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Study On The Impact Of COVID-19 On The Indian Economy And Its Path To Recovery

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Abstract

India, one of the most populous and massive nations in the world, has been hit hard by the COVID-19 epidemic, which is quickly becoming a worldwide health emergency with serious financial ramifications. The world's greatest shutdown was imposed to contain the virus, which posed an unprecedented threat to India's already vulnerable economy. The informal sector, micro, small, and medium-sized enterprises (MSME), financial markets, and banking institutions are among of the areas that this research examines in depth as they relate to the Indian economy and the epidemic. It looks at the economy before COVID-19, during and after the lockdown, and at the possible long-term effects of the pandemic. Furthermore, the research delves into the policy actions taken by the Indian government and the Reserve Bank of India to lessen the impact of the economic shock and provides suggestions for encouraging a robust rebound. Healthcare preparedness, digital infrastructure, and financial sector stability are crucial in navigating the road to recovery, and the results highlight the need of specific policy measures to assist the most impacted sectors and segments of the population.

***Keywords:** COVID-19, Indian Economy, Informal Sector, MSMEs, Financial Markets, Economic Impact, Policy Response, Recovery Path, Structural Reforms.*

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1. Introduction

Coming out of China in December 2019, the COVID-19 epidemic has become a double- edged sword, wreaking havoc on countries' economies and health systems alike. Governments throughout the globe have responded to its extremely infectious nature by enacting strict containment measures, which have caused enormous disruption to everyday life and economic operations. These measures include social separation, lockdowns, and the suspension of non-essential services. Although these actions are vital in stopping the spread of the virus, they have caused some to worry that the world economy would enter a lengthy recession. In April 2020, Kristalina Georgieva, head of the International Monetary Fund, said that this would be the biggest economic impact since the Great Depression. Many specialists have already dubbed this pandemic a "Black Swan" event; it poses a distinct danger not seen since the Spanish flu, HIV/AIDS, SARS,

MERS, and Ebola, and it has the potential to surpass all of them in severity. India became one of the worst-hit nations in the world by July 2020, with over a million confirmed illnesses and over 25,000 fatalities, after recording its first COVID-19 case on January 30, 2020. The complicated fight against the epidemic is reflected in India's relatively good recovery rate and the fact that, despite these frightening figures, the country has not yet reached its peak in daily new cases.

India instituted the greatest lockdown in global history on March 25, 2020, in reaction to the worsening situation; it lasted for around two months. In an attempt to contain the infection, this extraordinary step severely limited movement and cut off all non-essential utilities. Government officials began easing the lockdown in June, mostly in low-risk "containment zones," so that companies could reopen and limited domestic travel could resume, all while adhering to stringent safety measures. Nevertheless, night curfews are still in effect in almost all states in an effort to reduce the spread of the illness, and schools and other public meeting spots are also shuttered. The gradual lifting of the lockdown demonstrates the careful balancing act between containing the epidemic and reducing economic suffering; this highlights the difficulties encountered by India's public health system and the critical need of a strong reaction to overcome this unparalleled worldwide health catastrophe.

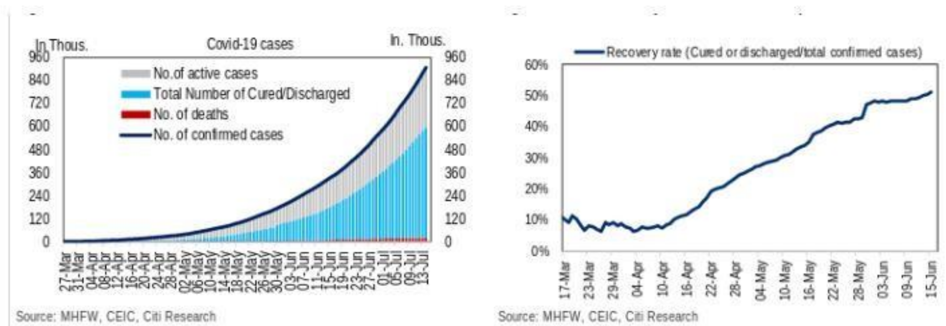

Figure 1: Confirmed Covid-19 cases in India

Testing, contact tracing, isolating confirmed patients in quarantine centres, and putting up treatment facilities, including temporary hospitals, were all prioritised during the lock-down period. But the ever-increasing number of patients, particularly in the areas hit the worst, is putting a strain on the health care system.

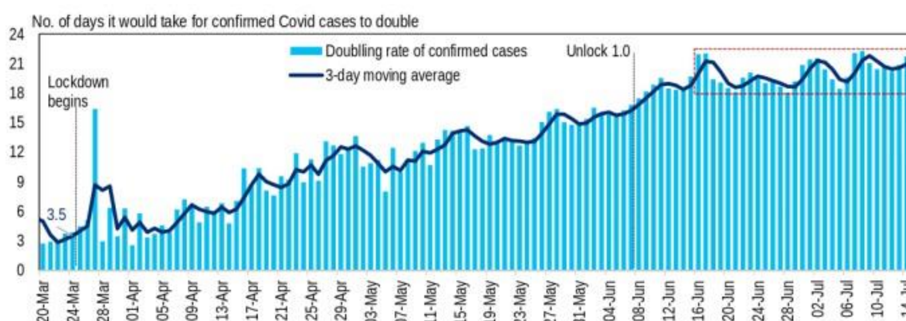

Figure 2: Doubling rate of confirmed Covid-19 cases in India

Source: Ministry of Health and Family Welfare; Citibank Research. Doubling rate represents the number of days it would take for the cases to double if the daily percentage increase in confirmed cases remains unchanged.

Due to the unprecedented lockdown, the economy has suffered a significant blow. Now the lives and jobs of many individuals are at danger. As the country came to a halt and over half a million migrant workers lost their jobs and money, they either returned to their home villages or established up camp inside cities due to the closing of state borders. There is a critical lack of labourers in the metropolitan areas because, while some have gone back to the city to look for work, most have not. Raw resources and finished goods were both severely restricted when transported over state lines. The closing of borders by several nations has put an end to international trade and commerce. These variables are disrupting supply chains and distribution

networks across almost all industries. Also, consumer demand has plummeted as a result of millions of people remaining inside and putting off non-essential expenditures.

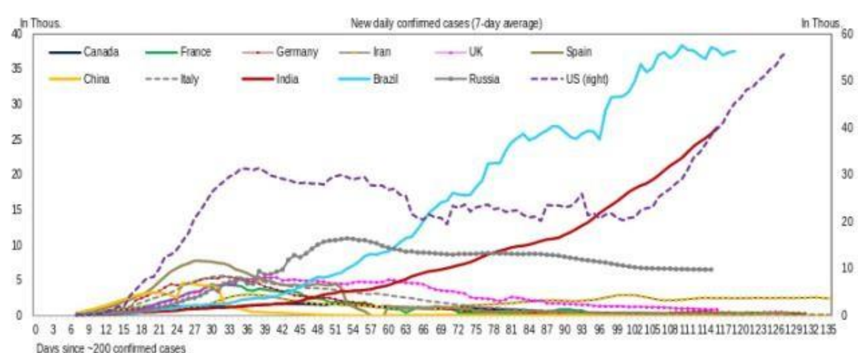

Figure 3: New daily confirmed cases across the world

Source: Ministry of Health and Family Welfare, Citibank Research.

Elements that contribute to the overall magnitude of the pandemic's impact involve the duration and intensity of the health crisis, the level of sporadic closures needed in different regions, and the aftermath of lifting the nationwide lockdown and returning to normal economic operations. The economy has already endured significant damage. Reduced GDP expansion and increased joblessness have been signs of India's economic troubles in recent years. A disaster has now struck the country. The economy is already in a delicate situation, so any surprise will definitely have an even larger effect. The economy's engine, the financial industry, has been sluggish lately, and macroeconomic strategy doesn't have a lot of room to address the issue. Unlike previous periods, when the Indian economy primarily faced a deceleration in demand, this time, both the demand and supply aspects have been impacted. There are four avenues through which the influence is being communicated to the rise in output. The market is responsive to both external and internal factors, like supply chain interruptions and the global economic downturn, and declines in demand and decreased demand, respectively. The economic jolt has affected both the official and unofficial sectors of the economy. The economy may require an extended period to bounce back from this impact, even after the lockdown is completely lifted in August or September of 2020. The policy choices established by the government and RBI throughout the crisis will significantly impact the recuperation. Politicians have recognised the necessity for taking action. Greater exertion is needed to alleviate the effects on the economy. This article examines the Indian economy prior to the COVID-19 disruption and evaluates the potential effects on different industries. We assess the disclosed strategies to date and offer suggestions for additional actions to help alleviate the economic consequences.

2. Indian economy in pre-Covid-19 period

Worldwide economic activity has slowed due to the shock's effects on supply and demand. The problem may be more serious and long-lasting in India, however, considering the state of the economy there before COVID-19. When news of India's first COVID-19 case broke, the country's economy was already in a precarious position.

Gross domestic product (GDP) growth has been flattening off since 2015–16. In 2019–20, GDP growth slowed to 4.2%, the lowest pace since 2002–03, according to an official estimate. The industrial sector had a drop of 0.58% in Q4 of 2019–20. This industry contributes 30% to GDP. We are seeing the highest rate of unemployment in 45 years. The investment of capital by companies and other organisations is a key factor in economic growth. Prior to COVID-19, the nominal value of private sector investment had been falling. There was a 2.4% decline in the total number of investment projects and a 4% decline in the number of newly announced projects between 2015-16 and 2019-20, according to the Centre for Monitoring the Indian Economy (CMIE). Also, consumer expenditure fell for the first time in decades.

Frequent indications of urban consumption demand show a decline in sales of consumer durables and passenger autos in February 2020 (figure 4). This would suggest that consumption in urban areas decreased over the last three months of the year. Indicators of rural consumption show that sales of motorcycles and

consumer non-durables were low in February 2020, indicating slow demand in rural regions. The lockdown would have made it exceedingly difficult, if not impossible, for private investment and consumer demand to rebound.

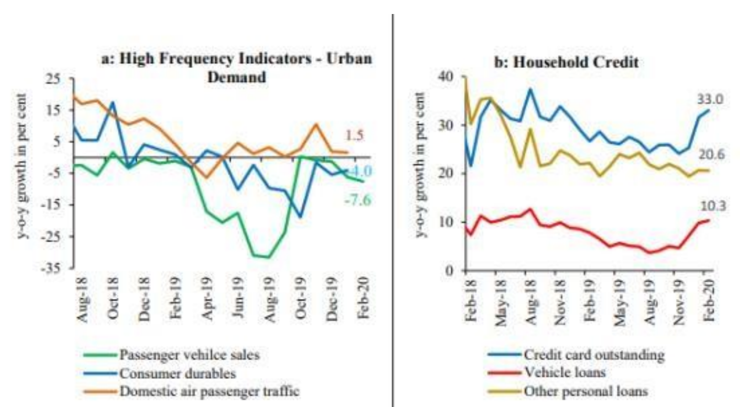

Figure 4: High frequency indicators: Consumption demand

Source: RBI (2020)

India is in a particularly precarious situation as it attempts to address the continuing economic crisis due to a number of distinct issues.

2.1 Informal sector

The massive informal sector in India employs more people than any other industry on the planet and contributes for more than 45 percent of GDP. It also employs over 90% of India's working-age population. This sector was hit hard twice in a row between 2016 and 2019. One was the government-mandated "Demonetization" in November 2016—the removal of 86% of the cash in circulation—and the other was the chaotic Goods and Services Tax rollout in 2017.

Despite the massive monetary shock that demonetisation produced, the demand and supply chains were unaffected in the long run. There was a temporary scarcity of payment options.8 Looking back, we can see that people found methods to get around the system. They used old notes, converted black money into white money, established informal credit, paid electronically, etc. In the current crisis, there are no underlying revenues since neither demand nor supply exists. For that reason, this is more problematic. According to Ray and Subramanian (2020), the COVID-19 epidemic has had a devastating impact on the already weak informal economy.

2.2 The banking and corporate sectors

The financial sector must take the lead in limiting losses when the real economy is stressed. It is vital to keep the credit supply constant so that all economic players, including consumers, companies, and government agencies, can weather the storm.

In a bank-dominated economy, most businesses will use banks as a means of obtaining financing, which is particularly true given the daily lows seen by the stock market. It is critical that financial institutions respond to this economic catastrophe. When it comes to the debt market, banks are among the most significant institutional actors.

However, the Indian economy is in utter disarray. Public sector banks in particular have been struggling with the ever-increasing losses generated by non-performing assets. Concerns in the banking sector have dampened credit growth, and by the time the pandemic hit India, these issues had begun to weaken the debt markets, which are just as important for financial intermediation. This may soon become a big obstacle as the Indian economy recovers from this unprecedented blow.

Banks and businesses in India have been battling Twin Balance Sheet (TBS) difficulties for a while now. The private sector's excessive debt and financial instability, together with the banking system's lack of

capitalization, were contributing reasons (Sengupta and Vardhan, 2017, 2019).

In response, the government and the banking regulator (RBI) implemented a variety of policies and procedures. Some of these measures included mandating that banks investigate high-ranking bank officials under the Insolvency and Bankruptcy Code (IBC, 2016), accepting huge haircuts from failing businesses despite inadequate capital, putting the ten weakest banks under a Prompt Corrective Action framework that forbade them from expanding their books, and other similar measures.

The suspicion of fraudulent credit operations led to the arrest of high-ranking bank officials on many occasions.9 All bank employees, regardless of their location, are deemed "public servants" under India's 1988 Prevention of Corruption Act ("POCA"), according to a ruling by the country's top court in February 2016. The POCA now opens the door to investigations and charges of corruption involving any employee of the bank. There is a chance that any action taken about non-performing assets may be investigated. Doing just one little thing can deter bank employees from making decisions that might affect the company. This is particularly worrisome since, as noted by observers at the time, POCA provides rather loose definitions of corruption and does not limit investigations in any way.10 Banks may have become more risk averse as a result of these measures, claim Sengupta and Vardhan (2020b).

A major non-performing asset (NPA) problem began to level out in September 2018 when IL&FS (Infrastructure Leasing and banking Service), a major NBFC, went bankrupt, adding another blow to the banking system. Both the banking system and the debt markets, which are the main sources of financing for NBFCs, were shaken by this. The bond market's reaction was matched by a significant widening of credit spreads among banking sector bond issuers. Borrowers from many walks of life, not just the banking sector, felt the effects of the precipitous drop in bond issuance. Although the government and the RBI made every effort to encourage banks to maintain lending, only a few of highly regarded NBFCs were successful. Even before the IL&FS disaster, banks had a low risk appetite, and the debt markets became even more risk adverse.

One immediate effect of banks' heightened risk aversion is the stagnation of commercial credit issuance. Public sector banks (PSBs), which account for about 90% of nonperforming assets, significantly cut down on lending to the private sector. Net bank loan growth slowed to 2.69 percent in FY2017, the worst pace in a decade. By FY2018, PSBs had loaned more to NBFCs than private sector banks did to retail customers. Figure 6 illustrates that overall lending to the sector fell considerably, but the most notable decline was in personal loans.
After a rapid increase in the last quarter of FY2019, mostly owing to loans to NBFCs, overall bank lending slowed, and credit spreads on corporate debt instruments remained high after the IL&FS crisis. There was a 90% drop in commercial loans in the first half of FY2020. Some worry that private sector banks may feel deposit pressure after Yes Bank's near- collapse in 2020 in February and March, which would further restrict loan growth.11 Figure 5 shows that credit off-take was comparatively controlled in 2019–20, with non-food credit growth of 6.1% (up to March 13, 2020). This is in contrast to the 14.4% increase in the same period of the previous year. There was the smallest growth in credit from non-food bank sources in over sixty years as well.

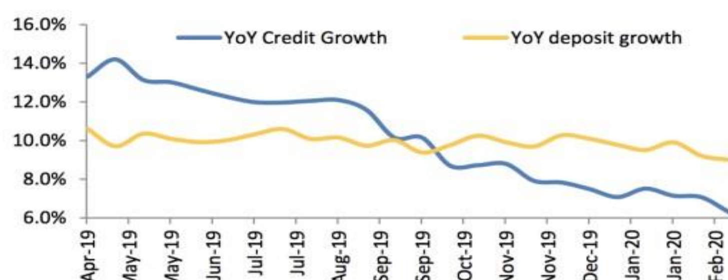

Figure 5: YoY Credit and deposit growth of the banking sector

Source: ICRA report. This shows total non-food credit growth.

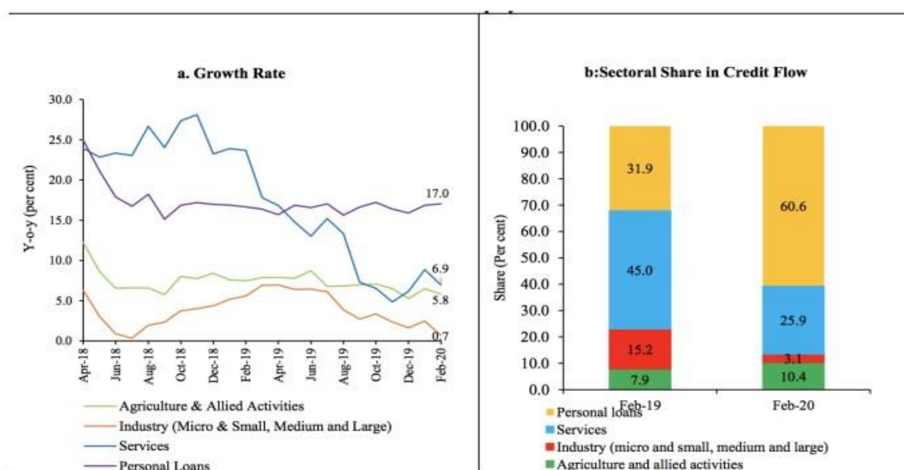

Figure 6: Sectoral deployment of credit

Source: RBI (2020)

Based on anecdotal evidence, banks' reluctance to provide credit is a major factor, and the balance sheet crisis may have dampened demand from private companies, which in turn slowed the expansion of commercial loans. Hear it straight from the RBI Governor: "subdued profitability and deleveraging by certain corporates" have caused "risk-averse banks to shift their focus away from large infrastructure and industrial loans towards retail loans."

The impact of banks' heightened risk aversion on the debt markets has begun to manifest. With bank loan growth at a multi-decade low, firms are largely reliant on the debt market, especially the short-term debt market, for funding. The dramatic reduction in non-SLR bond holdings by banks (figures 7a and 7b) demonstrates their aversion to credit risk. Due to the significant growth in the excess SLR of all banks—including PSBs, private, and foreign institutions—and the fact that banks hold more G-Secs than is needed under SLR, credit risk aversion is prevalent across all sectors.

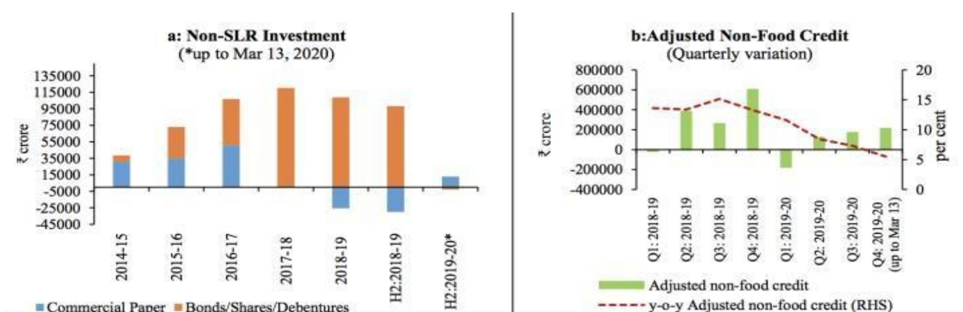

Figure 7a: Non-SLR investment and adjusted non-food credit

Source: RBI (2020)

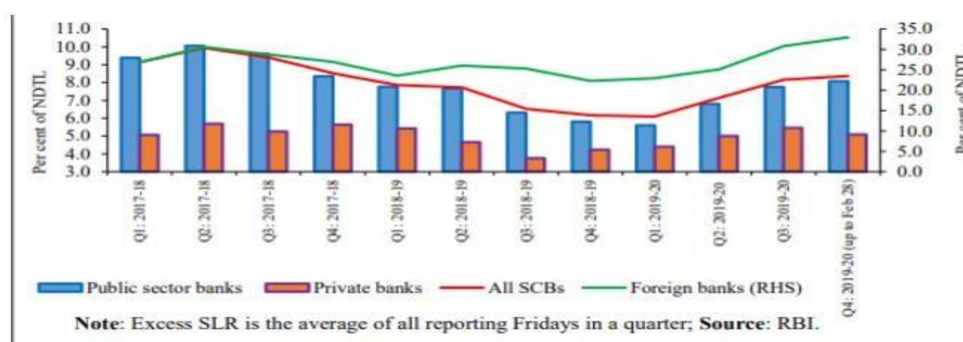

Figure 7b: Excess SLR of banks

Source: RBI (2020)

The Yes Bank issue happened just as the debt market was beginning to recover from the NBFC crisis of 2018-2019 and show signs of interest in corporate debt products. Yes Bank's extra tier 1 (AT1) bonds were fully written off as part of the bank's reorganisation.AT1 bonds are a major source of financing for 14 different banks. The banking sector's total outstanding bond amount was around Rs 89,000 crore as of this writing. These were held by a plethora of pension funds, mutual funds, and individual investors.

Additional planned issuances of AT1 notes were cancelled due to the astronomical credit spreads on these bonds. Since no bank is anticipated to issue these bonds anytime soon, private sector banks in particular are having a hard time raising money. This restriction will become more and more important as financial institutions fight to restore their fragile balance sheets after the COVID-19 shock.

There has been considerable strain on the financial accounts of the private sector for some time. The 2019–2020 fiscal year was awful for them. Revenues (after inflation adjustment) decreased in the first three quarters compared to the same time previous year. Gross value added (after inflation) for businesses also declined every quarter. The investment coming from the private sector is decreasing. Growing gross fixed capital formation (GFCF) slowed in 2019 and 2020 Q2 and Q3. An essential indicator of investment demand, capital goods production and imports were falling in January and February 2020 (RBI, 2020). Industrial capacity utilisation declined in Q3 2019–20, falling below the long-term average.

2.3 Limited policy space

Given the present state of the economy and, more especially, the financial institutions, the government does not have many policy instruments to tackle the economic crisis. Indian domestic economic conditions were better prepared for the 2008 global financial crisis as a result of a credit bubble, fast economic growth in the years preceding up to the GFC, and the capacity of the government to implement fiscal and monetary stimulus measures. Most importantly, the damage to the banks was minimal.

However, prior to the start of COVID-19, the government's budget deficit had already grown to a size that surpassed the target established under the FRBM Act. For 2019 and 2020, the federal government had a budget deficit of 4.6% of GDP, even though that was the target. This budget deficit has reached its highest point since 2012–2013. The finance minister's target for FY2021—3.5% (table 1)—was drastically surpassed in her budget address on February 1, 2020. In order to allow a decrease in the 2019–20 aim, the FM has already used the escape option of the FRBM Act. As per the clause, the government has the authority to relax the budget deficit aim by a maximum of 50 basis points, or 0.5%.

It is obvious that the government's budget has very little room for manoeuvring anymore. The government's ability to support the economy will be more constrained as the crisis advances due to falling tax collections, falling revenues of public sector enterprises, and growing health sector expenses. Even without additional expenditure, the deficit would increase dramatically due to a decline in tax revenue and disinvestment revenues. When comparing April 2020 net tax collections to April 2019, a staggering 70% drop was seen. The overall deficit for 2020- 21, including state-level deficits, would exceed 10% of GDP, and that's before you even include the off-balance-sheet variables. It is quite challenging to finance such enormous deficits.

Table 1: Key Fiscal Indicators – Central Government Finances

			Per cent to GDP
Indicator	**2019-20 (BE)**	**2019-20 (RE)**	**2020-21 (BE)**
1. Revenue Receipts	9.3	9.1	9.0
a. Tax Revenue (Net)	7.8	7.4	7.3
b. Non-Tax Revenue	1.5	1.7	1.7
2. Non-Debt Capital Receipts	0.6	0.4	1.0
3. Revenue Expenditure	11.6	11.5	11.7
4. Capital Expenditure	1.6	1.7	1.8
5. Total Expenditure	13.2	13.2	13.5
6. Gross Fiscal Deficit	3.3	3.8	3.5
7. Revenue Deficit	2.3	2.4	2.7
8. Primary Deficit	0.2	0.7	0.4

Source: RBI (2020)

In the years before this disaster, the limitations of monetary policy were also plain to see. In response to the slowdown in GDP, the Reserve Bank of India (RBI) initiated a monetary expansion strategy. Open market operations15 released about 4 trillion rupees in liquidity between October 2018 and December 2019, and a 135 basis point reduction in the repo rate16 brought it down to 5.15 percent, the lowest level since March 2010. Still, credit growth stopped due to low demand for lending from private businesses and growing risk aversion from banks.

Monetary policy implementation in India has been poor for a number of structural reasons, such as a large segment of the population not using formal financial services and an illiquid bond market. When the banking system isn't functioning properly and private company investment demand isn't particularly exciting, it will be tougher for a policy rate cut to affect GDP.

The Indian economy is experiencing severe shocks from both supply and demand, and the fiscal, monetary, and financial policies enacted to combat these issues have been mostly unsuccessful. Furthermore, there have been indications of weakening in the economy's international sector. The nominal value of goods and services exported declined 8.49% in Q4 2019–20, which is another important economic driver.

3. Impact of the crisis

3.1 Overall macro impact

The national closure has brought all commercial activity to a halt. There will still be friction between supply and demand even after the lockout ends. Getting back to normal economically and socially will both be slow processes that last as long as the health shock does. Consequently, it is not expected that demand, especially for non-essential goods and services, would rebound in the next several months. Consumption, investment, and exports— the three pillars upon which aggregate demand rests—are expected to remain relatively stable for some time.

In addition to the already unprecedented decline in demand, there will be a protracted period of supply chain disruptions caused by raw material shortages, a slowdown in international trade, the mass migration of migrant workers from cities, and travel and shipment restrictions imposed by nearly every affected country. It will likely be some time before the supply networks return to normal. Several companies are already in a tough position as a result of China's total disruption of supply chains. As long as the crisis persists, companies will have increasing difficulty in remaining solvent. This will have a significant impact on production in almost every home business. The effect will be to dampen investment, employment, income, and consumption, which in turn will limit the pace of economic growth.

No one knows how long the underlying health problem could persist just yet. There are also many questions that have yet to be resolved, such as the extent to which the economy was affected, the severity of the situation for consumers and business owners, the rate of recovery from the lockdown, and most importantly, the potential impact on economic output. Because of this, it is difficult to understand how dire the current situation is for the Indian economy. The severity and duration of the economic slump may be predicted using certain statistics. While there was a temporary recovery in economic activity in June 2020, it seems that the recession has returned in most regions. After a sharp decline in April and May, most high- frequency indicators began to show signs of recovery around the middle of June. Most likely, the broad implementation of lockdowns and the subsequent damage to consumer confidence and economic activity are to blame.'

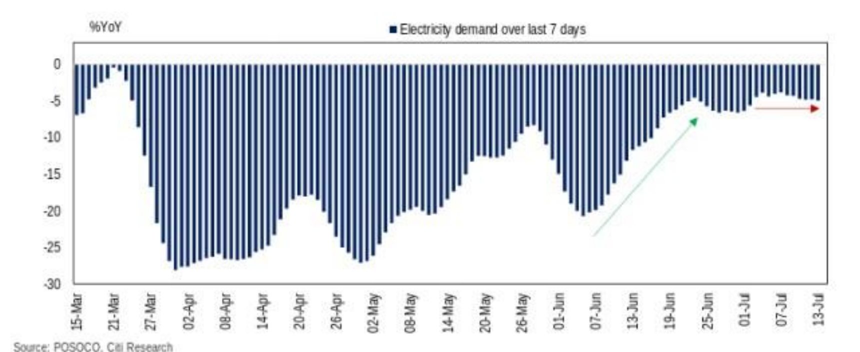

Figure 8: All India electricity demand (YoY)

Figure 8 shows that electricity consumption fell 30% below last year's levels, but it has now started to rise again. There has been no further slowdown in the rate of decrease in power consumption since the end of June. Transactions pertaining to vehicle registrations fell sharply in late March and early April, started to improve in May, and then started to decrease again in the first two weeks of July (figure 9).

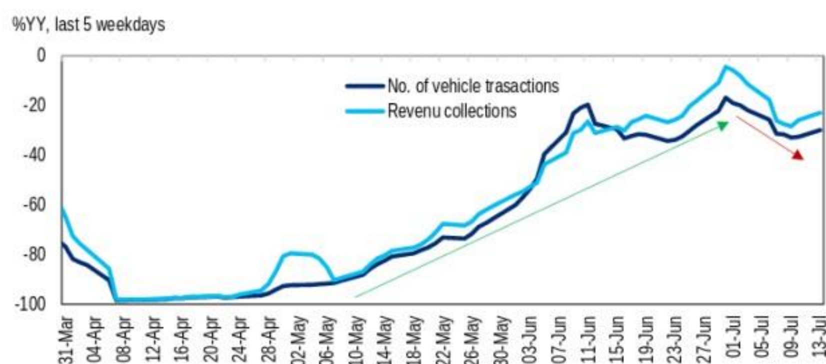

Figure 9: Vehicle registration related activities

Source: Citibank Research

The average annual reduction in cargo throughput at Indian ports was 20% in March and April, with the most impacted categories being containers, petroleum products, and thermal coal. Although ports are regarded as "essential services," their economy took a hit due to the lockdown's effects on global trade and domestic production. Important for economic growth, rail freight decreased by almost 35% year-on-year in April before gradually increasing from May through July.

After suffering the brunt of the damage from the present COVID-19 storm, India's aviation, tourism, and hospitality industries are now even less certain of their capacity to withstand the shutdown. The aviation industry in India is growing at a tremendous pace, and this shutdown would surely slow it down. The Indian aviation industry is projected to suffer enormous losses of about $4 billion this year, according to the Centre for Asia Pacific Aviation (CAPA).

There will be massive cascading consequences in the hospitality and tourism industries as well. Currently, all restaurants and hotels throughout the country are closed. They are unlikely to see a surge in demand regardless of whether the lockdown is removed. They anticipate worse times ahead for their companies, which has them scared about mass layoffs.

According to the World Travel and Tourism Council, if travel reduces by twenty-five percent in 2020, twelve to fourteen percent of the workforce would be at risk. In all, this may threaten the security of fifty million employment around the globe. In India, the tourism sector employs around 20 million people, or 5% of the total workforce, as shown by the Consumer Pyramids Household Survey carried out by CMIE. Additionally, the hotel business employs four million people. Since the latter half of 2017, there has been a decrease in employment within the travel and tourism industry. Particularly hard hit by the continuing crisis will be these sectors.

Google released a mobility analysis that contrasts the amount of visitors and average length of stay at different places around the country before and after the shutdown. For the five weeks beginning January 3, 2020, and ending February 6, 2020, the baseline is the median value for the relevant day of the week. Figure 10, left panel, shows the average of five different kinds of places, whereas figure 10, right panel, excluding residential areas, compares the percentage change in visit and stay duration at different sites to the baseline. After a steep decline in April and a slow rebound in June, July saw no increase at all outside of the vital grocery and pharmacy sectors.

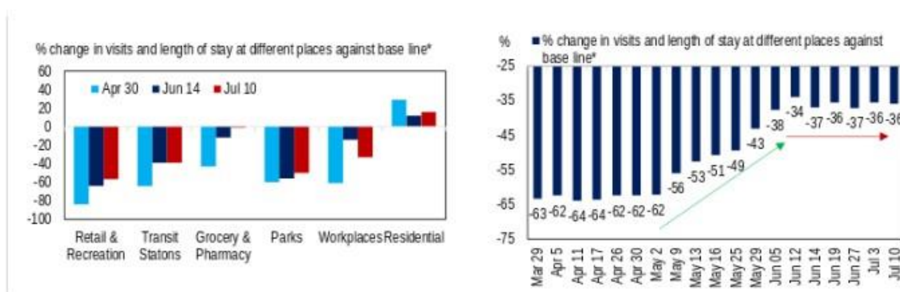

Figure 10: Google Mobility Report

Source: Citibank Research

The closure of all non-essential businesses has led to a precipitous decline in income for most industries. The only option for companies facing a drop in income is to close down or lay off a significant number of workers. Many companies in those sectors would be unable to restart normal operations even when the lockdown ends, as personnel have already left the region. Demand in capital-intensive sectors, such as jewellery, consumer durables, and real estate, may not recover for many months or even quarters.

Reports from the Consumer Pyramid household level survey of the CMIE show that the overall weekly unemployment rate surged from an average of 9% in March to more than 23% in May and as high as 35% by early-June. In urban areas, it was higher than in rural areas. The first loosening of lockdown restrictions caused a sharp decline in the unemployment rate, which fell to 11% in June. The rate of involvement in the labour force likewise showed significant improvement. After then, the unemployment rate didn't budge from 11%. This rate is greater than the rate before to the lockdown, however it is lower than the rate recorded during the peak of the lockdown from the end of March to the end of May. Although the workforce participation rate increased at a faster pace and the unemployment rate declined more sharply, both have been exhibiting symptoms of slowing down since July, indicating a plateau.

Companies in the private sector that have been cutting down on debt in the wake of the TBS crisis and those with sizable financial reserves may be able to ride out the current economic storm. Still, a lot of companies have a rough patch ahead of them. Rent, salaries, and debt payments persist despite a gradual fall in income as a result of people's changed spending patterns.

Many of these businesses will fail to pay their bills since their revenue keeps going down. Businesses already on the brink of bankruptcy would have their situations exacerbated by the lockdown measures, and those now undergoing an insolvency resolution process under the Insolvency and Bankruptcy Code (IBC) would likely have no choice but to liquidate. Major businesses have been known to try to get out of paying rent, licence fees, etc. by claiming that there was a force majeure. The seriousness of the problem is further shown by this.

A global recession, which may last for a while, would have an impact on the Indian economy, on top of domestic problems. This would definitely have an impact on the global economy and trade with India. Foreign investors started pulling their money out of India's financial markets after the stock markets crashed, seeking safer investments elsewhere.

3.2 Informal sector

A disproportionately large portion of India's workforce operates in an informal capacity. From 94% in 2004–05 to 91% in 2017–18, the percentage has decreased somewhat (table 2). This includes agricultural workers. The 2017–18 labour force included 422 million people, of whom 465 million worked in an informal capacity. The percentage of unofficial workers was close to 84% in the same year across all industries, including non-farming ones like manufacturing and services.

Table 2: Informal Employment: Number and Shares

	Total Employment (in millions)	Informal Employment (in millions)	% Share of Informal workers in total employment
2004-05	459.4	430.9	93.8
2011-12	474.2	436.6	92.5
2017-18	465.1	421.9	90.7

Source: Mehrotra and Parida (2019)

The formal and informal sectors couldn't be more different. The lack of social security benefits is only one of the many problems faced by workers in the informal sector, who are already vulnerable to employment instability. There were 51.3% self-employed people, 23.3% temporary workers, and 23.4% permanent employees out of the total workforce. Those who work on an as-needed or contract basis are mostly considered informal labourers.

Poor wages and income were problems for informal workers even before the COVID-19 outbreak. Although everyone has been affected by the disease, migrants and other forms of informal employment have been hammered the hardest. Many have lost their employment and income as a result of the lockdown, particularly in urban areas where businesses are few. There were 122 million job losses in April 2020. Day labourers and small-scale merchants lost 91 million jobs due to this (CMIE). Between March 22, 2020, and May 3, 2020, the employment rate dropped to 26.4%, but by June 21, 2020, it had recovered to 37.8%. While it has made progress, the employment rate is still lower than it was before to the COVID-19 epidemic. Azim Premiji University found that 57% of rural workers also lost their employment during the lockdown, in addition to 80% of city workers. Approximately 77% of the households significantly reduced their food intake. Millions of people lost their jobs as a result of this economic shock, and it would take a long for them to get back on their feet.

Forty to fifty million people work as seasonal migrant workers in India. They help with a wide range of service activities and are essential to buildings, roadways, and industries. Images of tens of thousands of migrant labourers returning to their hometowns after a perilous journey from several states started appearing on social media shortly after the announcement of the lockdown. Due to the lack of notice for the March 24 lockdown, several residents were forced to evacuate their homes.

Most of these migrants have lost their jobs as businesses and other groups have shut down. Returning to urban settings is rarely easy for those who have endured such terrible hardship previously. Reportedly, they were not helped as they frantically sought a means to return to their villages from the city, where they were unable to obtain any employment, food, money, or housing. Due to fatigue and hunger, very few people really died the route. Rural locations are more appealing to these workers since they allow them to be closer to their families. Even though they left their ancestral areas for better economic opportunities in the metropolis, it is very unlikely that they could support their family if they stayed in the rural.

Many migrants have stayed in rural areas, and just a few have returned to urban places, even if the lockdown has been eased. These folks are actively seeking employment opportunities in remote areas. The projects funded by MGNREGA are being worked on by workers with different degrees of experience. Because of how long it would take for the economy to recover following COVID-19, the future is even more uncertain for migrant workers and other informal labourers.

Workers in the formal economy may be certain that they will keep receiving their paychecks and will not be let away from their jobs if companies do not collapse. The informal economy operates under a separate set of rules. The amount that people need every day is a crucialconsideration. With many potential customers staying home and cutting down on non- essential expenditure due to the health crisis and accompanying lockdown, the sustainability of units in the informal sector is becoming more questionable. There will be a mass exodus of companies from the underground economy.

3.3 MSMEs

The aggregate of micro, small, and medium-sized firms represents a large element of India's manufacturing sector, which in turn supports a considerable number of employment. The micro, small, and medium

business (MSME) sector accounts for half of India's exports and, according to conservative estimates, employs half of the country's industrial workers; and, according to recent annual reports on MSMEs, the sector contributes roughly 30% of GDP. Micro firms account for more than 98% of MSMEs, and virtually all of them, 94%, are not even registered with the government. The vast majority of micro-businesses are small, family-run establishments.

A lot of government policies, however, aren't tailored to help these companies and are, at most, scale-neutral. This industry is unable to get enough, timely, and acceptable institutional finance. More than eighty-one percent of capital for SMEs comes from within the company, with just around seven percent coming from outside sources like banks or the government (Economic Census, 2013).

The service, commerce, and industrial sectors are all potential locations for MSMEs. In Table 3, we can see the different sectors' share of the total rise in bank credit deployment rates. This data shows that MSMEs, or micro, small, and medium-sized businesses, have bad or slow credit growth. Demonetisation and GST made small and medium-sized enterprises' inadequate performance worse. New problems have made it much more difficult to provide credit to the NBFC sector.

Table 3: Growth in Industry-wise Deployment of Bank Credit by Major Sectors (YOY,%)

Item	March-15	March-16	March-17	March-18	March-19	Nov-19#
Non-food Credit	8.6	9.1	8.4	8.4	12.3	7.2
Industry	5.6	2.7	-1.9	0.7	6.9	2.4
Micro&Small	9.1	-2.3	-0.5	0.9	0.7	-0.1
Medium	0.4	-7.8	-8.7	-1.1	2.6	-2.4
Large	5.3	4.2	-1.7	0.8	8.2	3.0
Textiles	-0.1	1.9	-4.6	6.9	-3.0	-6.1
Infrastructure	10.5	4.4	-6.1	-1.7	18.5	7.0

Source: Economic Survey 2019-20; # as on November 22, 2019

The pandemic has already dealt a disproportionately heavy financial hit to small and medium-sized businesses (MSME), and a nationwide closure would be significantly worse for them. The exodus of migrant labour, raw material shortages, export and import delays, travel prohibitions, hotel, theatre, and school closures, and many other reasons have all had a severe effect on their supply chain. Because of this, the businesses owned by MSME entrepreneurs have been severely impacted. A survey carried out in June 2020 by the All India Manufacturers Organisation found that 35% of MSMEs and 43% of self-employed people felt their businesses had little chance of recovery and had begun to shut down. For the hundreds of thousands of people who work for these small businesses, this may mean less pay and fewer jobs.

Potentially, India can gain insight from the shutdown-related blunders committed by Chinese SMEs. According to Zhand (2020), the Enterprise Survey for Innovation and Entrepreneurship in China, spearheaded by Peking University, swiftly resurveyed 2,349 SMEs, the majority of which were from the province level. The goal of this study was to examine how the epidemic has affected these SMEs. This research shows that many SMEs are in a constant state of survival battle. From a cash flow perspective, half of the companies who participated won't last more than three months, and almost a quarter won't last more than one month.

It depicts small and medium-sized enterprises (SMEs) in China during a long epidemic in a negative light. Moving up the supply chain alters the constraints. Take, for example, how upstream organisations are more affected by workforce constraints, whereas downstream enterprises are more affected by supply limits and client demand. Still, it seems that different industries feel different repercussions. Companies engaged in exporting felt the effects more acutely than those not involved in exporting due to their reliance on foreign workers and concentrated supply chains. From what we can see from the survey, COVID-19 has had a devastating effect on China's small and medium-sized enterprises. That India will likewise face the same fate is quite likely.

3.4 Financial markets and institutions

As the ripple effects of the health shock and the statewide lockdown continue to surface, the financial system's reluctance to take risks will only intensify. An already fragile banking system will see a dramatic worsening of corporate delinquencies and nonperforming assets (NPAs) as more and more businesses are unable to pay their bills due to the massive demand and supply disruptions. The asset quality of banks is anticipated to deteriorate due to interruptions in economic activity. Consequently, Moody's Investors Service has already changed its outlook for the Indian banking industry from stable to negative.

From 2011 to 2019, private enterprises accounted for the bulk of nonperforming assets (NPAs). In light of the IBC, it may be possible to recover a portion of the principle from these collateralized loans. The COVID-19 epidemic has already impacted the lives of millions of individuals, and now it is expected to cause a dramatic increase in retail defaults. Indian households were already burdened with substantial debt prior to the current crisis. A increase in the unemployment rate makes it harder for individuals to pay off debt and buy new things because they lose their jobs and other sources of income, especially in the informal sector. The fact that these loans are all unsecured only makes things worse. India does not have any laws regarding individual bankruptcy as of right now. When the number of people who don't pay back their personal loans starts to climb throughout the country, it won't help either the banks or the borrowers in rural or urban regions.

Another thing to consider is that this time around, private sector banks could be hit worse than PSBs. Nonperforming assets (NPAs) were most heavily borrowed by the infrastructure and other heavy sectors during the last NPA crisis that occurred between 2003 and 2008. Between 2011 and 2019, when the TBS stress first became apparent, companies in these industries began deleveraging or are already declaring bankruptcy.

There would be a spike in defaults for non-bank financial organisations (NBFCs) that lend to micro, small, and medium enterprises (MSME) as a whole since MSME earnings will fall. Perhaps most worrisome is the dire financial situation in the massive micro-finance sector (NBFC-MFIs), which provides funding to innumerable micro and small enterprises throughout the country. Microfinance institutions (MFIs) let people with low incomes save money and get loans. When borrowers repay loans promptly, microfinance thrives. As soon as the repayment rate decreases, these groups collapse.

Repayment rates might plummet now because borrowers are having a hard time making ends meet because of the unexpected income shock. Tiny enterprises that operate on a tight budget and can only afford to repay loans for a year or less are often lent money by microfinance organisations. Because to the lengthy shutdown, their revenue would drastically decrease. And since most microfinance institution (MFI) loans are paid in cash, collecting on them during a shutdown is next to impossible. Assuming the debtors have sufficient financial resources, this remains the case.

Failure of the SMEs to repay the loans would have a devastating effect on the financial institutions' bottom lines. A higher quantity of money borrowed from banks increases the chance of default for these NBFCs. As the mountain of nonperforming loans (NPAs) on existing loans rises, the already risk-averse banking industry is likely to become much more so if banks are undercapitalized. In other words, the already fragile financial sector may be much more crippled by the crisis's potential to worsen in a variety of ways.

4. Conclusion

The epidemic caused by COVID-19 has, without a doubt, cast a long shadow over the Indian economy, as it has revealed and exacerbated vulnerabilities that were already present across all of its sectors. Even while the statewide lockdown is necessary for public health, it has resulted in a severe economic slowdown, which has had a disproportionately negative impact on the informal sector, micro, small, and medium-sized enterprises (MSMEs), as well as the banking and financial sectors. Because of the crisis, it has become abundantly clear that there is an urgent need for a policy framework that is both strong and responsive, with the ability to tackle the current issues while also laying the basis for a durable economic recovery. Moving ahead, it is very necessary for India to use this crisis as a spur for structural changes. The primary areas of attention should be on improving healthcare facilities, strengthening the banking sector, and providing assistance to the sectors that have been affected the hardest and the populations who are the most particularly vulnerable. Through the implementation of a comprehensive and all-encompassing strategy for recovery, India is not only able to successfully manage the present economic issues, but it is also able to construct a more robust and egalitarian economy for the future.

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