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# AN ANALYSIS OF THE RECENT POLICY REFORMS FOR THE ECONOMIC SLOWDOWN DUE TO COVID19

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## ABSTRACT

*The recent policy reform announcement is primarily targeting the various sectors through loans and other liquidity measures will not do the needful as there is enormous lacking of demand due to the current lockdown that ultimately created the formidable problem of unemployment and shortage of cash which is ultimately affecting the MSME and Agriculture and other allied sectors in a big way. So government and policymakers should focus on primary cash transfers in the hands of people so that it can create an efficient demand conditions in the economy. This will certainly work as a multiplier effect on the economy, and would create huge demand which would encourage the industrial production and generate revenue for the government eventually. So government and policymakers should focus on primary cash outflow or cash transfers directly in the hands of people which could be done in the form of "helicopter money "so that it can create an efficient demand conditions in the economy which will eventually help to boost the other sectors. A combination of monetary, fiscal and financial market measures is needed to help the businesses and people cope with the crisis. Therefore, to be able to frame correct actions and policy measures, it is important to understand clearly the specific problems that people and businesses are facing currently.*

## KEYWORDS

Covid-19, MSME, Aatmnirbhar Bharat, agriculture, policy reforms.

## JEL CODES

E60, E69.

## INTRODUCTION

COVID -19 as is considered to be one of the deadly viruses of Corona virus family that causes extreme respiratory illness. It ranges from the common cold to more severe diseases like Middle East Respiratory Syndrome (MERS-CoV) and Severe Acute Respiratory Syndrome (SARS-CoV). The novel corona virus is a new strain of virus that has not been identified in human so far. Corona virus outbreak was first reported in Wuhan, China on 31 December, 2019.The first case in India was reported in Kerala on 30th January 2020 which has devastated both the health and economy immensely at a global level. The economic impact of the 2020 corona virus pandemic in India has been largely disruptive. The World Bank and rating agencies had initially downgraded India's growth for fiscal year 2021 with the lowest figures India has seen in three decades since India's economic liberalization in the 1990s. However, after the announcement of the economic package in mid-May, India's GDP estimates were downgraded even more to negative figures, signaling a deep recession and a dismal scenario. Centre for Monitoring Indian Economy on Tuesday said 27 million youth in the age group of 20-30 years lost their jobs in April 2020 following a nationwide lockdown to prevent the spread of Covid-19. More than 45% of households across the nation have reported an income drop as compared to the previous year[2]. India's real GDP growth decelerated to its lowest in over six years in 3Q 2019-20, and the outbreak of the COVID-19 posed fresh challenges. Steps taken to contain its spread, such as the nationwide lockdown have brought economic activity to a near-standstill, with impacts on both consumption and investment. While Indian businesses, barring a few sectors, can possibly insulate themselves from the global supply chain disruptions caused by the outbreak due to relatively lower reliance on intermediate imports, their exports to COVID-19 infected nations could take a hit. In sum, the three major contributors to GDP -- private consumption, investment and external trade – will all get affected. So there is an urgent need to take immediate steps to not only contain the spread of the virus but also to address the key pain areas of the industry which can help in minimizing the impact of the outbreak on the Indian economy and businesses. A combination of monetary, fiscal and financial market measures is needed to help the businesses and people cope with the crisis. Therefore, to be able to frame correct actions and policy measures, it is important to understand clearly the specific problems that people and businesses are facing currently.

## IMPACT OF COVID-19 ON THE INDIAN ECONOMY

The Indian economy has been experiencing significant slowdown over the past few quarters. In the third quarter of the current fiscal, the economy grew at a six-year low rate of 4.7%. Investment and consumption demand had been languishing and a number of stimulus measures have been taken to bring back the economy on a growth path. There was a strong hope of recovery in the last quarter of the current fiscal. However, the new corona virus epidemic has made the recovery extremely difficult in the near to medium term. The outbreak has presented fresh challenges for the Indian economy now, causing severe disruptive impact on both demand and supply side elements which has the potential to derail India's growth story.

**Demand Side Impact[7]** - 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 has affected the retail sector by impacting consumption of both essential and discretionary items. Consumption is also getting impacted due to job losses and decline in income levels of people particularly the daily wage earners due to slowing activity in several sectors including retail, construction, entertainment, etc. With widespread fear and panic now increasing among people, overall confidence level of consumers has dropped significantly, leading to postponement of their purchasing decisions. Travel restrictions have severely impacted the transport sector. Hotels are seeing large scale cancellations not only from leisure travellers but even business travellers as conferences, seminars and workshops are getting cancelled on a large scale. Impact on Financial Market - Greater uncertainty about the future course and repercussion of Covid-19 has also made the financial market extremely volatile, leading to huge crashes and wealth erosion, which in turn is impacting consumption levels. One of the major slides in the domestic equity markets was seen on March 12, when following the trend of the global equity markets, both the BSE Sensex and NSE Nifty crashed by more than 8% in a single day. The BSE Sensex dropped over 2,919 points – its biggest one-day fall in absolute terms while the NSE Nifty dropped by 868 points. An estimated Rs 10 lakh crore of market cap was reportedly wiped off due to this single day fall. The fall has continued till date as investors resorted to relentless selling amid rising cases of corona virus. On March 19, Indian
equity markets again plunged to new low. Sensex closed 581 points lower at 28,288 and Nifty fell 205 points to end at 8,263. With equity markets likely to remain volatile in future as well, further wealth erosion of investors is expected.

**Supply Side Impact**[7]- On the supply side, shutdown of factories and the resulting delay in 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. This is hampering business sentiment and affecting investment and production schedules of companies. Besides having a negative impact on imports of important raw materials, the slowdown in manufacturing activity in China and other markets of Asia, Europe and the US is impacting India's exports to these countries as well.

**Impact on International Trade[7]-** China has been a major market for many Indian products like sea food, petrochemicals, gems and jewellery etc. The outbreak of corona virus has adversely impacted exports of these items to China. For instance, the fisheries sector is anticipated to incur a loss of more than Rs 1,300 crore due to fall in exports. Similarly, India exports 36% of its diamonds to China. The cancellation of four major trade events between February and April is likely to cause an estimated loss of Rs 8,000-10,000 crore in terms of business opportunity for Jaipur alone India also exports 34% of its petrochemicals to China. Due to exports restrictions to China, petrochemical products are expected to see a price reduction So with these alarming effects, there is an urgent need to take immediate steps to not only contain the spread of the virus but also to address the key pain areas of the industry which can help in minimising the impact of the outbreak on the Indian economy and businesses. A combination of monetary, fiscal and financial market measures is needed to help the businesses and people cope with the crisis. Therefore, to be able to frame correct actions and policy measures, it is important to understand clearly the specific problems that people and businesses are facing currently.

**Impact on Financial Market**[7] - Greater uncertainty about the future course and repercussion of Covid-19 has also made the financial market extremely volatile, leading to huge crashes and wealth erosion, which in turn is impacting consumption levels. One of the major slides in the domestic equity markets was seen on March 12, when following the trend of the global equity markets, both the BSE Sensex and NSE Nifty crashed by more than 8% in a single day. The BSE Sensex dropped over 2,919 points – its biggest one-day fall in absolute terms while the NSE Nifty dropped by 868 points. An estimated Rs 10 lakh crore of market cap was reportedly wiped off due to this single day fall. The fall has continued till date as investors resorted to relentless selling amid rising cases of coronavirus. On March 19, Indian equity markets again plunged to new low. Sensex closed 581 points lower at 28,288 and Nifty fell 205 points to end at 8,263. With equity markets likely to remain volatile in future as well, further wealth erosion of investors is expected.

**TABLE 1: ACTUAL AND ESTIMATED GROWTH RATES OF INDIAN ECONOMY**[8]

| Year | Growth rates |
|---|---|
| 2012-13 | 5.5% |
| 2013-14 | 6.4% |
| 2014-15 | 7.4% |
| 2015-16 | 8% |
| 2016-17 | 8.3% |
| 2017-18 | 7% |
| 2018-19 | 6.1% |
| 2019-20 | 4.2% |
| 2020-21 | -5 to -10%(Estimated) |

*Source:* MOSPI estimates

It can be concluded form the above table that the growth rate of India was steadily increasing from 5 % in 2012-13 to 7.4% in 2014-15 and realized the highest growth rate of 8.3 % till 2016-17. But from 2017-18 it shows a very dismal situation as the growth rates starts decelerating till 2019-20 and it is showing nasty depiction due the current Covid19 pandemic which shows estimated growth to be negative in between -5% to -10% for 2020-21.

## OBJECTIVES OF THE STUDY

(1) To review the impact of Corona virus on Indian Economy.
(2) To analyze and suggest various policy reforms regarding the current economic slowdown.

## RESEARCH METHODOLOGY

In the present study, I have taken survey reports & study reports by various agencies like CRISIL, FICCI, IMF and World Bank reports and CARE Ratings for detail study. I have chosen the reports mostly published in March and April months to understand the impact of COVID-19 on Indian economy and various sectors. I have also studied few research papers and news articles which publish in the recent months regarding the information on recent policy reforms.

## DISCUSSION

### AN ANALYSIS OF RECENT POLICY REFORMS

It can be seen that the economic impact of the current Corona virus pandemic on the Indian economy has been largely disruptive. Although it can be also seen that both Central and respective State Governments have tried their best to prevent the situation but somehow things have not turned up to their way[4]. So to combat the current economic slowdown the Government has declared a massive package under the banner of "Atmnirbhar Bharat" scheme in which almost 84 per cent of the Rs 20 lakh crore of the package announced by Prime Minister Narendra Modi on May 12 and rolled out by the Finance Minister Nirmala Sitharaman has been largely in the form of loans and other liquidity measures. A break up of the package compiled from the press release on May 13 and 14 reveals that Rs 16,60,050 crore were in the form of loan and other liquidity measures. This means that the actual cost to Government in the AatmaNirbhar Bharat package in the form of subsidy or cash outflow is just Rs 3,20,902 crore which is just 16 per cent of the total package[5].

A recent annual report on Micro, Small and Medium Enterprises (MSME's)[1] indicate that the MSME contributes to around 30% of India's GDP, and based on conservative estimates, employs around 50% of industrial workers and as per the relief package it has proposed to be given the collateral free loans and credit guarantees by the government under the "Aatmnirbhar Bharat" scheme. Some of the notable measures announced included Rs 3 lakh crore collateral-free automatic loans, Rs 20,000 crore subordinate debts, and revised definitions of MSMEs and three-month moratorium on debt repayments announced by the RBI for the MSME sector which was a wise decision and argued more should be done. However, it must be noted that the MSME sector has already been targeted by the government for a number of years with the schemes like MUDRA of 2015. This sector is heavily indebted and already been distressed due to the previous policy reforms which limit its business like the Goods and Services Tax (GST) and Demonetization etc. It is not clear targeting the MSME sector is the right channel. It is more about reviving demand so that it can lead to an improvement in their business conditions which means stronger growth after this pandemic and ultimately government must be focused on finding ways to provide a Debt relief instead of additional debt. The Government has also announced various structural reforms during the crisis for the agriculture sector including an outlay of Rs 1.63 lakh crore under the "Aatmnirbhar Bharat" and also amending the stringent Essential Commodities Act to remove cereals, edible oil, oilseeds, pulses, onions and potato from its purview. The new law will be framed to give farmers the option to choose the market where they want to sell their produce by removing inter-state trade barriers and providing e-trading of agriculture produce and believe that this will remove the License Raj in agriculture sector and ultimately Agriculture Produce Market Committee will be open to competition. This is indeed a very promising attempt to tackle the sluggish agricultural sector because even the LPG policy 1991 didn't consider the reformation in agricultural sector as it was believed to be a part of State List. A chief Agricultural Scientist, Ashok Gulati[2] said in an interview "I have been asking for this for 20 years, "At least with corona the reforms' finally comes in what hasn't happened in years, it finally happening thanks to the corona virus pandemic. These steps appear to be positive and big bold steps and will take some time to reach on ground. It is also expected that the fruit will start to appear after the gestation period is over. The government should also bring the agricultural laborers in the purview of MGNREGA and workers should be employed for farming and other related activities and wages must be provided as per the MGNREGA scheme which will eventually give financial aid and stability to the farmers[6]. Amartya Sen, Raghuram Rajan and Abhijit Banerjee rightly said[9] "The surprising loss of income and savings can have serious consequences, even if the meals are secured for now farmers need money to buy seeds and fertilizer for the next planting season; shopkeepers need to decide how they will fill their shelves again". The government is already having more than three times the "buffer stock norms" which stood of almost a total stock of 77 million tons in March 2020 as per Food Corporation of India. There is a problem of exclusion of substantial fraction of the poor from the Public Distribution System rolls at a larger scale for one reason or another which can be solved through issuing of temporary ration cards perhaps for six months with minimal checks to everyone who wants one and is willing to stand in line to collect their card and their monthly allocations. There is an urgent need to take immediate steps to not only contain the spread of the virus but also to address the key pain areas of the industry which can help in minimising the impact of the outbreak on the Indian economy and businesses. A combination of monetary, fiscal and financial market measures is needed to help the businesses and people cope with the crisis. Therefore, to be able to frame correct actions and policy measures, it is important to understand clearly the specific problems that people and businesses are facing currently. This alone can enable government to take appropriate measures.

## CONCLUSION AND SUGGESTIONS

It can be concluded that the idea of J.M. Keynes "Demand creates its own supply" needs to be utilize regarding the current economic slowdown The recent policy reform announcement is primarily targeting the various sectors through loans and other liquidity measures will not do the needful as there is enormous lacking of demand due to the current lockdown that ultimately created the formidable problem of unemployment and shortage of cash which is ultimately affecting the MSME and Agriculture and other allied sectors in a big way. So government and policymakers should focus on primary cash transfers in the hands of people so that it can create an efficient demand conditions in the economy. This will certainly work as a multiplier effect on the economy, and would create huge demand which would encourage the industrial production and generate revenue for the government eventually. So government and policymakers should focus on primary cash outflow or cash transfers directly in the hands of people which could be done in the form of "helicopter money "so that it can create an efficient demand conditions in the economy which will eventually help to boost the other sectors.

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I am sure that your feedback and deliberations would make future issues better – a result of our joint effort.

Looking forward to an appropriate consideration.

With sincere regards

Thanking you profoundly

**Academically yours**

Sd/-
**Co-ordinator**

# DISCLAIMER

# ABOUT THE JOURNAL

In this age of Commerce, Economics, Computer, I.T. & Management and cut throat competition, a group of intellectuals felt the need to have some platform, where young and budding managers and academicians could express their views and discuss the problems among their peers. This journal was conceived with this noble intention in view. This journal has been introduced to give an opportunity for expressing refined and innovative ideas in this field. It is our humble endeavour to provide a springboard to the upcoming specialists and give a chance to know about the latest in the sphere of research and knowledge. We have taken a small step and we hope that with the active co-operation of like-minded scholars, we shall be able to serve the society with our humble efforts.

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