RESEARCH ARTICLE

IMPACT OF COVID-19 ON THE INDIAN ECONOMY

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Abstract

The Covid-19 virus is a genetic branch of the coronavirus, which has infested as an infectious disease amongst a severe global pandemic. This illness, declared to be a pandemic by WHO early this year, has spread across the world, causing deaths in large numbers and a buzzing sense of uncertainty among people. In response to the life-threatening pandemic, most countries have taken various measures, including imposition of a total lockdown that has had a detrimental impact across economies. This research paper studies the impact of the novel coronavirus on various macroeconomic factors of the Indian economy. The study is an analysis of data that is secondary in nature, using various statistical tools and techniques to come to a conclusion. Additionally, the impact of Covid-19 on one of the most vulnerable sectors of the economy - the medium, small and micro enterprises - has been shown with the help of a case study. The research also analyses various policy measures taken by the Reserve Bank of India and the Central Government of India, to ameliorate the economic shock and make a promising recovery of the Indian economy.

Introduction:

Coronavirus is an infectious respiratory disease caused by severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2). This life-altering disease originated in Wuhan, China in December 2019, and has now been identified as a global pandemic by WHO. Sources state that nearly 14 million cases have been reported worldwide as of July 14, 2020 (Wikipedia).

The global economy has come to a near standstill owing to the disruptive impact of the pandemic across economies. The enforced lockdowns and economic shutdowns implemented in nations across the world are unprecedented and will entail huge economic costs and burdens. Supply shortages are expected to affect various sectors as a result of panic buying, increased usage of goods like pharmaceuticals, sanitisers, and masks and some basic necessities to fight the pandemic. As the virus further spread across the globe, the stock markets witnessed their worst crash since 1987. Conclusively, the virus has deteriorated the economy of all affected countries, including the developed ones. In a crisis like this, developing economies like the Indian economy have been witness to the most devastating impact, which is expected to be followed by a slow economic recovery. The impact of COVID-19 on the Indian economy has been quite lamentable. After reporting its first case in late January 2020 in Kerala, the government of India took various precautionary measures to restrain the spread of the virus. Despite the strictly implemented measures, the following weeks saw a rapid increase in the number of cases leading to a suspension of all international travel by March 22, 2020. That same day, the Indian Prime Minister, Mr Narendra Modi, called for a 14-hour ‘Janata Curfew’ (public curfew), which was then followed by a nation-wide lockdown in almost four
phases, over a period of 70 days. The first lockdown announcement created widespread panic, specifically among the economically marginalized strata of the society, including farmers and migrant workers who were left stranded and unemployed overnight. They were also impacted greatly, since they were far from home with no modes of transport to facilitate their journey back to their hometowns.

The macro-economic impact of COVID-19 on India’s national and sub-national levels, is uncertain. India has already been undergoing certain economic distress after the demonetisation of the 500 and 2000 Indian currency notes in 2016. Therefore, after the emergence of the pandemic, people regarded it as a double hit to the Indian economy. It is further expected that the contraction in foreign demand and domestic consumption will lead to significant job losses in both the formal and informal sector, thus increasing the unemployment rate. The GDP estimates for the current fiscal year have dropped down drastically due to the fall in production. The fallout has been mostly seen in industries such as manufacturing, construction and real estate. The crisis has also increased the fiscal deficit of the economy as the government budget for the fiscal year was not altered to sustain the current crisis. The crisis did not fail to create a devastating impact on domestic as well as international trade, as the demand in the markets fell sharply, and the government led by Mr Modi restricted all imports while announcing the Atmanirbhar Bharat policy (proposing for a self-sufficient Indian economy). The government soon realised the economic fallout of these restrictions and announced the formation of the COVID-19 Economic Response Task Force. The ongoing health crisis and the resultant disruption of economic activities have had and will continue to have a negative impact on the Indian economy. Despite the government announcing a relief package of 1.7 trillion Indian rupees, it was clear that a large portion of the country’s population was going to be scrounging for livelihoods since this stimulus package would not benefit all. Additional support from state governments and non-governmental organizations were expected to widen the radius of aid. International organisations like the World Bank and Asian Development Bank also approved support to India in order to help it tackle the pandemic. Since the Indian economy experienced a slowdown while going into the COVID-19 outbreak, the economic downturn is likely to be severe and the policy intervention would require a careful weighing of options and priorities. Based on the discussion above, we narrow down to two main objectives of this study: firstly, we accommodate theoretical linkages and statistics to evaluate the potential and estimated impact of the pandemic on various macroeconomic variables of the Indian economy; secondly, we focus on the economic consequences of the virus on the Indian economy, with present assessment of economic outcomes and policy measures.

General Impact on Indian economy:
The exact span and depth of the crisis on the Indian economy cannot be measured at this point in time. Only time will reveal the real picture. However, renowned economists provide estimates on the likely economic impact of the pandemic on low and middle-incomes countries like India. India’s growth in the last quarter of FY20 dropped down to 3.1% according to the Ministry of Statistics, mainly due to the effect of the current pandemic on the economy. While research and economic experts slashed GDP estimations of the economy, it is also estimated that the country might bounce back quickly because of the organized and unorganized market composition, the latter being largely dominant. Meanwhile, the organized sectors’ losses are estimated to over nine trillion Indian rupees in March 2020. Unsurprisingly, the services and manufacturing, specifically travel and tourism, financial services, mining and construction sectors remain the most affected industries, with declining rates of up to 23 percent between April and June 2020. The pandemic caused uncertainty and implications among all businesses across the world. Segments like consumer retail are expected to see steep declines ranging from 3 to 23 per cent, depending on the market situation.

According to a survey, COVID-19 is having an adverse impact on Indian business. Jobs are at high risk because firms are looking for reduction in manpower. The pandemic has created a deep routed impact on the Indian economy, negatively affecting its GDP, unemployment rate, inflation rate, domestic and international trade, financial markets, government budget and various other macro-economic factors. The most vulnerable sector of the economy at this time, the MSME sector, has witnessed a disturbing phase in its functioning due to this crisis.

Impact on GDP:
The pandemic has adversely affected the estimated GDP of the fiscal year 2021. Fall in manpower of production units, leading to loss of productivity coupled with shortage of demand, has led to negative impacts across various industries, further leading to a fall in their GDP contribution to the economy. India’s quarterly GDP was estimated to have declined by over 9% between the months of April and June 2020. This was a decrease from a 5% growth rate at the beginning of 2020. The country went into a lockdown on March 25th 2020, restricting 1.3 billion people within the confines of their homes. The real GDP increased by only 3.1 per cent in the first quarter of 2020, over its
corresponding quarter of 2019. This negative impact on the GDP is partially an outcome of the coronavirus outbreak and the subsequent measures to prevent it, accompanied by significant dip in growth rate, the declining trend of which started much earlier. The financial, real estate and professional service sector was worst hit during the period of lockdown. During the first quarter of India’s nationwide lockdown that was announced following it’s first coronavirus outbreak, the economy was expected to lose over ₹ 32,000 crore (US$ 4.5 billion) per day (Wikipedia).

**Estimated quarterly impact on GDP:**

![Figure 1](source: www.statista.com)

The pandemic further weakened consumer demand and private investment in the March quarter. In the first quarter of 2020, only one week of nationwide lockdown was observed. Yet, the economic growth was estimated to be 2.1% in the March quarter. Growth was 4.2% in the fiscal year through March 2020, as compared to 6.1% in the fiscal year 2019. The total loss in output is estimated to be around ₹ 6 trillion based on the GDP at current prices for the fiscal year 2020. This growth rate is extremely poor compared to the estimated growth rate of 7.5 per cent at current prices for the same fiscal year. Economists expect the FY20 to see the worst economic contraction in four decades. In the manufacturing sector, output is expected to decline by about 70 percent. Other industries like metals and engineering have either reduced or shut operations. Machinery and equipment which includes automobiles, consumer durables and capital goods that contribute to a considerable portion of the GDP, are greatly impacted by the pandemic as the demand for their products has reduced significantly. Due to weak domestic consumption and consumer sentiment, there can be a delay in investment, which can further add pressure to the growth.
India’s GDP growth for FY2020-21 has been estimated to hit a 30-year low. The country’s GDP forecast for FY21 by rating agencies and global institutions is abysmally low as well. GDP forecast has reduced to 2% from 5.1% according to the Fitch Rating, that expects a global recession this year. Global ratings have slashed its growth forecast to 3.5% from 5.2% for FY21. The World Bank too has cut its growth forecast from 5% to 6% as shown in figure 3. The Asian Development Bank expects the country’s GDP growth to strengthen to 6.2% in FY22 with the help of government reforms. According to CIRIL “India’s fourth recession since independence, first since liberalisation, and perhaps the worst to date, is here.”
India’s GDP forecast by credit rating agencies:

![GDP Forecast Chart]

**Figure 3:**

Source: www.businesstoday.in.

**Impact on unemployment:**

The unemployment rate has had a sudden surge due to the total lockdown imposed in the country followed by the policy of social distancing. The decline of economic activities implies slack labour market conditions that contribute to rising unemployment rates. Lack of funds for business and movement of migrant labourers back to their hometown has also resulted in massive unemployment. Between February and April 2020, the share of households that experienced a fall in income increased to nearly 46 percent. The total lockdown followed by the practice of social distancing resulted in job losses, specifically those pertaining to Indian society’s lower economic strata. Several households terminated domestic help services – essentially an unorganized monthly-paying job. During the nationwide lockdown, labour intensive industries reported the highest rate of unemployment as efforts were made to reduce manpower due to lack of funds owing to temporary stoppage of production and prolonged shortage in demand. The informal, unorganised jobs which employ 90% of the population were the first to be hit. As a result of proctor acts, curfews and closure of businesses, even the formal, permanent jobs were affected. All these factors have led to a steep rise in the unemployment rate from 6.6 per cent in January 2020 to 24 per cent in the month of May (in comparison to the 6.30 per cent rate in May 2019) as shown in figure 4.
Agriculture, which remains the mainstay of the Indian economy has bucked the trend, adding workers in both March and April. Many daily-wage earners have returned to farming in the time of the crisis. As a result, the unemployment rate in the agriculture sector has reduced. However, the overall trend of unemployment has shown a sudden and steep rise. Although the unemployment rate is reported nationwide, the rates are highest in the red zones, mostly in urban areas at 29.22%, while rural areas are at 26.69%. As of the end of April, the highest unemployment rate of 75.8% was reported in Puducherry. Tamil Nadu stood second at 49.8%, Jharkhand at 47.1%, and Bihar at 46.6%. These states have the highest rates due to the prevalence of a large number of MSMEs and unorganised jobs. The latest estimate—till May 3rd from the Centre for Monitoring Indian Economy (CMIE) shows that the unemployment rate stands at 27.11%, up by over 20% due to the pandemic.

Impact on Trade:
The trade impact of the pandemic on India is estimated to be around 348 million dollars, as the country is among the top 15 economies most affected as slowdown of manufacturing in China disrupts world trade, according to a UN report. In India, the chemical sector is most impacted in terms of trade and stands at 129 million dollars, textiles and apparel at 64 million dollars, automotive sector at 34 million dollars, metals and metal products at 27 million dollars, leather products at 13 million dollars and electrical machinery at 12 million dollars. The only positive news that came along with the crisis was that India registered a trade surplus in 2020, almost after two decades. The last trade surplus was reported in 2002. However, this surplus is unlikely to sustain.

Imports:
Due to the ongoing pandemic, overall imports have plummeted a steep 47.59 per cent to $21.11 billion, owing to contraction of imports in 26 of the major 30 items that were imported into the country. The contraction remained widespread during the month of June, barring few commodities like vegetable oils, pharmaceuticals and pulses, suggesting that domestic demand remained low even after the lockdown was abolished.
1. Electronic goods saw the maximum fall with over 62 percent, followed by crude petroleum and its products.
2. Coal import of India in March stood at 15.74 million tonnes, which declined 27.5 percent over last year, owing to restrictions imposed at various ports in the wake of the Covid-19 outbreak in the country.

3. Organic and inorganic chemical imports into India were the least affected amongst commodities in the country’s import market witnessing a decline of 35 percent in April 2020, to the same month in the previous year.

Impact of COVID-19 on imports into India in April 2020, by commodity:

![Figure 5: Impact of COVID-19 on imports into India in April 2020, by commodity. Source: www.statista.com.]

China is the world’s largest exporter and second-largest importer, accounting for 13% of world exports and 11% of world imports. This will impact the Indian industry to a large extent as the dependence of India on China is huge in terms of cheap imports. The industries that are impacted the most are:

1. Pharmaceuticals: 68% of the active pharmaceutical ingredients are imported from China.
2. Electronics: 40% of India’s electronic machinery and equipment is imported from China. Although India has increased production of low-end electronic components, import dependency on China is its major limitation.
3. Solar industry: 80% of India’s solar cells and modules imports are from China. This will result in delaying many projects that are based on solar energy.
4. Consumer durables: Consumer durables are the products that have a long use life such as air conditioners, refrigerators, and other household appliances. Around 45 per cent of consumer durables are imported from China.
5. Automobile sector which accounts for 7.5 per cent of India’s GDP is already facing slowdown. The coronavirus lockdown has made the situation worse for the auto sector, as 10 to 30 percent of automotive components are supplied from China.
Exports:
Indian exports were already under stress in the last financial year, with a best-case scenario exhibiting at-par performance with the previous financial year. The Economic Times reports that the country’s exports worsened over the first quarter of this year and in June, “shrank 12.41 per cent to $21.91 billion led down by lower shipment of textiles, petroleum, engineering goods and jewellery.”

Owing to a steep decline in shipments of leather, gems and jewellery, and petroleum products, India’s exports plunged by a 34.57 per cent in March, bringing down the total exports in 2019-20 down to USD 314.31 billion.

Merchandise exports also fell drastically, standing at USD 21.41 billion in March. It declined by 34.57 per cent, compared to USD 32.72 billion in the same month last year, showing the steepest fall since the 2008 crisis.

Slowed domestic and international demand for goods has impacted Indian SME(s) to run their businesses and factories. Already the sector was struggling with slowing domestic demand over the last few quarters, and now after the coronavirus outbreak, the sector has gone into a demand crisis. The business sentiments have gone negative, and people are refraining from making new purchases unless it is a necessity item. Factories have stopped their production activities, and sales have slowed down exponentially. Even when it comes to exports, SME(s) are not receiving any fresh orders as a major chunk of their business used to come from the European Union (EU) and the USA. This is making it difficult for SME(s) to run the business.

China is India’s 3rd largest export destination and accounts for around 5% share. The impact may result in the following sectors like organic chemicals, cotton, plastics, fish products, etc.

Most Indian companies work in sectors including industrial manufacturing, manufacturing services, IT, BPO, and logistics, and are concentrated in the eastern parts of China.

Some sectors of India have been negatively affected by the outbreak of coronavirus in China, including shipping, electronics, pharmaceuticals, automobiles, textiles, etc.

Dip in exports and imports narrowed the trade deficit — the difference between imports and exports — in March to USD 9.76 billion, the lowest in the last 13 months. According to a CLSA report, pharma, chemicals, and electronics businesses may face supply-chain issues and prices can go up by 10 percent. Commodities like upstream and downstream oil companies, metals, etc could be impacted by lower global demand affecting commodity prices. India’s export market is interlinked with global value chains to a large extent, with India being one of the leading exporters of agricultural and other essential commodities such as pharmaceuticals which will be in demand in the post-pandemic period.

Impact on financial markets:
The financial sector of India is facing challenges on multiple fronts in the time of this crisis. Due to fear and the practise of social distancing, very few customers are being served in the physical branches of banks, putting additional strain on other channels like telephone, online banking and social media. A large number of people are frantically trying to contact their financial services providers with questions, queries, concerns or to request some special measures as their incomes have been impacted by the pandemic. Moreover, many have lost their jobs, seen their businesses shut down and their incomes diminish, in addition to living with the constant fear of defaulting on loans, missing mortgage payments and falling into a debt trap. Businesses need additional help as their revenues have dropped drastically. Fintech companies are comparatively well-placed to deal with remote working requirements and digital working, although some of them are uncertain of funding in this volatile period. Additionally, many companies are offering services to customers and businesses free of cost, or innovating to create new products that meet specific needs, during this crisis. The current situation requires constant and careful handling from financial institutions as they have the duty of reassuring consumers, responding to their concerns, and restoring their trust during this volatile period.

Banks:
The Reserve Bank of India (RBI) has provided liquidity to banks in the form of reduced rates for lending, and the Indian government is offering credit guarantee to micro, small and medium sector enterprises (MSMEs) and other
damaged sectors. Banks have also been asked to “offer a moratorium to borrowers to pay instalment and interest for three months,” while relaxing the provisioning norms (Money Control).

These steps taken by the RBI would help the banks and borrowers to tide over the immediate liquidity requirements and the need for cash as the occurrence of the pandemic and the impact of lockdown resulted in reduced or no income for the borrowers of the banks. Despite the measures taken, banking institutions are expecting a long-term negative impact on their economic activities. The banks have a risk of facing an increasing number of bad loans or non-performing assets (NPAs) if the borrowers are unable to generate sufficient cash. There could be an aggregation or accumulation of provisions and losses in the period in which the exemptions are lifted. If the pandemic doesn’t end soon, there could be withdrawal of most deposits, resulting in the replacement of low-cost deposits with high cost borrowings. This might have an adverse impact on net interest income, spreads and margins. Banks may not find proper avenues for lending due to the crisis, resulting in either excess funds lying idle or being invested in low yielding investments. There would definitely be many challenges faced by banks. However, if the banks have robust risk management functions and can partner with borrowers who show potential and can adapt to the ‘new normal’, there would be enough positives and benefits. The key would be to identify the right set of borrowers and partner with them to help them through this entire cycle.

Non-banking financial companies:

NBFCs are expected to face challenges similar to banks with respect to assets. However, maintaining capital and liquidity would be a greater challenge for the NBFCs. Some of them need to create provisions to be computed on the basis of expected credit losses. Accordingly, they also need to compute provisions based on losses expected in the near future. Generally, lenders use the past history of defaults and losses to compute the expected credit losses and adjust them for the future based on their trends with the macroeconomic factors. Since the impact of COVID-19 is unprecedented, it will be a challenge for them to estimate the expected credit losses. Many regulators have issued guidance requesting the lenders to look at a longer-term view rather than a short-term view while computing the provisions. Further, some of the NBFCs give loans to small businesses for which repayments cannot be estimated in this situation as there would be higher losses. NBFCs which have robust collection systems, however, might perform better than their peers. Also, the provisions would depend on the areas where the NBFCs have been lending. For example, NBFCs operating in relatively less affected areas would have lesser provisions and vice versa.

Insurance:

COVID-19 and the subsequent lock down imposed has impacted the general insurance companies much more than the life insurance companies. Broader impact is expected as follows:
1. There would be a steep fall in the premium income, particularly in motor loans, as new car production and sales have stopped due to the lockdown. However, the claims are also expected to be lower.
2. There would be higher MediClaims in the future, resulting in higher costs.
3. There would be constraints on capital raising as liquidity of the parent bank.

On the life insurance side, there could be higher claims and the actuarial assumptions could undergo changes due to changes in actual experiences.

On an overall basis, entities in the financial services industry would be under stress. However, they should work cautiously and look for opportunities to grow. Strong risk management processes, robust collection policies, effective cost control measures, and increased use of technology would help entities in the financial services to pass through these testing times. Till the time there is no solution for the coronavirus in terms of a vaccine or an antidote, the financial sector will have to live with the issue, practice social distancing and carry on business to achieve the desired results.

Stock Market:

The stock market witnessed significant drop and volatility in the major indices during February and March 2020 as shown in figure 6. On 23rd March 2020, stock markets in India witnessed their worst losses in history. SENSEX fell 4000 points (13.15%) and NSE NIFTY fell 1150 points (12.98%). However, on 25th March, one day after the announcement of a complete 21-day lock-down, SENSEX saw its biggest gains in 11 years, adding an enormous value of ₹4.7 lakh crore (US$66 billion) crore for investors. In April and May, the Indian market primarily responded to the developments in the US stock market, which was then comforted by monetary accommodations of the Federal Reserve. On 8th April, receiving a positive indication from Wall Street about the novel pandemic
reaching its peak in the US, the stock markets in India once again rose steeply. By 29 April, Nifty reached the 9500 mark.

**Daily SENSEX stock Index (July 2019- July 2020):**

![Figure 6: Daily SENSEX stock Index (July 2019- July 2020)](source: tradingeconomics.com)

**Impact on inflation:**
The impact of coronavirus on the inflation rate of the country is ambiguous. The rate of inflation increased significantly during 2019. Since 2014, India’s CPI (consumer price index) inflation has somewhat remained in the band of 2-6 per cent. In comparison to the aftermath of the global financial crisis 2008, CPI inflation was on a downward trend as shown in Figure 7. Due to a number of push and pull factors, it is difficult to govern which factors affect the inflation of a country like India. During the present crisis, inflation is expected to remain dormant. This would give RBI some flexibility to go for accommodative monetary policies. Outlook India reports decline in food prices, “offset by the potential cost-push increases in prices of non-food commodities.” The main reason for this is supply disruptions from both domestic producers and imports due to the imposition of the total lockdown followed by the practise of social distancing. Retail feature expansion in March 2020 tumbled to a 4-month low of 5.9 percent, in accordance with market predictions, 0.7 percent lower from a month back and 3.1 percent higher from the comparing month, a year prior (Outlook India).

Pertaining to falling crude oil prices, weaker consumer demand for non-essential products and lower food prices caused due to the pandemic have helped in moderation of the inflation rate. However, retail inflation gained momentum in June, with increasing prices of food and fuel items. The Central Bank, whatsoever, would still ease rates due to economic slowdown caused by coronavirus-induced lockdown. Annual retail inflation rose to 6.09% in June, compared to 5.84% in March.
Impact on government budget:

a. Pre-Covid situation and the impact of Covid:
The government budget deficit as a percentage of GDP jumped by more than a percentage point from FY18 and FY19 as shown in figure 8. The increased government spending and reduced tax revenue during the last fiscal year, there has created a large fiscal gap. The recent budget deficit has already breached the target of 3 per cent set in the Fiscal Responsibility and Budget Management (FRBM) Act of 2003. The outstanding public debt as a percentage of GDP has been rising ever since 2014. Thus, the state of the Indian economy on the eve of COVID-19 crisis, was already weak. This has increased the vulnerability of various segments of the Indian economy including government budget. The targeted fiscal deficit for the current financial year was revised to 3.5 per cent in the recent budget. Some states do not even have enough money to pay salaries in the near future. Keeping in mind the high deficit numbers at the state level, it can be said that most states have not come out with their stimulus package even after the lockdown ended. According to estimates, the Indian economy was expected to lose over Rs. 32,000 crore (US$ 4.5 billion) every day during the first 21 days of the lockdown. Jefferies Group said that the government can spend almost INR 1.3 lakh crore (US$ 18 billion) to fight the devastating impact of the pandemic. The current collective fiscal deficit for both the centre and state governments stands at 6.5 per cent of the GDP (as of June 2020).
b. Post COVID-19 impact:
The pandemic is likely to impact the fiscal deficit situation of the country through two channels. First, the need for the government to allocate a sizable portion of its budget to fight the pandemic including expenditure on health, social security and other payments needed to control the economic fallout of the event. Second, the consequent fall in economic activity will lead to fall in tax collections. This effect has already been witnessed, as the tax collection has gone down drastically, forcing the government to cut down costs. So, not only will the expenditure increase, but also there will be a constant fall in tax collection, further increasing the fiscal deficit.

Case study of impact of COVID-19 on the MSME sector:
What are MSMEs?
Medium, small and micro enterprises are defined in terms of investment in plant and machinery. The investment limit is given in chart 1.

![Chart 1: Definition of MSME](https://example.com/chart1)

Source: Indianexpress.com.

In February 2018, the Union Cabinet decided to change the criterion used to define MSME to “annual turnover”, which could now be estimated better, considering the imposition of GST. In spite of the fact that this has not yet been formalized, a miniaturized scale undertaking will be unified with a yearly turnover not as much as INR 5 crore; a little venture with turnover between INR 5 crore and INR 75 crore; and a medium endeavor with turnover not as much as Rs 250 crore (Indian Express). It is estimated that there are 6.34 crore MSMEs in the country, out of which 51 per cent are situated in rural areas. The sector provides employment to over 114 million people and contributes to more than 30 percent of the GDP.

Problems of MSME in India:
The MSME sector has been one of the most vulnerable sectors of the Indian economy since a long time. The MSMEs face a heap of problems in their day-to-day functioning, and in terms of sustaining in the marketplace. Some of their main problems include:

1. Non registration: Most MSMEs are not registered anywhere due to the small sizes of their establishments. Most micro enterprises do not even qualify for the GST threshold.
2. Unorganised sector: Most of the MSMEs belong to the unorganised sectors and thus, they do not have to maintain accounts, pay taxes or adhere to regulatory norms. This surely brings down their costs, but reduces the government’s ability to reach out to them in order to provide support.
3. Lack of financing: Most of the MSMEs run on very little finances and most of their borrowings are from informal sources which leads to higher costs of borrowing.
4. Lack of advanced technology: the owners of MSMEs are either unaware or cannot afford advanced technologies of production. Their techniques of production are outdated, and they use older methods in the field of fabricated metal and textile.
5. Lack of marketing channels: channels-The MSMEs are not adopting the innovative channels of marketing. Their advertisement and sales promotion techniques were comparatively weaker than the multinational companies. The ineffective advertisement and poor marketing channels lead to very poor sales.
How has COVID-19 made things worse for MSMEs?
MSMEs were already struggling due to dwindling revenues and capacity utilisation in the previous years. This sector mainly relies on day-to-day business activities to stay afloat, which makes it the most vulnerable owing to the lockdown and a decrease in demand. The total lockdown questioned the existence of MSMEs because unlike bigger firms, these firms do not have enough cash or liquid assets to wait out the crisis. Though the bank dues have been deferred, MSMEs will have to “pay their statutory dues, wages and pressing creditors,” as well as decreased manpower in the wake of a mass exodus by migrant workers and their loans worth INR 2.3 lakh crores are at a “high risk of becoming non-performing” (Express Healthcare). The need for working capital will increase as payment cycles are likely to be extended, generating an issue of cash flow. These companies are too small to have enough of a cushion to last through this novel pandemic. The lockdown added to their hardship as many of these companies have been asked to shut down or curtail operations while still paying employees, apart from meeting costs for taxes, power, and other utilities. The most emerging challenge during the lockdown period as well as in the post COVID-19 period would be meeting fixed costs. While this will be burdensome in absence of regular funds flow, the problem will be more intensified if Banks/NBFC create pressure on MSMEs for repayments of the dues. They are also suffering due to the increase in cost of raw materials as cheap raw material cannot be imported pertaining to the pandemic. Since these small firms formed the supply chain of the large companies that went bankrupt, their cash flows and ability to service loans also took a beating. The IL&FS debacle further choked the credit lines while the slowdown in the economy impacted their revenue streams. The pandemic has thus come as a last nail in the coffin for this vulnerable sector, which contributes to over 30 per cent of the GDP.

Demands of the MSMEs:
1. According to reports, MSME representatives have appealed to the government for concrete action including tax concessions, fast and easy credit, GST write-offs, reimbursement or concession for wage-guarantee.
2. Small and micro enterprises want the government to allow payment of GST arrears in instalments along with the current due. They want this to be accompanied with a six-month moratorium without cancelling the GST registration. They even demand penalty and interest waived off for the delayed payment.
3. Some SME associations have urged the government to allow units that have the facility for social distancing to operate, during the lockdown extension.

Measures taken to help the MSME sector:
The post-pandemic world is expected to create a dearth of capital, in response to which financial institutions need to lend a helping hand to the MSME sector. The government has already taken certain steps to support the MSMEs. These steps include:

Short term measures/ policies:

Atmanirbhar Bharat financial package:
In May, the Indian government announced the Atmanirbhar package at a value of INR 20-lakh-crore, to support the Indian economy. This also aims at supporting the MSME sector. It includes a provision of emergency working capital, creating a dedicated fund with a INR 10,000-crore corpus, among other measures. About 45 lakh MSMEs are expected to gain from this proposal. However, implementation will be challenging particularly because financial aid to the MSMEs will not be effectively distributed as many of them are unidentified, and it is difficult to target those that are most in need.

INR 3 lakh crore collateral-free loans:
Banks and NBFCs will offer up to 20 per cent of total outstanding credit as announced on February 29, 2020, to MSMEs. Units with up to INR 25 crore outstanding credit and INR 100 crore turnover are eligible for taking these loans. These loans will have four-year tenure with a moratorium of 12 months on principal payment. The scheme can be availed till October 31, 2020. The government will provide complete credit guarantee cover to lenders on principal and interest amount (Financial Express).

Clearing MSME dues:
the Indian government and the PSUs will release all pending MSME dues within 45 days. Fintech enterprises will be used to further boost transaction-based lending using the data provided by the e-marketplace.
SIDBI Assistance:
The Small Industries Development Bank India announced a concessional interest rate of 5 percent for MSME loans under the SIDBI Assistance as an Emergency Response against Covid-19. These loans would be provided only to MSMEs that are manufacturing products or delivering services related to the COVID-19 fight with no collateral requirement and minimal paperwork.

Reimbursement of fixed costs:
State governments are to be approached for taking suitable initiatives to exempt/reimburse the electricity and other fixed charges during this period.

Long term policies:
Financial Assistance to MSMEs:
1. Prioritize lending to MSMEs from banks by including small enterprises in the earmarked priority sector and raising sub-target limit to 10% from 7.5%
2. Collateral free & MUDRA small loans to encourage self-employment.
3. Relaxing ceiling on working capital by banks.
4. Safe Trade Policy to be devised for sectors dependent on Chinese imports: e.g. Chemicals, Pharmaceuticals and Electronics sectors et al.

Change in definition of MSME:
Earlier, MSMEs were defined with respect to investment limits in plant and machinery, which varied for manufacturing and service enterprises. Under the revised MSME classification, investment limits for the both sectors are the same and additional criteria of turnover is also introduced. Under the revised definition, a lot of new entities will get the benefit of MSMEs that they were not getting earlier. The comparison of existing and revised MSME classification criteria is provided below:

Analysis: The proposed revised definition for the MSME sector based on turnover is progressive and is perfectly synchronized with the GST framework. Further, the elimination of distinction between the manufacturing and service sector is a welcome move for the MSMEs sector.

“Smart Industrial Village” Policy:
1. To achieve an inclusive and equitable growth model with percolation of wealth.
2. To promote decentralized economic structure to avoid concentration of the population resulting in the exodus of migrant workers.

Promoting “Swadeshi” Ideology via Policy & Strategy Drafting:
1. By price advantage incentive for import substitution & indigenous product development.
2. Price Advantage incentive is a percentage additional advantage on a price to Indian suppliers compared with cost of import for a particular product.
3. Defining & introduction of “Indian quality standard & certification” system to provide “non- tariff barriers” cover for incentivizing locally manufactured “SWADESHI” (manufactured within the country) products
4. To stimulate the local investment in the manufacturing segment through promotion schemes & incentives, so that India becomes a manufacturing hub.

Other policies:
1. To promote innovation in the MSME sector and upscale them in order to withstand global competitions.
2. Technological upgradation of the MSMEs to minimize external risks of competition.
3. Encouraging corporatisation of the MSME sector.
4. Encouraging innovations through setting up of large number of business incubators in educational institutions;
5. Formulation of long-term policies for the timely receipt of payments by MSMEs.
6. Financial Assistance to MSME in terms of tax relief, cheaper credit.

Conclusion of Case-Study:–
Globally, coronavirus-hit countries, particularly European nations, have been quick in protecting small businesses. Beyond Europe, in Australia too, the government is offering a cover of 50 per cent as guarantee on small loans. Meanwhile, in India, MSMEs are caught in a bind. These MSMEs are facing a number of problems which makes
them one of the most vulnerable sectors of the economy especially during the coronavirus crisis where the demand has fallen by a large margin, affecting their day to day business. The MSME sector provides employment to a large number of people in the country. It helps in decreasing regional disparity as many of these enterprises are established in rural and backward areas. In the current scenario, there is a pressing need to work towards self-reliance of the country which would be possible by empowering the MSME sector; if this sector is made stronger, it can prove to be a boon for the Indian economy in the near future. In case this sector is not protected in India, it is likely that more than 25% of these enterprises will shut down, which will leave a large number of people unemployed. The RBI and the government have taken various measures in order to protect the MSME in India, however, stronger measures are required to prevent the MSME sector from shutting down completely. The RBI has been trying to pump money into the MSME sector but given the structural constraints, it has had limited impact. The government must provide more tax relief (GST and corporate tax) and provide liquidity to rural India to boost demand for MSME products. The government must identify the MSMEs and devise a long-term strategy for the sustenance of the sector in order to help them survive the pandemic and its aftermath.

Measures taken by RBI to mitigate economic disturbances caused by COVID-19:

The Reserve Bank of India (RBI):
Has decided to buy government bonds worth INR 30000 crore. These are Open Market Operations. It refers to buying and selling of securities between the Central Bank and Commercial Banks/Public. There is very low demand for goods and services in the economy due to the lockdown phase. Thus, to increase aggregate demand and the money supply of the economy, the RBI decided to purchase Bonds worth INR 30000 crore. This will result in:
1. Increase in Aggregate Demand (AD)
2. Increase in Money Supply
3. Increase in lending capacity of Commercial Banks

Decreased LRR:
Legal Reserve Ratio: R.B.I. can influence the credit creation power of commercial banks by making changes in Cash Reserve Ratio (CRR) and Statutory Reserve Ratio (SLR). CRR refers to the minimum percentage of net demand and time liabilities to be kept by commercial banks with the central bank. The Reserve Bank increases CRR during inflation and decreases the same during deflation. SLR refers to the minimum percentage of net demand and time liabilities which commercial banks are required to maintain with themselves. SLR is increased during inflation or excess demand and decreased during deflation or deficient demand. As this the situation of Deficient Demand, LRR is decreased. This means less deposits have to be kept with RBI and commercial banks can keep more cash reserves with themselves. This results in:
1. Increased Credit Creation and Lending Capacity
2. More borrowings
3. Increased Aggregate Demand (AD)

Decrease in Reverse Repo Rate:
Reverse Repo Rate is the rate at which Commercial Banks park excess funds with the RBI and receive interest. A decrease in Reverse Repo Rate will lead to less excess funds deposited by commercial banks, which means Commercial banks will have more funds. This results in:
1. Increased Credit Creation and Lending Capacity
2. More borrowings
3. Increased Aggregate Demand (AD)

Decreased Repo Rate (aka Repurchase Rate):
Repo Rate:
It is the rate of interest at which the central bank lends money to the commercial banks for a short period of time. A decreased Repo rate will help in:
1. Cheaper Borrowings for Commercial Banks, encouraging them to borrow more funds from RBI.
2. With higher funds, comes higher lending capacity;
3. banks can give loans at lower interest rates
4. Increase in money supply in economy, as there is higher credit creation
5. raising the aggregate demand.
RBI has also been conducting many other monetary operations for better liquidity management as it scrambles to keep the banking sector healthy, in a bid to support the economy in the wake of the novel coronavirus pandemic.

The above measures are taken by RBI to control the situation of Deficient Demand. Deficient Demand results in Output/Employment, in Price, and in Income Levels of Economy. Hence, these monetary measures will help increase demand of the economy.

**Government measures to tackle the pandemic:**

I. **Atmanirbhar Bharat Abhiyan:**
The Atmanirbhar Bharat initiative, which translates to ‘Self-Reliant India’, was introduced by the Modi government with the aim of making India a self-reliant nation. Emphasis was laid on the fact that self-reliance does not refer to cutting off from the rest of the world, but being a bigger and more important part of the global economy. Numerous government decisions have been made under this package like change in the definition of MSMEs, increasing FDI in the defence sector and boosting the scope of private participation in a number of sectors. Atmanirbhar Bharat has been referred to as a re-packaged version of the “Make in India” scheme. The 5 pillars of self-reliant India include:

1. Economy
2. Infrastructure
3. System
4. Democracy
5. Demand

ii. **Economic package:**
The government announced the economic stimulus package of INR 20 lakh crore, which makes up 10 per cent of the GDP as on 12th May, 2020. This package consisted of a mix of reforms, infrastructure building, support to businesses that are suffering and some amount of direct cash support. The package also included collateral-free loans, changes in FDI policy, provident fund contribution and measures to increase ease of doing business. With most announcements being related to supply, this policy did not address short term demand concerns, which may pull down the economy even more. While the economic package was criticised by quite a few on the grounds of being inadequate, it also received neutral and other positive responses as for the necessary caution the government demonstrated in its spending.

iii. **Protectionism:**
India changed its foreign direct investment (FDI) policy on 18th April, 2020 in order to curb opportunistic acquisitions of Indian companies due to the pandemic. China could take advantage of the falling financial markets, leading to hostile takeovers. The new FDI policy does not restrict markets, however, the FDI from neighbouring countries that share a land border with India is under scrutiny.

iv. **Alternative to China:**
The government of India is using this as an opportunity to attract companies that are finding an alternative to China. A total of at least 461,589 hectares has been earmarked for the purpose, as reported by The Economic Times. The government is also looking at the “China Plus One” strategy, which suggests that instead of only investing in China, diversification of business into other countries is a safer and more economical option in the longer run. Following the pandemic, numerous Indian companies are adopting this strategy by finding alternative supply chains.

**Conclusion:**
The coronavirus pandemic has paralysed the Indian economy to a great extent, affecting almost all macro variables of the economy negatively. Although, we might not know the exact impact of the virus on the Indian economy until the pandemic is over, it is certain that the country would have a hard time coping with the deep recession complemented with a sharp fall in the GDP and surge of the unemployment rate in the country. The long-term impact of the pandemic will be a result of how the masses and the government react to the prevailing situations and the changes made in policies and businesses. Price increases could occur in sectors like agriculture so measures should be taken to maintain adequate harvest and keep the supply chain operating smoothly. The risk of a rating downgrade and fiscal deficit spike will make it harder to borrow and spend in the future. The government must increase the scale of direct benefits to specific target groups like the MSMEs and the unemployed by other schemes like MNREGA and Jan Dhan Yojana. There should also be a temporary increase in the quantity of food distribution to ensure the food security of the vulnerable groups. Given the limited nature of available resources and other
limitations, the policymakers in India have to carefully weigh the policy options and choose only those that have the largest payoffs in the short-run as well as long-run.

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