income drop as compared to the previous year. World bank defines this pandemic as "magnified pre-existing risks to India's economic outlook", because the economic slowdown was very much noticeable even during pre-pandemic. The World Bank and other rating agencies had initially revised India's growth for fiscal year 2021, with the lowest figures, India has ever seen in three decades, since India's economic liberalization in the 1990s. On 26<sup>th</sup> May 2020, CRISIL announced that, this is perhaps, India's worst recession since independence. However after the announcement of the economic package in mid-May, India's GDP estimates were downgraded even more to negative figures, signalling a deep recession. State Bank of India research, estimates a contraction of over 40% in the GDP in quarter one of fiscal year 2021. The contraction will not be uniform, rather it will differ according to various parameters such as state and different sector.

**Key words:** Covid 19, Pandemic, Economic Slowdown, unemployment, Recessionary trends.

**Introduction:**

The COVID-19 pandemic in India is part of the worldwide pandemic of corona virus disease 2019 (COVID-19) caused by severe acute respiratory syndrome corona virus 2 (SARS-CoV-2). On 30<sup>th</sup> January 2020, India reported its first case of COVID-19 in Kerala, which rose to three cases by 3<sup>rd</sup> February 2020; all were students returning from Wuhan. Apart from these, no significant rise in transmissions was observed in February. On 4<sup>th</sup> March 2020, 22 new cases were reported, including 14 infected members of an Italian tourist group. On 12<sup>th</sup> March 2020, a 76 year old man, with a travel history to Saudi Arabia, became the first COVID-19 fatality of India. Currently, India has the largest number of confirmed cases in Asia, and has the third highest number of confirmed cases in the world after the United States and Brazil with the number of total confirmed cases crossing 10,00,000 confirmed cases on 17<sup>th</sup> July 2020. India's case fatality rate is among the lowest in the world at 2.41% as of 23<sup>rd</sup> July and is steadily declining.

To curb the widespread of Corona virus, Government of India, has announced 21 days of complete lock down from 24<sup>th</sup> March 2020 to 14<sup>th</sup> April 2020. This three weeks lock down was inevitable to break the infectious cycle of Corona virus. The lockdown was placed when the number of confirmed positive corona virus cases in India was approximately 500. Experts state that the lockdown had slowed the growth rate of the pandemic (doubling every six days) by 6<sup>th</sup> April and to a rate of doubling every eight days, by 18<sup>th</sup> April. As the end of the first lockdown period approached, state governments and other advisory committees recommended extending the lockdown period. The governments of Odisha and Punjab extended the state lockdowns upto 1<sup>st</sup> May. Other states such as Maharashtra, Karnataka, West Bengal and Telangana followed suit. On 14<sup>th</sup> April, Prime Minister Narendra Modi extended the nationwide lockdown until 3<sup>rd</sup> May, with a conditional relaxations after 20<sup>th</sup> April for the regions where the spread had been contained or was minimal.

On 1<sup>st</sup> May, the Government of India extended the nationwide lockdown further by two weeks until 17<sup>th</sup> May. The Government divided all the districts into three zones, on the basis of spread of the virus, namely Green, Red and Orange zones, with relaxations applied accordingly. On 17<sup>th</sup> May, the lockdown was further extended till 31<sup>st</sup> May by the National Disaster Management Authority. On 30<sup>th</sup> May 2020, it was announced that lockdown restrictions were to be lifted from then onwards, while the ongoing lockdown would be further extended till 30<sup>th</sup> June, 2020 only for the containment zones. Services would be resumed in a phased manner starting from 8<sup>th</sup> June. It was termed as 'Unlock 1.0'. Prime Minister Narendra Modi, later clarified that the lockdown phase in the country was over and that 'unlock' had already begun.

**Objectives of the study:**

- To identify the origin and growth of Covid 19 in Indian Economy
- To understand the impact of Covid 19 and subsequent lock down on Indian Economy
- To ascertain the various growth promotion measures of Indian Government.

**Research Methodology:**

- **Type of research:** It is a descriptive research in nature.
- **Data Sources:** The report is basically based on secondary data.

## Impact of lock down on Indian Economy:

- Indian economy passing through demand depression and high unemployment, with multiple lockdowns announced by Government of India, it would profoundly affect the supply-side, accelerating the slowdown further and jeopardizing the economic wellbeing of millions.
- According to an estimate, the Indian economy is expected to have lost over Rs.32,000 crore (US\$4.5 billion) every day during the first 21-days of complete lock down, which was declared following the corona virus outbreak.
- Unemployment rose from 6.7% on 15<sup>th</sup> March to 26% on 19<sup>th</sup> April 2020. During the lockdown, an estimated 14 crore (140 million) people lost employment, while salaries were cut for many others.
- The World Bank and other rating agencies had initially revised India's growth for fiscal year 2021, with the lowest figures, India has ever seen in three decades, since India's economic liberalization in the 1990s.
- State Bank of India research, estimates a contraction of over 40% in the GDP in quarter one of fiscal year 2021.
- According to Ministry of Statistics, in the fourth quarter of the fiscal year 2020, India's economy has grown at a meager 3.1%.
- With an increasing number of coronavirus cases, the government has locked down transport services, closed all public and private offices, factories and restricted mobilization. This move has taken away the job of many millions of people, mostly in the un organized sector. In this scenario, India would go into recession affecting the unorganized sector and semi-skilled jobholders losing their employment.
- The labour sector under the MGNREGA (Mahatma Gandhi National Rural Employment Guarantee Act), 2005 are worst affected as they are not provided jobs due to lockdown, most of the labour sectors are associated with the construction companies and daily wage earners.
- Travel restrictions and quarantines affecting hundreds of millions of people have left Indian factories short of labour and parts, just-in-time supply chains and triggering sales warnings across technology, automotive, consumer goods, pharmaceutical and other industries.
- The un organised sector is likely to suffer a great downfall in the coming days as the job generation is going down in an alarming rate with the prolonged lockdown and weak GDP. The lockdown has adversely affected service sectors like banks, restaurants, food vendors and food delivery providers at par with providing health safety and medical sustenance. With no income, savings capacity of the people would be profoundly affected. Due to this, accumulation of savings by banks or financial institutions would be greatly affected. This inturn will have its adverse impact on Capital formation.
- With larger job cuts and fewer job creation, the spending capacity of the people is taken for toss. With this aggregate demand in the economy is in deep trouble.
- The National Restaurant Association of India (NRAI), which represents 500,000 plus restaurants across the country, has advised its members to shut down dine-in operations. This will impact operations of thousands of dine-in restaurants, pubs, bars and cafes. Orders on Swiggy and Zomato have dropped 60 per cent amid the pandemic.

- As per the Ministry of Agriculture, the supply of the food and Agriculture products will be affected in the coming seasons due to low sowing, which will affect the mandi operations. The companies, which deal with Agro-chemical depend on export for finished goods and import of raw materials. Fruits and vegetables, Bricks and Mortar, Grocery, Retail chains are operating, but with the shortage of staff will definitely affect its operation.
- With the shortage of labour, the food processing units are facing a hunch in normal function but the government is trying to ease out the situation until that the factories have to adjust to working with low labour count.
- Maharashtra, Uttar Pradesh, Bihar, Tamil Nadu and Madhya Pradesh have the highest number of registered MSMEs. According to an estimate, about a quarter of over 75 million is facing closure and if situation worsens, it would affect the employment of 114 million people, which in turn would affect the GDP. Consumer goods, garments, logistics are facing a sharp drop in the business and the MSMEs engaged in the service sector are still operating, however, is likely to isolate due to plunging liquidity constrains and purchasing capacity.
- Few sectors like cinema malls, schools, colleges, gym, metros, international air transport, swimming pools, entertainment parks, assemblies, community halls etc., still not permitted to begin their operation will have negative cascading effect on the economy.
- Up to 53% of businesses in the country were projected to be significantly affected. Supply chains have been put under stress with the lockdown restrictions in place; initially, there was lack of clarity in streamlining, what an 'essential' is and what is not? Those working in the informal sectors and daily wage groups have been at the most risk. A large number of farmers around the country who grow perishables also faced uncertainty.
- Major companies in India such as Larsen & Toubro, Bharat Forge, UltraTech Cement, Grasim Industries, Aditya Birla Group, BHEL and Tata Motors have temporarily suspended or significantly reduced operations.
- Young startups have been impacted as funding has fallen. Fast-moving consumer goods companies in the country have significantly reduced operations and are focusing on essentials. Stock markets in India posted their worst loses in history on 23<sup>rd</sup> March 2020.

Lockdown will not offer permanent solution for the problems caused by Corona Virus. Therefore, Government in a phased manner, is removing lockdown. The second phase of unlock, 'Unlock 2.0', was announced for the period of 1 to 31 July, with more ease in restrictions. As part of Unlock 2.0 in July, most activities are permitted outside of containment zones, with the exception of educational institutions, international air travel, places of recreation (swimming pools, gymnasiums, theatres, entertainment parks, bars, auditoriums and assembly halls) and large gatherings of any kind. People were hurrying to stock essentials in some parts. Arrests across the states were made for violating norms of lockdown such as venturing out for no emergency, opening businesses and home quarantine violations.

## Measures undertaken for economic recovery:

During lock down nearly all services and manufacturing units suspended their operations. The government held meetings with e-commerce websites and vendors to ensure a seamless supply of essential goods across the nation during the lockdown period. Several states announced relief funds for the poor and affected people while the central government was finalizing the stimulus package.

- On 19<sup>th</sup> March, 2020, the formation of the ‘COVID-19 Economic Response Task Force’ was announced by the Prime Minister. The task force was led by the finance minister Nirmala Sitharaman. Though not formally constituted or no official date for relief packages being made, the consultation process with concerned parties had begun immediately. The Ministry of Finance immediately started consultations with the RBI and ministries to take stock of most affected sectors like aviation, hospitality, and MSMEs. On 21<sup>st</sup> March 2020, the Union cabinet approved incentives worth Rs. 40,995 crore (US\$5.7 billion) for electronic manufacturing.
- On 24 March in his address to the nation, the Prime Minister announced Rs. 15,000 crore (US\$ 2.1 billion) fund for the healthcare sector. The Finance Minister made a number of announcements related to the economy such as extending last dates for filing GST returns and income tax returns. The due dates for customs clearances and for compliance matters under the Customs Act and associated laws was extended to June 2020.
- On 25<sup>th</sup> March the Government of India announced the world’s largest food security scheme for 800 million people across the country. Finance Minister announced a number of economic relief measures for the poor. Rs.1,70,000 crore (US\$24 billion) will fund the Pradhan Mantri Garib Kalyan Yojana, which will provide both cash transfer and food security; with the aim that no one goes hungry amidst the lockdown. Pradhan Mantri Ujjwala Yojana beneficiaries will get free cylinders for at least three months. This will benefit over 80 million Below Poverty Line families.
- The government made the payment of the first installment (Rs. 2,000) due in 2020–21 in April itself under the Pradhan Mantri Kisan Samman Nidhi (PM-KISAN). For the organised sector worker, the government will pay the Employees’ Provident Fund (EPF) contributions of both sides for 8 million employees of small companies who earn up to Rs.15,000 a month. The raise in the threshold from Rs.100,000 to Rs.10 million for triggering insolvency proceedings under the Insolvency and Bankruptcy Code (IBC) was done to help MSMEs.
- The Reserve Bank of India (RBI) Governor made a number of announcements including EMIs being put on hold for three months and reducing Repo Rates. Other measures introduced will make available a total Rs.3,74,000 crore (US\$52 billion) to the country’s financial system.
- Prime Minister launched a new fund called PM CARES fund for combating corona virus-like situations. World Bank approved US\$1 billion emergency financing for India to tackle corona virus labeled ‘India COVID-19 Emergency Response and Health Systems Preparedness Project’.
- Central government released Rs. 17,287 crore (US\$2.4 billion) to different states to help combat corona virus. The Ministry of Home Affairs approved Rs.11,092 crore (US\$1.6 billion) for states as relief under the State Disaster Risk Management Fund.



- 30% salary cut for one year was announced for the President, Vice President, Prime Minister, Governors, Members of Parliament and Ministers. It was also decided to suspend the MPLADS for two years and transfer the money, about Rs. 7,900 crore (US\$1.1 billion), into the Consolidated Fund of India.
- Asian Development Bank (ADB) assured India of Rs.15,800 crore (US\$2.2 billion) assistance in the COVID-19 pandemic fight. RBI announced more measures to counter the economic impact of the pandemic including Rs.50,000 crore (US\$7.0 billion) special finance to NABARD, SIDBI, and NHB.
- On 12 May the Prime Minister announced an overall economic package worth Rs. 20 lakh crore (US\$280 billion), which is 10% of India's GDP. "One Nation One Ration Card" scheme was emphasized.
- Operation Greens was extended from tomatoes, onion and potatoes (TOP) to all fruits and vegetables. Cereals, edible oils, oil seeds, potato and onion were deregulated (except in exceptional circumstances) and no stock limit shall apply for storage as was proposed Amendment in Essential Commodities Act (1958). Matsya Sampada Yojana was announced for fisheries and animal husbandry infrastructure fund was announced. Agri-infrastructure fund, agricultural marketing reforms for farmers and fair price legal framework support for farmers were among other things covered.
- The Garib Kalyan Rojgar Abhiyaan was launched to tackle the impact of COVID-19 on migrant workers in India. It is a rural public works scheme with an initial funding of Rs. 50,000 crore (US\$7.0 billion) covering 116 districts in 6 states.
- The Government of India is aiming to attract companies that wish to move out of China or are looking for an alternative to China. The PM's office is conveying to the government central and state machinery to ready pro-investment strategies. A total of at least 461,589 hectares has been earmarked for the purpose.

### **Conclusion:**

As the famous saying goes "there exists silver lining at the end of every dark cloud". After this transition, the rays of hope must appear on the business horizon. Pessimism will slowly gets replaced by optimism. Recovery helps to restore confidence of the business people and creates favourable climate for the new business and business men take more risks and invest more. Due to existence of considerable excess capacity in the economy, output increases without a proportionate increase in total costs. Repairs, renewals and replacement of plants take place. Increase in government expenditure stimulates the demand for consumption goods, which increases the demand for capital goods. The construction activity will receive an impetus. As a result, the level of output, income, employment, wage level, prices, profit starts rising. Through multiplier and acceleratory effects, the economy proceeds upwards steadily and rapidly. The process of recovery once started takes the economy to the peak of prosperity.

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