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Impact of Covid on India's GDP

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Abstract. The COVID-19 pandemic had a profound and multifaceted impact on India's economy, disrupting various sectors and exposing vulnerabilities in the country's economic structure. As one of the largest economies in the world, India faced a significant contraction in growth due to stringent lockdown measures, a sharp decline in domestic and international trade, and a collapse in consumer demand. Key sectors such as manufacturing, services, tourism, and agriculture experienced severe setbacks, while unemployment surged, particularly among migrant laborers, daily wage workers, and the informal sector. The government responded with fiscal stimulus packages, reforms in labor laws, and financial support to businesses, but challenges related to the equitable distribution of aid, rising inflation, and a slowdown in private investments persisted. The pandemic also accelerated digital transformation, with technology adoption rising in sectors like education, healthcare, and retail. While India's economy showed signs of recovery in the post-pandemic phase, the long-term effects on income inequality, poverty levels, and the broader socio-economic landscape remain a critical concern. The pandemic underscored the need for structural reforms, greater healthcare infrastructure investment, and resilience in supply chains to mitigate future economic shocks.

Index Terms- Covid-19 Impact, India's GDP, Economic Slowdown, Unemployment Rate, Lockdown Consequences, Supply Chain Disruption, Stock Market Crash

I. Introduction Gross Domestic Product (GDP)?

Gross domestic product (GDP) is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period. As a broad measure of overall domestic production, it functions as a comprehensive scorecard of a given country's economic health.

India's GDP growth for last 12 years

Year	GDP Growth (%)
2020	1.87%
2019	4.23%
2018	6.12%
2017	7.04%
2016	8.26%
2015	8.00%
2014	7.41%

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2013	6.39%
2012	5.46%
2011	6.64%
2010	10.26%
2009	8.48%

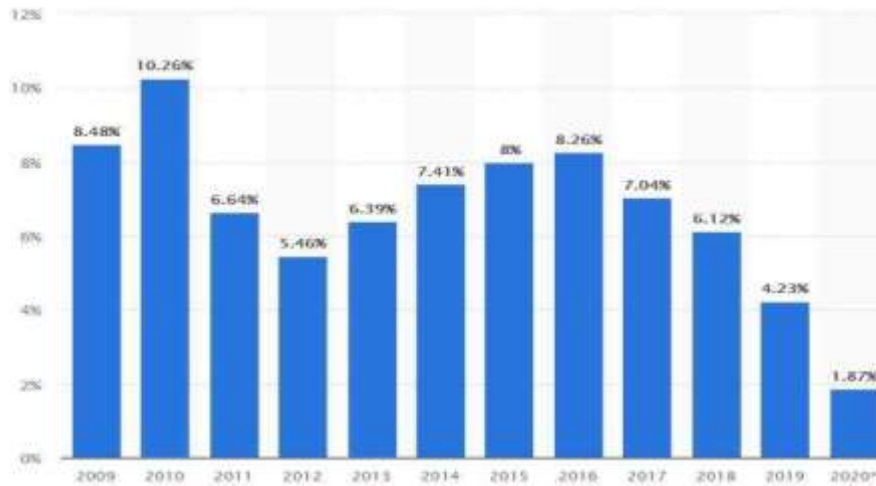

Figure 1: India's GDP growth

II. What is COVID-19?

Coronavirus disease (COVID-19) is an infectious disease caused by a newly discovered coronavirus.

Most people infected with the COVID-19 virus will experience mild to moderate respiratory illness and recover without requiring special treatment. Older people, and those with underlying medical problems like cardiovascular disease, diabetes, chronic respiratory disease, and cancer are more likely to develop serious illness.

The best way to prevent and slow down transmission is be well informed about the COVID-19 virus, the disease it causes and how it spreads. Protect yourself and others from infection by washing your hands or using an alcohol based rub frequently and not touching your face.

The COVID-19 virus spreads primarily through droplets of saliva or discharge from the nose when an infected person coughs or sneezes, so it's important that you also practice respiratory etiquette (for example, by coughing into a flexed elbow).

At this time, there are no specific vaccines or treatments for COVID-19. However, there are many ongoing clinical trials evaluating potential treatments.

A pneumonia of unknown cause detected in Wuhan, China was first reported to the WHO Country Office in China on 31 December 2019.

The outbreak was declared a Public Health Emergency of International Concern on 30 January 2020. On 11 February 2020, WHO announced a name for the new coronavirus disease: COVID- 19.

A Brief History of Pandemics

While Covid-19 may not have the scale of pandemics of the past (as of date), the economic damage has and will continue to affect more people than the disease itself. Studying past trends of similar infections can help in drawing inferences as to what might help us going forward. What would it take to see this pandemic through?

- Mass Vaccination
- Herd Immunity
- Social Distancing

There's a high likelihood we're 12 months away from a semblance of normalcy. The biggest worry is a mutating virus that brings wave upon wave of attacks, each deadlier than the other.

During the course of time that Covid-19 lasts, businesses and the global economy will continue to be significantly impacted.

Impact of Covid pandemic on the world and India?

As on 15-06-2020	World	India
Coronavirus Cases:	80,19,152	3,33,380
Deaths:	4,36,145	9,524
Recovered:	41,41,295	1,69,987

III. Life in the Time of COVID

It might be a mouthful but here's a look at what's to come in the immediate future. Liquidity is expected to remain tight as the cost of borrowing in real terms will jump upwards. This is despite central banks' efforts to reduce interest rates. Banks and financial institutions will be under immense pressure as the fear of NPAs, insolvency and bankruptcies increase multifold. The government will focus on meeting hyper demand for essential goods while non-essential businesses will focus on recovering their receivables/outstanding money due from debtors. New strategic alliances or business partnerships will not emerge during this period.

Figure 2: Negative impact of Covid

Taking into consideration its severe intensity, seen in the context of India having the highest rate of density population in the world, the Governments, both at Union and State levels, commenced necessary actions on war footing to prevent the spread of this pandemic. It was all the more so when it is known that this deadly disease has no medicinal cure.

The effect of Corona virus is badly felt and noticed in the world's most developed countries like USA, Britain and Germany etc. Obviously, India was bound to be affected not only because of its domestic slowdown but also because of international recession. Learning the lessons from the developed countries like Spain and Italy, India put all its machinery and material into motion to curb and/or prevent the disease. What started as one day Janta Curfew on 22.03.2020 by the Prime Minister of India and lockdowns by some of the state governments, the entire country was declared to be under lockdown from the midnight of 24.03.2020, and the same continues to be so till now or atleast till 03.05.2020, unless extended.

Resultantly, everything and every activity, barring the activities relating to and concerning with the essential supplies came to a complete grinding halt. Though the improvement in the environment due to such a lockdown was a silver lining, however the toll on economy due to this lockdown is too early to be estimated.

While presenting the Finance Bill for the year 2020-21, the Union Government on 01.02.2020 had reasonably estimated India's nominal GDP growth rate (i.e., real growth + inflation) of 10 percent, however, the same now seems far from reality and certainty. The slowdown in demand, closure of production activities, fall in the global price of crude oil, ban on foreign trade, price decrease in the commodities like energy, metals and fertilizers, restrictions on the aviation industry as

also on tourism, amongst others, are bound to exert downward pressure on the inflation, thus adversely affecting the economy chart. It is believed that India's aggressive lockdown could bring the country's growth down to 2.5 percent from 4.5 percent it had earlier estimated. However, as per a statement released by Chief India Economist of Goldman Sachs on 09.04.2020, the economic growth of India has been estimated at a low figure of 1.6% only.

Overall uncertainty and lack of demand, coupled with no investment seen in near future, the Indian stock markets crashed. A UN report estimated a trade impact of more than USD 350 million on India due to this outbreak, making India one of the top worst affected economies across the world. During the same time, Asian Development Bank estimated the loss to Indian economy due to this outbreak upto USD 29.9 billion. The worst crash of Indian stock market by 2352.6 points on one single day on 12.03.2020 is a cause of concern for all the Indian economists and economic advisors. However, after the declaration of complete lockdown, Sensex and Nifty gained a little, adding a value of about USD 66 billion to investors' wealth. The trend however reveals that the curve has been meandrical with absolute uncertainty.

Corona virus had its impact in the industry in general, which has seen, not only cutting the salaries but also laying off its employees. The hotels are vacant and airlines have closed their wings. The live events industry has also estimated a loss of more than Rs. 3000 crores.

The manufacturing, an important part of any economy, suffers from total lack of clarity. Lockdown has put great stress on the supply chains of essential commodities, and therefore, many of the Indian companies have focused on the production and supply of essential items only, thereby stopping all other production activities, thereby bringing down the production graph. Likewise, the other sectors like agriculture being the primary sector and the tertiary sector are also not free from its impact. There is hardly any manpower available for the agricultural purposes in different states. Lockdowns have manifestly made the farmers difficult to take their produce for sale to the markets. Informal sector of India, the backbone of its economy, will be hardest hit in view of economic activities coming to a total standstill. These lockdowns and restrictions on commercial activities and public gatherings are necessarily likely to strongly impact domestic growth. As estimated by Centre for Monitoring Indian Economy (CMIE) on 07.04.2020, the overall unemployment rate may have surged to 23 per cent, with urban unemployment standing at nearly 31 per cent. International Labour Organisation (ILO) has estimated about 40 crores workers of unorganised sectors to be unemployed.

The United Nations Conference on Trade and Development (UNCTAD), has suggested that India's trade impact due to the COVID-19 outbreak could be around USD 348 million. For India, the overall trade impact is estimated to be at 129 million dollars for the chemicals sector, textiles and apparel at 64 million dollars, the automotive sector at 34 million dollars, electrical machinery at 12 million dollars, leather products at 13 million dollars, metals and metal products at 27 million dollars

and wood products and furniture at 15 million dollars. As per UNCTAD estimates, exports across global value chains could decrease by USD 50 billion during the year in case there is a 2% reduction in China's exports of intermediate inputs. What is also worrisome is the effect of all the circumstantial conditions on the Rupee value which is at its lower value of more than Rs. 76 per USD, exerting extra burden and pressure on the cost of import of commodities and services in India, and on the accumulated foreign reserves.

Recently an industry survey that is jointly conducted by industry body Ficci and tax consultancy Dhruva advisors and took responses from about 380 companies across the sectors. It is said that businesses are grappling with "tremendous uncertainty" about their future.

According to the survey, COVID-19 is having a 'deep impact' on Indian businesses, over the coming month's jobs are at high risk because firms are looking for some reduction in manpower. Further, it is added that already COVID-19 crisis has caused an unprecedented collapse in economic activities over the last few weeks.

The present situation is having a "high to very high" level impact on their business according to almost 72 per cent respondents. Further, 70 per cent of the surveyed firms are expecting a degrowth sales in the fiscal year 2020-21.

Ficci said in a statement, "The survey clearly highlights that unless a substantive economic package is announced by the government immediately, we could see a permanent impairment of a large section of the industry, which may lose the opportunity to come back to life again."

The Survey found

In respect to the approved expansion plans, around 61 per cent of the respondents expect to postpone such expansions for a period of up to 6 or 12 months, while 33 per cent expect it to for more than 12 months.

Surveyed firms of around 60 per cent have postponed their fund-raising plans for the next 6-12 months. Also, nearly 25 per cent of the firms have decided the same.

Surveyed firms around 43 per cent have reported that they do not predict an impact on exports. Further, 34 per cent said that exports would take a hit by more than 10 per cent.

According to Dun & Bradstreet, COVID-19 no doubt disrupted human lives and global supply chain but the pandemic is a severe demand shock which has offset the green shoots of recovery of the Indian economy that was visible towards the end of 2019 and early 2020. The revised Gross Domestic Product (GDP) estimates for India downwards by 0.2 percentage points for the fiscal year 2020 to 4.8 per cent and

by 0.5 per cent for the fiscal year 2021 to 6 per cent. Further, it is stated that the extent of the actual impact will depend upon the severity and duration of the outbreak.

There are three major channels of impact for Indian businesses according to the report namely linkages, supply chain and macroeconomic factors. The data of the Dun & Bradstreet shows that at least 6,606 Indian entities have legal linkages with companies in countries with a large number of confirmed COVID-19 cases. And business activity in the foreign markets is slow which implies a negative impact on the topline of these companies. Sectors that would be much affected includes logistics, auto, tourism, metals, drugs, pharmaceuticals, electronic goods, MSMEs and retail among others

Further, according to the World Bank's assessment, India is expected to grow 1.5 per cent to 2.8 per cent. And IMF projected a GDP growth of 1.9 per cent for India in 2020 because the global economy is affected by the COVID pandemic, the worst recession since the Great Depression in the 1930s. Also, we can't ignore that the lockdown and pandemic hit several sectors including MSME, hospitality, civil aviation, agriculture and allied sector.

According to KPMG, the lockdown in India will have a sizeable impact on the economy mainly on consumption which is the biggest component of GDP.

Reduction in the urban transaction can lead to a steep fall in the consumption of non-essential goods. It can be severe if disruption causes by the 21-day lockdown and affect the availability of essential commodities.

Due to weak domestic consumption and consumer sentiment, there can be a delay in investment which further add pressure on the growth. We can't ignore that post-COVID-19, some economies are expected to adopt de-risking strategies and shift their manufacturing bases from China. This can create opportunities for India.

According to KPMG, opportunities will largely depend on how quickly the economy recovers and the pace at which the supply chain issues are addressed.

KPMG India Chairman and CEO Arun M Kumar said: "Apart from providing robust safety nets for the vulnerable, a focus on ensuring job continuity and job creation will be imperative and there is urgent need to mobilise resources to stimulate the economy for increased demand and employment".

According to the KPMG report "It is expected that the course of economic recovery in India will be smoother and faster than that of many other advanced countries".

In terms of trade, China is the world’s largest exporter and second-largest importer. It accounts for 13% of world exports and 11% of world imports.

Up to a large extent, it will impact the Indian industry. In imports, the dependence of India on China is huge. Of the top 20 products (at the two-digit of HS Code) that India imports from the world, China accounts for a significant share in most of them.

India's total electronic imports account for 45% of China. Around one-third of machinery and almost two-fifths of organic chemicals that India purchases from the world come from China? For automotive parts and fertilisers China's share in India's import is more than 25%. Around 65 to 70% of active pharmaceutical ingredients and around 90% of certain mobile phones come from China to India.

Therefore, we can say that due to the current outbreak of coronavirus in China, the import dependence on China will have a significant impact on the Indian industry.

In terms of export, China is India's 3rd largest export partner and accounts for around 5% share. The impact may result in the following sectors namely organic chemicals, plastics, fish products, cotton, ores, etc.

We also can't ignore that most of the Indian companies are located in the eastern part of China. In China, about 72% of companies in India are located in cities like Shanghai, Beijing, provinces of Guangdong, Jiangsu, and Shandong. In various sectors, these companies work including Industrial manufacturing, manufacturing services, IT and BPO, Logistics, Chemicals, Airlines, and tourism.

It has been seen that some sectors of India have been impacted by the outbreak of coronavirus in China including shipping, pharmaceuticals, automobiles, mobiles, electronics, textiles, etc.

Also, a supply chain may affect some disruptions associates with industries and markets. Overall, the impact of coronavirus in the industry is moderate.

According to CLSA report, pharma, chemicals, and electronics businesses may face supply- chain issues and prices will go up by 10 percent. The report also says that India could also be a beneficiary of positive flows since it appears to be the least-impacted market. Some commodities like metals, upstream and downstream oil companies, could witness the impact of lower global demand impacting commodity prices.

According to CII, GDP could fall below 5% in FY 2021 if policy action is not taken urgently. It is said that the government should take some strong fiscal stimulus to the extent of 1% of GDP to the poor, which would help them financially and also manage consumer demand.

In the third quarter (October-December) growth is slowed down to 4.7% and the impact of COVID-19 will further be seen in the fourth quarter.

Ficci survey showed 53% of Indian businesses have indicated a marked impact of COVID-19 on business operations. And 42% of the respondents said that up to three months could take for normalcy to return.

Covid-19 will change the way the world works; just like the Great Depression, dot-com bubble, and the 2008 financial crash did in the past. The question on everyone's mind is, 'Will things go back to normal?'

The next 12 months will be difficult. Many businesses will struggle, some may even die. But as with economic adversities of the past, new industries will emerge bringing with it renewed hope of recovery. Eventually, things will go back to normal. Just that we'll have to change the definition of normal.

Sector-wise Impact on Indian industry

Chemical Industry: Some chemical plants have been shut down in China. So there will be restrictions on shipments/logistics. It was found that 20% of the production has been impacted due to the disruption in raw material supply. China is a major supplier of Indigo that is required for denim. Business in India is likely to get affected so people securing their supplies. However, it is an opportunity. US and EU will try and diversify their markets. Some of the business can be diverted to India which can also be taken as an advantage.

Shipping Industry: Coronavirus outbreak has impacted the business of cargo movement service providers. As per the sources, per day per vessel has declined by more than 75-80% in dry bulk trade.

Auto Industry: Its impact on Indian companies will vary and depend upon the extent of the business with China. China's business no doubt is affected. However, current levels of the inventory seem to be sufficient for the Indian industry. If the shutdown in China continues then it is expected to result in an 8-10% contraction of Indian auto manufacturing in 2020.

Pharmaceuticals Industry: Despite being one of the top formulations of drug exporters in the world, the pharma industry of India relies heavily on import as of bulk drugs. Due to the coronavirus outbreak, it will also be impacted.
Textiles Industry: Due to coronavirus outbreak, several garments/textile factories in China have halted operations that in turn affecting the exports of fabric, yarn and other raw materials from India.

Solar Power Sector: Indian developers may face some shortfall of raw materials needed in solar panels/cells and limited stocks from China.

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Electronics Industry: The major supplier is China in electronics being a final product or raw material used in the electronic industry. India's electronic industry may face supply disruptions, production, reduction impact on product prices due to heavy dependence on electronics component supply directly or indirectly and local manufacturing.

IT Industry: The New Year holidays in China has been extended due to coronavirus outbreak that adversely impacted the revenue and growth of Indian IT companies.

Tourism and Aviation: Due to the coronavirus outbreak, the inflow of tourists from China and from other East Asian regions to India will lose that will impact the tourism sector and revenue.

Broadly, anything which involves personal interaction will face problems in the next 12 months real estate or big-ticket items/luxury products.

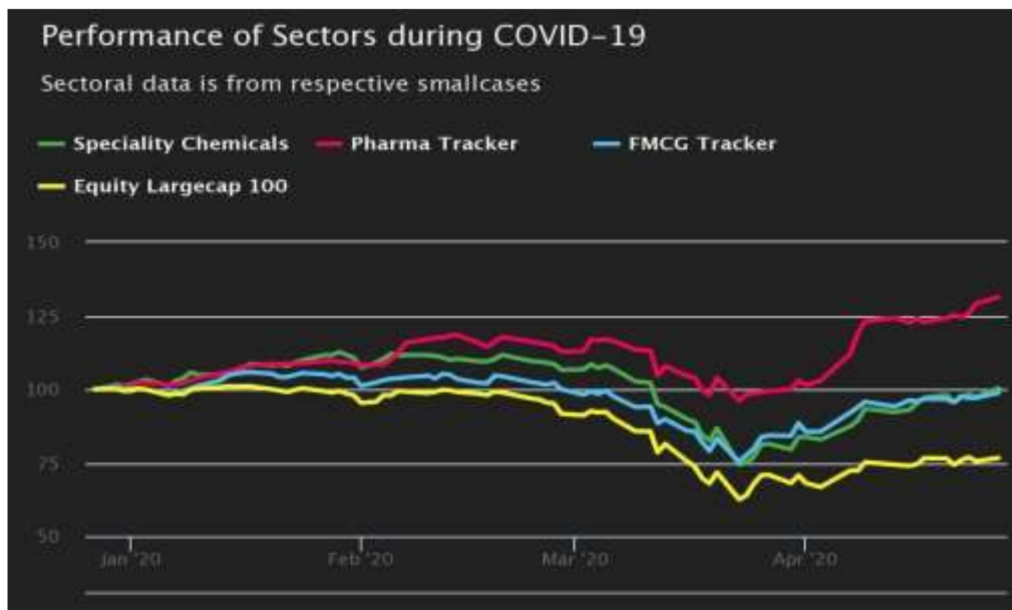

Figure 3: Performance of sectors during Covid

An outbreak of COVID-19 impacted the whole world and has been felt across industries. The outbreak is declared as a national emergency by the World Health Organisation. In India the three major contributors to GDP namely private consumption, investment and external trade will all get affected. World and Indian economy are attempting to mitigate the health risks of COVID-19 with the economic risks and necessary measures needed will be taken to improve it.

Sectors with a Possible Uptick

- Digital & Internet Economy: Online based products & services companies will find new takers.
- Ed-tech and Online Education along with firms involved with online-skill development
- Online groceries, FMCG & Retail will benefit immensely. With continued fear, food-based retail chains, and companies catering to low-ticket consumption demand will emerge as winners.
- Digital Content: There will be a sudden spike in the demand for Content, with digital content being in demand more than ever.
- Speciality Chemicals: Firms dealing in Chemicals will see a jump due to increased demand for disinfectants, drugs and medicines.
- Pharma: Pharmaceutical firms are set to see growth in the near term.

Comparing Debt to Equity Ratio of Sectors

Real Estate	0.86
Information Technology	0.11
Consumer Staples (FMCG Food)	0.49
Financials (Investment Banking and Brokerage)	0.083

The New Normal for Business

Chinese Whispers

Having seen off the worst of the coronavirus wrath, China is limping back to normal. They will continue to remain a dominant exporter of raw material as well as finished goods, but businesses will ensure dependency on China is reduced. With all the talk of this being China's moment, will they be able to capitalize?

Technology & Future of Work

Technology for many businesses, until today, was considered to be a support function with it being used as a means to get to an end. This is set to change as technology will now become the frontline requirement in most organizations. Its importance will be comparable to that of revenue-generating functions – sales and business development.

Trends will accelerate. Automation will gain momentum as the spend on sophisticated IT infrastructure outpaces human resources. Job creation will be limited with more offers being rolled out on a contractual basis than on a full-time basis. This sort of gig economy will emerge in the emerging markets as well as the more developed markets. Work from home will be the new normal. Firms in some sectors will realise that employees working from home are equally productive as compared to when they are working from the office. This will also help in saving infrastructure costs.

Don't be Evil

Non-environment friendly businesses will be looked down upon in terms of business valuations and focus on ESG (environmental, social, governance) will be a new way forward. Cities have already started thinking about sustainable development models. New, more compact and agile value chains will emerge, as non-essential intermediaries are given a back seat. This will also drive employee/labour productivity and efficiency.

Back to Basics

Businesses will rethink their strategy of focusing on sales without profitability/profitability growth. Organizations claiming hefty valuations just on the basis of sales growth will no longer find buyers – focus on profit and profit growth will be the new normal.

Data is the New Oil

That is, as long as the price of oil doesn't drop to $0 again. (FYI, only the expiring futures contract dropped to zero)

Data will become even more valuable, and with it, data misuse through AI will also become rampant. We're already seeing governments and private entities roll out contact tracing tools which have poor implementation and pose severe threats to data security and privacy. As these entities have realized, data can play a huge role in limiting the impact of viral phenomena – diseases, protests, misinformation….the list goes on.

Data and IT security will become even more important for businesses. Traditional businesses, including heavy industries, will find it difficult to survive without access to information that would help with optimization and extracting efficiency.

Temporary Death of Debt

Asset heavy businesses like the ones related to oil, commodities, infrastructure will move to an asset-light model where financing of their activity would happen through public trusts, REITS, INVITs like structures. Equity financing would take over debt financing as businesses become reluctant to take on leverage.

All about the Money

Finally, big financial conglomerates with large balance sheet exposure will become history. We'll see the emergence of specialized segmental lenders who will strive to make better lending decisions through AI & social intelligence. Traditional lenders will exit the game.

Countries like China & India stand to benefit from low crude-oil prices and a younger population which can kick in low-ticket consumption demand. While the world is currently dominated by right-wing politicians who propagate the concept of 'Make Local, Consume Local', the world will find comfort, once again, in the arms of

capitalism. Free markets and abolishment of trade restrictions can be expected in the post-Covid era.

Money will ultimately win. Most businesses that manage to survive the Covid-era financially, will have the ability to emerge victorious. As they say, "You need to live, to be in the game". Internet-based B2C businesses – lending, financial services, need-based solutions will stand to gain. Once the world sees through this pandemic, there will be a jump in rental demand, entertainment, travel and tourism. The cement, transportation, construction material, waste management, metals and commodities sectors will also see an uptrend.

The paper industry is one that has the highest chances of getting wiped out as the world looks to adopt environmentally friendly ways to live. As stated earlier, digital will be the new normal.

IV. Covid-19 Impact on India's Economy: Challenges & Solutions

There is no doubt that COVID-19 will have a large impact on the Indian economy. With respect to India, the discussion can be bifurcated into 2 parts – India's economy, and its stock markets.

The recovery of the underlying economy will be slow, and it will take around 2 years for normalcy to come back across sectors. While the overall economy might take a hit because of the government lockdown, some sectors are set to see immense growth in the post-COVID era – FMCG, B2C specialised lenders, gold-dependent companies, food retail and pharmaceutical companies to name a few.

Stock markets have a mind of their own, formed by the collective emotions + intelligence of millions. They are often skewed and aren't the best indicators of the underlying economy. Stock markets will have a strong recovery, not due to the fundamentals strength, but due to global liquidity which is available for almost free (as interest rates tend to near zero). Availability of debt capital will be scarce in India, whilst equity capital will be available in plenty over a period of time.

What can the Government do?

Like its counterparts across the globe, the Indian government has announced a slew of measures to prevent total collapse. However, it isn't enough. This works to alleviate some of the pain, not counter it. My 2 cents (or one barrel of oil) on what the government ought to do:

- Loosen its purse and spend money on infrastructure development
- Public sector financial institutions need to be further capitalized and nudged by the RBI to lend out low-ticket loans below INR 1 Crore in the form of working capital to ensure that liquidity comes back into the system
- Banking sector needs to be nudged to pass on rate cuts induced by RBI to the borrowers

- Personal tax cuts & tax holidays for 6 – 12 months can be adopted to revive consumption, which will help spur economic growth
- These are not an exhaustive list of measures but could help alleviate the impact of COVID-19 on the Indian economy while stimulating growth.

Covid-19's Impact on Society

Before we end, let's look at some of the behavioural / societal impacts that Covid-19 might have.

During the course of the pandemic, people will be using digital medium for content and entertainment. Events that require massive gathering of people – sports, music festivals, theatre, etc. will take a hit for the next 12 months.

As the world overcomes this pandemic, discretionary demand will pick up as people become imprudent. Retail leverage in the world will hit new highs. The use of addictive material – tobacco, narcotics, alcoholic beverages will jump multifold.

The next 5 years are going to be the golden period for media and entertainment. 3D/4D chatrooms and conference rooms will emerge rapidly. The largest chunk of media spending will shift from television to digital. Print media will cease to exist.

Businesses will experience an increase in productivity due to reduced staff. Remote work will see an uptick. The burden on local transportation infra will ease. Fewer roads, less traffic & pollution.

How will COVID impact decisions of HNIs & FIIs?

Global interest rate levels are very important for determining the behaviour of Foreign Institutional Investors (FIIs) and High Networth Individuals (HNIs). In a world where interest rates are at all-time lows, especially in the developed world, FIIs/HNIs are always on the lookout for investment opportunities which give them more attractive potential returns. What better than emerging market equities? With equity financing given a preference over debt financing, HNIs/FIIs are expected to invest in emerging markets like India. This is expected to drive Indian equities to new highs, and such a large quantum of money flowing into the country will also result in an appreciation in the value of our currency. FII inflows are thus expected to be rampant. HNIs will increase their equity allocation, but they will continue to look at niche assets across businesses and real estate.

The global economy is dynamic. Historically, we'd see that an average business/economic cycle lasted for about 8-10 years.

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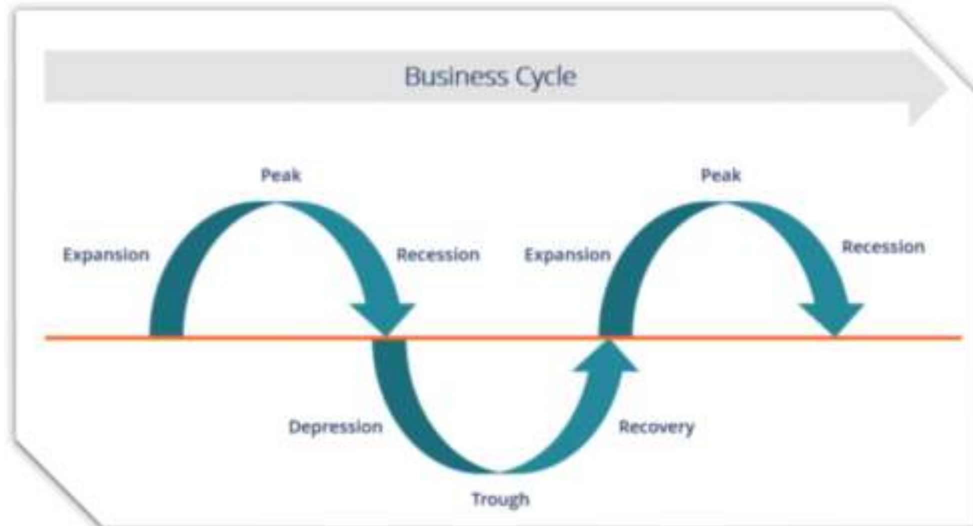

Figure 4: Business cycles in an economy

Started extensively in the 21st century, modern monetary policy has taken over as one of the key policy tools that central banks use in order to contain any sort of economic malaise. Such policies include cutting down interest rates (to make borrowing money cheaper), increasing the money supply by printing currency, reducing regulatory requirements given to banks by the central bank. These tools, while very effective, are disruptive in nature. Printing money, for example, increases government debt – something the future generations will have to pay for. These tools, in a way, act like steroids which kickstart the economy sooner than otherwise possible. All this, while the underlying strength of the economy remains largely unchanged, or to be honest, deteriorates. Economic indicators (like the GDP) may show that the economy has revived, but this is an artificial escape that governments and central banks create and – surprise–it doesn't last! They disrupt business cycles in a way that they become shorter – wherein the recovery is fast, but the downfall is faster.

While the hangover from the current global crisis is going to last a long time, it will eventually fade away but will leave behind some permanent changes.

These monetary policy measures do have consequences in the Asset Management industry as well. Asset managers that rely on making money by entering and exiting a business at the 'right time' and those that hope to take advantage of cyclicality in businesses are going to go through hard times as seen previously in 2008 and 2013. To reiterate what I've already spoken about, since the adoption of modern monetary policy measures, the behaviour of economic/business cycles have changed. And everyone investing during COVID, including asset managers trying to take advantage of these cycles, will find themselves surprised by how economic cycles behaved differently than they expected.

These disruptions will cause the exit of many prominent asset managers who were trying to do stuff which they think is 'Out of the Box'.

Quality financial advisory will emerge. Client centricity will be of utmost importance – there will be a culture inculcated wherein clients will pay fees only when they make money. Currently, clients were expected to pay a fixed fee to advisors irrespective of whether the client makes money through the advice or not. That's set to change, where 'Winning Together' is going to be the new norm.

Mutual funds and passive investment products are expected to gain a lot of traction as they will be the most sought after route for retail investors looking to gain exposure to equities.

Steps taken by the Indian Government

To minimise the effect in the economy caused by the COVID -19 outbreak, the Union Finance & Corporate Affairs Minister, on 24.03.2020, announced several important relief measures taken by the Government of India, especially on statutory and regulatory compliance matters related to several sectors. The Central Government, amongst others, announced much-needed relief measures in areas of Income Tax, GST, Customs & Central Excise, Corporate Affairs, Insolvency &Bankruptcy Code (IBC) Fisheries, Banking Sector and Commerce, intended to boost the economy.

The Central Government, amongst others, has taken the following decisions in these directions:

Income Tax

- Extension of last date for income tax returns for financial year 2018-2019 from 31.03.2020 to 30.06.2020.
- Aadhaar-PAN linking date to be extended from 31.03.2020 to 30.06.2020.
- Due dates for issue of notice, intimation, notification, approval order, sanction order, filing of appeal, furnishing of return, statements, applications, reports, any other documents and time limit for completion of proceedings by the authority and any compliance by the taxpayer including investment in saving instruments or investments for roll over benefit of capital gains under Income Tax Act, Wealth Tax Act, Prohibition of Benami Property Transaction Act, Black Money Act, STT law, CTT Law, Equalization Levy law, Vivad Se Vishwas law where the time limit will be expiring between 20.03.2020 to 29.06.2020 shall be extended to 30.06.2020.
- For delayed payments of advanced tax, self-assessment tax, regular tax, TDS, TCS, equalization levy, STT, CTT made between 20.03.2020 and 30.06.2020, reduced interest rate at 9% instead of 12 %/18 % per annum (i.e. 0.75% per month instead of 1/1.5 percent per month) will be charged for this period. No late fee/penalty shall be charged for delay relating to this period.

GST/Indirect Tax

- Those having aggregate annual turnover less than Rs. 5 Crore can file GSTR-3B due in March, April and May 2020 by the last week of June, 2020, without any interest, late fee, and penalty.
- Others can file their returns due in March, April and May 2020 by last week of June 2020 but the same would attract reduced rate of interest @9 % per annum from 15 days after due date. However, no late fee and penalty shall be charged, if the compliance is made before 30.06.2020.
- Date for filing GST annual returns of financial year 2018-2019, which is due on 31.03.2020 has been extended till the last week of June 2020.
- Due date for issue of notice, notification, approval order, sanction order, filing of appeal, furnishing of return, statements, applications, reports, any other documents, time limit for any compliance under the GST laws where the time limit is expiring between 20.03.2020 to 29.06.2020 shall be extended to 30.06.2020.
- Payment date under Sabka Vishwas Scheme shall be extended to 30.06.2020. Further no interest shall be charged if the payment is made by 30.06.2020.

Financial Services

- Relaxations have been provided for 3 months to the debit cardholders to withdraw cash for free from any other banks' ATM for 3 months, along with waiver of minimum balance fee, reduced bank charges for digital trade transactions for all trade finance consumers.

Corporate Affairs

- No additional fees shall be charged for late filing during a moratorium period from 01.04.2020 to 30.09.2020, in respect of any document, return, statement etc., required to be filed in the MCA-21 Registry, irrespective of its due date.
- The mandatory requirement of holding meetings of the Board of the companies within prescribed interval provided in the Companies Act, 2013, (120 days) shall be extended by a period of 60 days till next two quarters i.e., till 30.09.2020.
- Applicability of Companies (Auditor's Report) Order, 2020 shall has been deferred by a year to financial year 2020-2021.
- As per Schedule 4 to the Companies Act, 2013, Independent Directors (IDs) are required to hold at least one meeting without the attendance of Non-independent directors and members of management. For the year 2019-20, even if the IDs of a company have not been able to hold even one meeting, the same shall not be viewed as a violation.
- Requirement to create a Deposit reserve of 20% of deposits maturing during the financial year 2020-21 before 30.04.2020 shall be allowed to be complied with till 30.06.2020.
- An additional time of 6 more months has been allowed to newly incorporated companies required to file a declaration for Commencement of Business within 6 months of incorporation.

- Non-compliance of minimum residency in India for a period of at least 182 days by at least one director of every company, under Section 149 of the Companies Act, shall not be treated as a violation.
- Due to the emerging financial distress faced by most companies on account of the large-scale economic distress caused by COVID 19, it has been decided to raise the threshold of default under section 4 of the IBC 2016 to Rs 1 crore from the existing threshold of Rs 1 lakh.

Relief for Poor

The Indian Government, on 27.03.2020, announced a Rs 1.7 lakh crore relief package aimed at providing a safety net for those hit the hardest by the Covid-19 lockdown, along with insurance cover for frontline medical personnel. About 800 million people are expected to get free cereals and cooking gas apart from cash through direct transfers for three months. Such steps include:

- Ujjwala beneficiaries to get free cooking gas (LPG) cylinders in next three months.
- Collateral-free loan doubled to ?20 lakh to 63 lakh women self-help groups.
- Government will pay EPF contribution, both of employer and employee, for 3 months for all those establishments with less than 100 employees out of which 90% earn less than?15,000 per month.
- Ex-gratia of Rs.1,000 shall be granted to 3 crore poor senior citizen, poor widows and poor disabled.
- Every MNREGA worker to get hike of Rs. 2,000.
- Health workers to get medical insurance cover of Rs. 50 lakhs.

On 09.04.2020, the Indian Government approved a COVID-19 package worth Rs 15,000 crore to build on health infrastructure till March 2024, to be given to state governments and Union

Territories to develop COVID-19 hospitals, purchase of personal protective equipment, setting up of laboratories, procurement of essential medical supplies, medicines and consumables, and for strengthening health systems.

Steps taken by the Reserve Bank of India (RBI)

The RBI, on 27.03.2020, also announced a Regulatory package to mitigate the burden of debt servicing brought about by disruptions on account of COVID-19 pandemic and to ensure the continuity of viable businesses. Such steps, inter alia, include:

- All commercial banks (including regional rural banks, small finance banks and local area banks), co-operative banks, all-India Financial Institutions, and NBFCs (including housing finance companies) ("lending institutions") are permitted to grant a moratorium of three months on payment of all instalments falling due between 01.03.2020 and 31.05.2020. The repayment schedule for such loans as also the residual tenor, will be shifted across the board by three months after the moratorium period. Interest shall continue to accrue on the outstanding portion of the term loans during the moratorium period.

- In respect of working capital facilities sanctioned in the form of cash credit/overdraft ("CC/OD"), lending institutions are permitted to defer the recovery of interest applied in respect of all such facilities during the period from 01.03.2020 upto 31.05.2020 ("deferment"). The accumulated accrued interest shall be recovered immediately after the completion of this period.
- In respect of working capital facilities sanctioned in the form of CC/OD to borrowers facing stress on account of the economic fallout of the pandemic, lending institutions may recalculate the 'drawing power' by reducing the margins and/or by reassessing the working capital cycle.
- Wherever the exposure of a lending institution to a borrower is Rs. 5 crore or above as on 01.03.2020, the bank shall develop an MIS on the reliefs provided to its borrowers which shall inter alia include borrower-wise and credit-facility wise information regarding the nature and amount of relief granted.

On 09.04.2020, the RBI has also published its Monetary Policy Report in which it has commented on different aspects of economy, be it be forecasting under uncertainty in a cyclical downturn, issues in supply management, media sentiments on economic growth, factors affecting rural demand, augmenting Quarterly Projection Model etc. which also do not seem very encouraging. Specifically, in relation to Impact of COVID-19 on Global Growth, the said Monetary Policy reports as under:

"In the initial weeks of February, most forecasts of global output loss due to COVID-19 were in terms of the outbreak being confined to China and being brought under control by March/June. It was, however, acknowledged that even in the limited scenario, the economic impact would be significant as China is a much larger player - both in terms of economic size and its role in global value chains - now than in 2003, the period of the SARS epidemic. Owing to extended lunar new year holidays as also government-imposed factory shutdowns and travel restrictions in a number of regions, China's manufacturing/services activity declined sharply in February. In the latter part of February, a rapid surge of infections and fatalities around the world began to surface, even as the spread of the virus in China began to plateau. Lockdowns were/have been imposed in most countries. Travel bans have created distress for airlines, tourism and hospitality industries. In the commodity and financial markets, crude oil prices have been on a downward spiral; with West Texas intermediate (WTI) crude prices crashing below USD 20 per barrel on March 30, 2020. Equity markets have suffered major losses, while gold, fixed income assets - mainly government debt, and the US dollar gained ground due to safe haven demand, but later corrected significantly on profit-booking and flight to cash. With the pandemic still looming, the estimates of the downward drag on global growth are being continuously revised. The consensus, however, is that there will be a recession in 2020."

On 27.04.2020, RBI decided to open a special liquidity facility for mutual funds of Rs.50,000 crores which shall be used by banks exclusively for meeting the liquidity requirements of mutual funds by extending loans, and undertaking outright purchase of and/or repos against the collateral of investment grade corporate bonds,

commercial papers (CPs), debentures and certificates of Deposit (CDs) held by mutual funds.

In view of the demands of the general public regarding opening of certain activities as also considering the condition of COVID-19 in particular areas and in order to improve the deteriorating condition of the economy, the Central Government and/or State Governments have announced certain relaxations from time to time in order to restart the economic operations, particularly relating to healthcare, agriculture and allied, as also small mohalla shops dealing with books and electric fans, services by electricians, plumbers or water purifiers etc.

COVID-19 cases in the country have been rising rapidly. The Indian government has taken several steps to flatten the curve, such as imposing a nationwide lockdown for 21 days and a complete ban on travel. The importance of these measures notwithstanding, they have brought down the economy on its knees, impacting both overall consumption and investments.
This has prompted several rating agencies to revise downward their FY 2020 GDP growth estimate for India in the range of 2.1–4.0%.

Sector-wise Impact

Tedious Road Ahead for Travel & Tourism and Entertainment

The travel & tourism industry was one of the first sectors to be affected by the outbreak, and most likely will also be the hardest hit. The Indian Association of Tour Operators (IATO) estimates the hotel, travel and aviation sectors to incur losses of up to Rs 8,500 crores due to travel restrictions imposed on foreign tourists.

The drop in numbers is already affecting several small and mid-sized players in the tour operating and ticketing space. Liquidity crunch would most likely result in significant job losses in the next few months.

Cancellation of tickets, refunds and low utilization rate of airlines have made matters worse for the already distressed aviation industry in the midst of a cash crunch. The industry association is seeking relief in the form of tax cuts, deferment of GST payment, the addition of jet fuel under GST, reduction in airport charges, a temporary cut in excise duty on jet fuel, and other financial aid to cushion the impact.
The Events and Entertainment Management Association (EEMA) has requested for aid to support its 60 million employees in the wake of postponement or cancellation of all major national events due to the pandemic. The industry has a huge section of blue-collared workers on daily wages, whose livelihood is at risk due to the nationwide lockdown.

The popular movie industry is not behind. All major releases and shooting of films have been put on hold. The Indian cinema industry will likely face a loss of ~INR200–250 crores over the next 2–3 months.

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With social distancing becoming a norm, at least for the next few months, both travel & tourism and entertainment sectors are not expected to recover soon. Furthermore, unemployment and fall in income levels would aggravate the situation.

Auto industry to witness massive revenue loss due to disruption in supply chain globally The automotive sector is feeling the pinch too. In passenger cars alone, the lockdown is estimated to have reduced production by ~240,000 units (~10% of total annual production).

Each day of loss of production is causing the industry a loss of over INR2,300 crores in revenue on average, aggregating to over INR48,700 crores (~2% of total automotive industry revenue) over 21 days.

After the lockdown is lifted, financial compulsions and low sentiment may drive roughly 35– 40% of consumers to defer their vehicle purchase decisions for the next six months (until September 2020). Hence, annual sales of light motor vehicles and motorcycles are estimated to fall by ~4.2 million units in 2020.

The spread of the pandemic globally had a whiplash effect across the supply chain. Automotive manufacturers in India depend highly on auto components imported from COVID-19-affected countries such as China, Germany and South Korea. This factor too will adversely impact production.

Low Asset Utilization Rate in Logistics And Ports

With the movement of people/passengers restricted amid the lockdown, revenues have taken a hit in the railways, bus, airline, and cab segments of the transportation sector.

In essential commodities, the Indian government has taken various measures for swift movement of freight across the country. However, players in the logistics sector are struggling to service needs as supply chains across industries have been disrupted. Furthermore, output in factories has decreased drastically and fewer trucks are on the road. Due to the unavailability of staff, last-mile storage and distribution are also suffering.

Activity at seaports has ceased with a decline in export-import trade. Other issues affecting the sector are slow custom clearance, the inability of clearing and forwarding (C&F) agents to ply the required cargo from ports to CFS/ICD, and time-consuming manual stuffing and de-stuffing of containers and documentation/cargo handling.

Rail freight has been affected as the demand and supply of high volume bulk cargo items (such as imported coal for power plants or iron ore exported via rail to various ports in India for steel mills in China) are subdued.

Road Freight: According to IFTRT, ~50% of the 50 Lakh trucks are off the road due to the unavailability of drivers who fear being stranded as road-side services (restaurants, repair shops) have been crippled.

The impact on the sector would be long-term, reflected in the decline in revenue due to the low utilization of assets. Cash flows and working capital of firms in these businesses will also remain strained.

FMCG and Retail Players on a War Footing; Foodservice and Institutional Business Decimated

Since the imposition of the nationwide lockdown, FMCG companies and retailers are dealing with challenges primarily around three highly interconnected issues: surge in demand & depletion of inventory, reduction in workforce, and supply chain disruption.

Panic-induced stockpiling meant supermarket shelves were getting empty faster than they could be replenished. Both traditional and modern retailers bore the brunt, with the likes of DMart, Big Bazaar and Nature's Basket eventually having to reduce working hours, put limits on the purchase of essential items (like eggs, milk, flour, etc.), or in some cases, even close down for a few days. E-commerce operations of major brick & mortar retailers as well as Amazon and Flipkart were not spared either.

As retailers struggle to deliver orders, innovative delivery models are emerging. Some examples are Big Basket and Flipkart tying up with Uber and Swiggy for last-mile delivery of essential items, Zomato launching Zomato Market service to deliver groceries from retail stores, and ITC partnering with Domino's Pizza for zero contact delivery of Aashirvaad brand of atta and spices.

The lockdown has led to the migration of workers to their homes in rural areas, causing a shortage of labourers and, thereby, disruption of supply chains. To contain the impact, some retailers (GROFERS and Spencer's Retail) are adopting reverse supply chain mechanism, i.e., sending own trucks and workers to pick goods from distribution centers, while others (DMart and Metro Cash & Carry) are offering additional incentives (INR400–500 per day) to their workers.

The decision of FMCG players such as HUL, Godrej, and ITC to restart production of essentials goods at select plants, albeit at reduced utilization rates, is a welcome step. However, they need to prepare better to address issues likely to emerge in the medium term.

Restrictions on travel and hospitality services have wreaked havoc on the bulk institutional sales and foodservice businesses of these FMCG companies.

Way Forward: Implications for Companies

The pandemic has paralyzed economies, compelling businesses to re-evaluate their strategies. Companies will need to build their financial muscle and focus on developing a lean structure to stir through the uncertain business environment.

The global nature of the outbreak, coupled with its high intensity and long duration, is expected to change the business landscape by way of shift in trade flows, investments and consumption patterns. Hence, the priority for businesses should be to draft a comprehensive action and recovery plan to mitigate the risks and address the main challenges.

The rampant spread of COVID-19 outbreak, across borders and geographies, has severely impacted almost the whole world and triggered significant downside risks to the overall global economic outlook.

Due to the lockdown announced by the Indian Government, the economy may slow over the next few months. For most businesses, the slowdown could be in the form of supply disruptions, fall in consumption demand, and stress on the banking and financial sectors.

Potential Case Scenarios for Indian economy

Assessing the exact impact for India is hard with uncertainty on how long the pandemic would last. Here is a Deloitte point of view, based on a macro-economic forecasting model, on what the three likely scenarios for India's economic situation could be:

An Optimistic Situation that Shows a Temporary Impact of COVID-19 and a V-Shaped Recovery

Under this forecast scenario, the COVID-19 pandemic in India could be controlled efficiently by June 2020. The government's effective interventions may improve healthcare resources and services, and India's economy could revive from Q2 FY2021 onwards.

A Somewhat Optimistic Scenario with a Severe and Extended Impact of COVID-19 and a U-Shaped Recovery

In the second scenario, India may see limited success in controlling the spread despite the focus on public health-related measures and fiscal policies. With stringent restrictions on movement, the current lockdown may extend until September 2020. Some industries will face pressure as rising debt and defaults affect market sentiments, stress the financial sector, and reduce domestic demand.

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A. Pessimistic Situation, with a Prolonged Severe Downturn Leading to a New Low-Level Normal

Under the third scenario, the pandemic may spread rapidly (amidst strict movement restrictions) until Q4 FY2021. Due to steep decline in demand, the economy will witness production cuts.

The situation will ease only in Q1 FY2022 after medical interventions. Subsequently, the economy will revive modestly as consumers will continue to be wary of spending, which will affect long-term spending. Over the next two years, the model predicts the economy to grow by 1.5–2%, lower than it would have grown otherwise, with unequal recovery across sectors.

The above-mentioned scenarios are plotted in Table 1, and it summarises projected GDP growth rates and inflation for each scenario.

The likely impact of each scenario on growth and inflation

Scenario 1				
Quarters	**Q4 FY20**	**Q1 FY21**	**Q2 FY21**	**Q3 FY21–Q4 FY22**
GDP growth	4.0–4.2%	2.5–2.8%	4.1–4.3%	5.5–6.8%
Inflation	Moderate	Low around target rate	Low	Rises but moderates
Scenario 2				
Quarters	**Q4 FY20**	**Q1–Q3 FY21**	**Q4 FY21**	**Q1 FY22– Q4 FY23**
GDP growth	4.0–4.2%	2.2–3.0%	4.2– 4.4%	5.5–7.5%
Inflation	Moderate	Low moderates by Q4 FY21	Moderate	Rises above 4%
Scenario 3				
Quarters	**Q4 FY20**	**Q1–Q4 FY21**	**Q1–Q4 FY22**	**Q1 FY23–Q4 FY23**
GDP growth	4.0–4.2%	2.2–3.5%	4.4–4.5%	5.0–6.0%
Inflation	Moderate	Moderate		Moderate

Figure 5: Economic scenarios and its impact

Notes

- The colours of the table indicate the phases of the slowdown and revival. Red is a sharp decline in growth, while green is recovery.
- In scenario 2, inflation picks up in H2 FY 2021 as demand revives faster than supply. Inflation may increase above the target range (4 percent) for a short time in FY 2021 because of economic overheating. In this scenario, inflation remains 3-4 percent during this period despite weak demand because of a sharper fall in production.

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What has been done so Far

India has already undertaken the following measures to counter the impact from of the pandemic:

- A three-week countrywide lockdown and fiscal steps, coupled with monetary measures from the RBI, to provide relief for all, especially the vulnerable and the disadvantaged
- A government has directed the employers to not terminate or cut wages, particularly that of casual or contractual workers, and low-paid workers to also take paid sick leave and unemployment allowance through insurance cover
- Government to contribute to both employees' and employers' share in the Employees' employees' Provident Fund
- RBI relaxes lending norms for banks, injects cash into the system, slashes interest rates, and relaxes repayments for three months
- Managing the pandemic and the resultant public health crisis
- Protecting income and employment, particularly for the disadvantaged and vulnerable sections of the society

Certain Measures that Government May Consider

Managing the endemic and the resultant health crises

- Create a national database of the available physical health infrastructure and medical and para- medical resources
- Segregate the public and private health care facilities by earmarking a section of available hospital beds for treating COVID-19 patients only
- Extend additional one-time budgetary support to augment public health care system in terms of facilities, equipment, and human resources capacity
- Earmark financial resources to provide one-time grants/financial support to research institutions and leading pharmaceutical/biotechnology/medical equipment companies
- Extend the coverage of Ayushman Bharat and other applicable insurance schemes to COVID- 19 if not already included
- Tweak the existing customs duty structure for select components, which are essential for manufacturing testing kits, ventilators etc.

Supporting the Corporate Sector to Minimise Adverse Economic Impact and Facilitate Quick Recovery

- Enable access to funds for businesses to run their day to day operations and service their debt
- Ensure smooth supply of essential products and commodities to contain the economic impact of the COVID-19 outbreak
- Provide credit support to Medium and Small Enterprises
- Encourage investments such as one-time set off of capital investments made by corporates for income-tax computations

Overall, the steps and the recognition of the likely scenarios for the Indian economy can enable policy makers to identify appropriate counter measures to stem the spread of the pandemic.

V. Covid-19 Impact: India's Economy to Shrink by 3.2% in FY21, says World Bank

World Bank sharply scaled down its projections for India’s economy, forecasting 3.2 per cent contraction in the fiscal year 2020-21 because of the Covid-induced lockdown. It had earlier predicted 1.5-2.8 per cent growth.

The country's economy grew 4.2 per cent in 2019-20, the slowest in 11 years. “Stringent measures to restrict the spread of the virus, which heavily curtail short-term activity, will contribute to the contraction,” World Bank said in its latest edition of the Global Economic Prospect. It, however, stressed India’s economy should bounce back in 2021-22 and pegged growth at 3.1 per cent. Still, it is lower than 4-5 per cent growth projected by the bank earlier.

India could lose the tag of the fastest-growing large economy to China for two years. China is projected to grow at 1 per cent in CY2020, and 6.9 per cent for CY2021.The bank also sharply cut its 2020 forecast for the world economy — 5.2 per cent contraction, as against 2.5 per cent growth projected in January. If this comes true, the contraction will be the deepest global recession in eight decades, despite unprecedented policy support.

Following the report, World Bank has joined scores of international agencies that forecast contraction in the Indian economy as the aftermath of the lockdown. The worst has been predicted by US-based brokerage firm Bernstein, which sees India's economy contracting 7 per cent in FY21.

THE FORECAST

GDP growth rate forecasts in % for 2020-21 (unless mentioned)

Agency	Forecast	Agency	Forecast
Bernstein	-7.0	India Ratings	-2.1 to 1
SBI Research	-6.8	CII	-0.9 to 1
Godman Sachs	-5.0	Moody's Investors Service	-4.0
Nomura (for 2020)	-5.0	World Bank	-3.2
Fitch Ratings	-5.0	IMF	1.9
ICRA	-5.0	Asian Development Bank	4.0
CRISIL	-5.0		

Source: Respective agencies

Figure 6: Forecast by various agencies

Now, the International Monetary Fund (IMF) remains one of the few institutions which still foresee India's economy growing. It pegged growth at 1.9 per cent in 2020-21. It is also slated to come out with revised projections later this month and is likely to see a contraction in the economy.

Earlier, former chief economic advisor Arvind Subramanian had termed World Bank's and the IMF'sprojections as “optimistic”.The Washington-based

multilateral lender said the Covid-19 pandemic and the multi-phased lockdown imposed to curb its spread dealt a devastating blow to the Indian economy.

World Bank said spillovers from weaker global growth and balance-sheet stress in the financial sector will also weigh on activity, despite some support from the fiscal stimulus and continued monetary policy easing.

According to the report, the central bank has been purchasing government bonds to further ease the financial conditions.

The Indian government has also increased its spending on healthcare to bolster the Covid-19 response, wage support, in-kind and cash transfers to lower-income households, and deferral of tax payments, as well as loan and liquidity support for small businesses and financial institutions.

The ratio of central taxes -to-GDP slid further in FY20 to a 10-year low of 9.88 per cent, driven by a decline in collections from customs duties and corporation tax, while excise duty posted marginal growth. This was despite the fact that only a week was under lockdown in the year. The ratio stood at 10.97 per cent in FY19, and at 11.22 per cent in FY18. It is only estimated to decline further, with revenues falling on account of a slump in economic activity.

While the ratio determines the extent to which the government is able to finance its expenditure from tax collections, it is also an indicator of tax compliance. Developed countries have a higher contribution of tax to their GDP. The Centre's gross tax revenue fell 3.39 per cent in FY20, with a Rs 1.5-trillion shortfall in collections, as against the revised Budget target for the year.

It will need growth of 20.5 per cent in FY21 to meet the Budget target for the year. GDP growth for FY20 fell to an 11-year low of 4.2 per cent. A higher tax-to-GDP ratio indicates the tax base is increasing along with growth in the GDP. The government has taken a slew of measures to improve compliance, which include the introduction of GST and electronic assessment by tax officers. A lower ratio, however, restricts the government’s capital spending, given that puts pressure on the fiscal deficit.

Corporation tax revenue fell 16 per cent in FY20 and Customs revenue declined by 7 per cent, even as excise collections grew 3 per cent. India is way behind OECD members in terms of the tax-GDP ratio — an average of 34 per cent.

In fact, the share of tax revenue in the Centre’s revenue receipts fell to 81.3 per cent in FY20, from 85.8 per cent in the previous year and 84.3 per cent in FY18.

The direct tax to GDP ratio fell to its lowest in 14 years, at 5.1 per cent, while the indirect tax to GDP ratio was at a 5-year low in FY20. The share of corporation tax in gross tax fell to 27.7 per cent — at least a 10-year low. Further, the

share of customs duties in gross tax fell to 5.43 per cent in FY20, from 5.66 per cent in FY19.

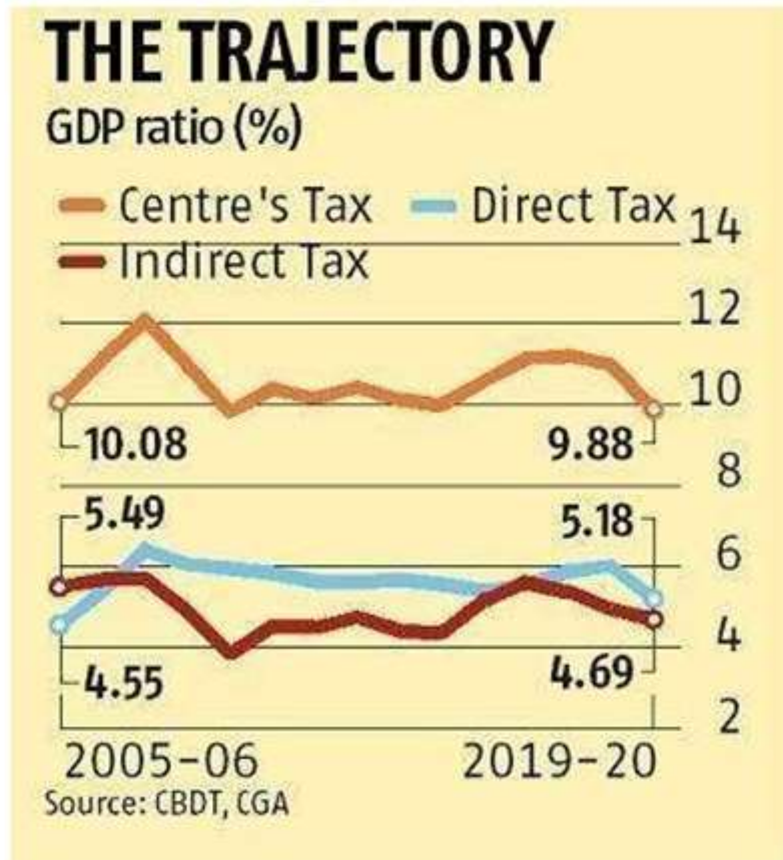

Figure 7: Trajectory of GDP growth

Aditi Nayar, principal economist at ICRA, said the cut in corporation tax rates compounded the impact of the economic slowdown on overall collections, while high gold prices shrunk gold demand and dampened Customs duty inflow.

"We estimate a 30 per cent shortfall in Central taxes, relative to the Budget Estimate for FY21," said Nayar.

The Central Board of Direct Taxes (CBDT) on Sunday clarified that the gross direct tax collection growth in FY20 was actually 8 per cent, at Rs 4 trillion, but tax reforms worth Rs 1.7 trillion led to a 5 per cent contraction in direct tax revenue last year.

The government had, last year, cut the corporation tax rate to 25 per cent to promote private investment. However, some did not avail of the option because they

would have had to forego their minimum alternate tax credits. Former finance minister Arun Jaitley had, in a social media post in 2018, emphasised on the need to improve the Central taxes-GDP ratio by another 1.5 percentage points. It had touched a high of 11.3 per cent in FY18.

"Despite higher compliances in the new system, as far as non-oil taxes are concerned, we are still far from being a tax-compliant society. Salaried employees are one category of tax- compliant assessees," he said, adding that most other sections would have to improve their track record.

VI. Downgrade of India's Sovereign Rating by Moody's

The downgrade of India's sovereign rating by Moody's has not come as a surprise as global rating agencies have lowered ratings and outlook of about 21 emerging economies following COVID-19 outbreak, SBI said in a report on Tuesday.

India's sovereign rating was downgraded by Moody's to Baa3 with a negative outlook on the pretext of prolonged period of slower growth, rising debt and stress in financial system.

Apart from sovereign rating downgrade, Moody's has taken rating actions on 11 Indian banks.

"It seems that the downgrade was not completely unexpected. This is clearly visible in the data that market is not yet impacted by the rating downgrade. BSE Sensex and NSE Nifty rose and even Rupee appreciated against the US Dollar.

"India has not been alone to witness rating downgrade. So far around 21 emerging and developing countries have registered either a rating and/ or outlook downgrade by the agency. This does not come as a total surprise as emerging markets are always more susceptible to rating downgrades compared to developed economies in times of stress even if some of them have very low debt to GDP ratio," SBI in its research report 'Ecowrap' said.

The rating action, the report said, was no reflection on the ability of the Indian government to service its debt obligations.

"The sovereign external debt comprises around 20 per cent of the total external debt. The current level of foreign exchange reserves are sufficient to meet any debt obligations," the report added.

The downgrade was unlikely to result in any immediate repercussions on exchange rates and bond spreads immediately on India offshore bonds, the report said, adding "...we need to be careful that we remain in investment grade and continue to give growth a big push through policy measures".

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It further said that in the current situation in India both the key interest rate and GDP are expected to fall further.

"Our nominal GDP growth is likely to contract and based on this our interest-growth differential may turn positive also. Further, if interest rates are higher than expected, then the cost of rolling over a given debt increases," the report said.

There have been studies which show that if the difference between interest rate and nominal growth rate is negative then there is no level of debt which is unsustainable, i.e. the government can borrow easily.

The report also suggested that the government should only think of such interest-growth differential and not slippage in fiscal deficit.

VII. Conclusions

This may be the time to reset. Never before has the world come to a standstill where one can pick apart the many moving pieces – like Tom Cruise in Minority Report. We have the opportunity to rethink everything. If we do things right, we may be able to fix challenges that face humankind – environmental damage, inequality etc.

More importantly, we must ensure something like this never happens again. History says that humankind has never learnt from history. Let's hope that it's a thing of the past.

It's important to understand the behaviour of the different market participants – High Network Individuals (HNIs), Foreign Institution Investors (FIIs), Domestic Institutions Investors (DIIs) such as Asset Management Companies (AMCs) who create and manage mutual fund schemes, as well as retail investors. Their investing behaviour during COVID will affect the stock markets which are often skewed and aren't the best indicators of the underlying economy. The stock markets may have a strong recovery, not due to the fundamental strength, but due to global liquidity which is available for almost free (as interest rates tend to near zero) as described in my article which analysed of the impact of COVID-19 on the Indian economy.

This Corona Virus pandemic may wreck the Indian economy. The level of GDP may further fall, more so when India is not immune to the global recession. Infact, it is believed that India is more vulnerable, since its economy has already been ailing and in a deep-seated slowdown for several quarters, much before the COVID-19 outbreak became known. The Prime Minister of India has already spoken of setting up an Economic Task Force to devise policy measures to tackle the economic challenges arising from COVID 19, as also on the stability of Indian economy. However, the concrete plans would have to be kept in place to support the economy and its recovery.

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As the disruption from the virus progresses globally as well as within India, it is for us to forget, atleast for the time being, all talking only about economic recovery, and instead join hands whole heartedly to tackle the outcome of COVID-19.

Related Newspaper/web Article on COVID-19

Article link: https://www.businesstoday.in/current/economy-politics/coronavirus-fallout-unemployment-rate-spikes-to-23-after-lockdown-says-cmie/story/400349.html

Article Title: Coronavirus fallout: Unemployment rate spikes to 23% after lockdown

The article explains that the employment situation has worsened from the start of March, before the lockdown was triggered, and then soared in the last week of the month and the first week of April 2020.

The overall unemployment rate may have surged to 23 per cent, with urban unemployment standing at nearly 31 per cent, amid the countrywide lockdown due to coronavirus outbreak, Centre for Monitoring Indian Economy (CMIE) estimates showed. The employment situation worsened from the start of March, before the lockdown was triggered, and then soared in the last week of the month and the first week of April 2020, CMIE data showed.

While the overall unemployment rate spiked to 23.4 per cent, the urban unemployment rate soared to 30.9 per cent. "In March 2020, the labour participation rate fell to an all-time low, the unemployment rate shot up sharply and the employment rate fell to its all-time low," Mahesh Vyas, CEO, CMIE, said in an article on the website.

Unemployment, according to the Organisation for Economic Co-operation and Development (OECD), is when persons above a specified age are not in paid employment or self-employment and currently available for work during the reference period. "The unemployment rate in March was 8.7%. This is the highest unemployment rate in 43 months...The unemployment rate during this last week of March was 23.8%. Labour participation rate fell to 39% and the employment rate was a mere 30%," Vyas added.

India's unemployment rate surged to nearly 9 per cent, the highest in the last 43 months, according to CMIE data. The unemployment rate stood at 8.74 per cent in March, highest since August 2016 when demonetisation happened, CMIE data showed. In August 2016, the unemployment rate was 9.59 per cent. While the unemployment rate was recorded at 9.35 per cent in urban areas, it stood at 8.45 per cent in rural parts of the country, the data also showed. In February, it was recorded at 7.78 per cent. Meanwhile, India is under a 21-day lockdown currently until April 14.

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