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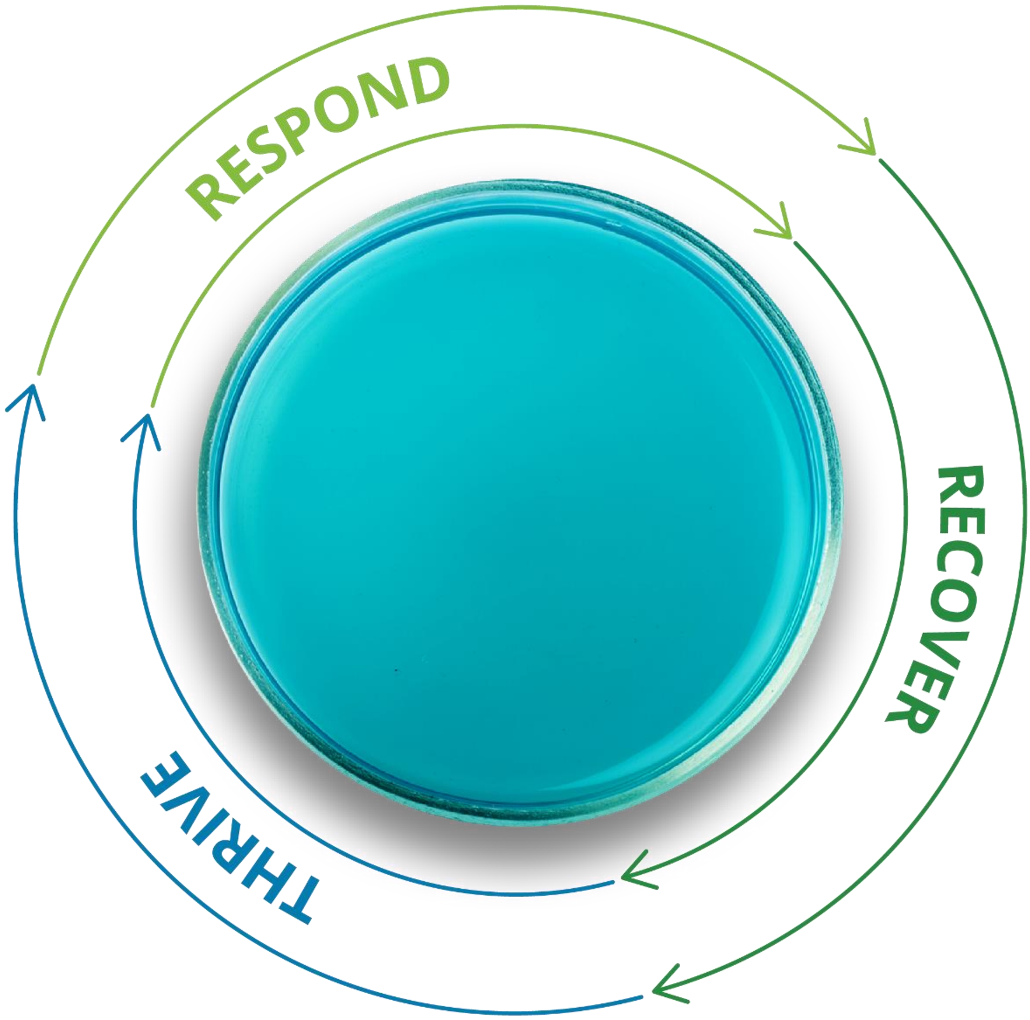


COVID-19

Following up on the immediate economic response

1 April 2020

With COVID-19 spreading rapidly in India, policymakers are worried about how to fight the virus and minimise its impact on the economy. There are no easy answers. In addition to containing the spread of the disease and support those who are affected, policymakers have to be prepared for the long-term challenges and opportunities that may arise once the crisis is over (and it will eventually be).

To provide a holistic view and specific recommendations to deal with this crisis and emerge stronger, we will share a series of publications. This report is the first in the series.

Executive summary

With India going into a complete lockdown for the next two weeks, the economy may see a sharp slowdown in the next few quarters. Supply disruptions, fall in global and domestic demand, and stress on the banking and financial sectors will adversely affect growth. In such a scenario, the silver lining which has emerged is the falling oil prices that may improve the country's twin deficit and give policymakers some headroom to act.

As there is little visibility on how long the pandemic would last, the economic impact could range from a mild downturn (where growth slows for a quarter or two, and the economy bounces back immediately) to a severe slowdown (where growth slows for more than a year followed by a tenuous recovery). This paper discusses three possible scenarios drawn using Oxford's global economic model to provide a probabilistic economic outlook. These three scenarios are (a) an optimistic scenario, considering a temporary impact of COVID-19 and a V-shaped recovery, (b) a somewhat optimistic scenario, a severe and extended impact of COVID-19 and a U-shaped recovery, and (c) a pessimistic scenario, with a prolonged severe downturn, leading to a new low-level normal. These scenarios present a varying degree of the economic and financial crisis, and predict corresponding outcomes.

Taking the broad side of these scenarios, this policy paper suggests the following measures that the Government of India can take, given the economic context of the country:

1) **Managing the endemic and the resultant public health crisis** through augmenting financial resources, increasing insurance coverage, and using technology solutions

2) **Protecting income and employment, particularly for the more vulnerable sections of the society** through implementing direct cash transfer programmes backed by adequate monitoring and evaluation mechanisms, and using existing digital payment infrastructure

3) **Supporting the corporate sector to minimise adverse economic impact and facilitate quick recovery** through immediate measures (such as credit support to SMEs) or medium-to-long measures (such as building infrastructure and undertaking policies) that help reposition India in the world's global value chain

The Indian government has already advised employers to protect jobs. The paper suggests more steps considering the challenges ahead.

Speedy economic recovery is an important part, especially for an important industry segment as suggested in this paper. These suggestions, some of which the government has already acted upon, are expected to help the country mitigate some of the challenges at hand.

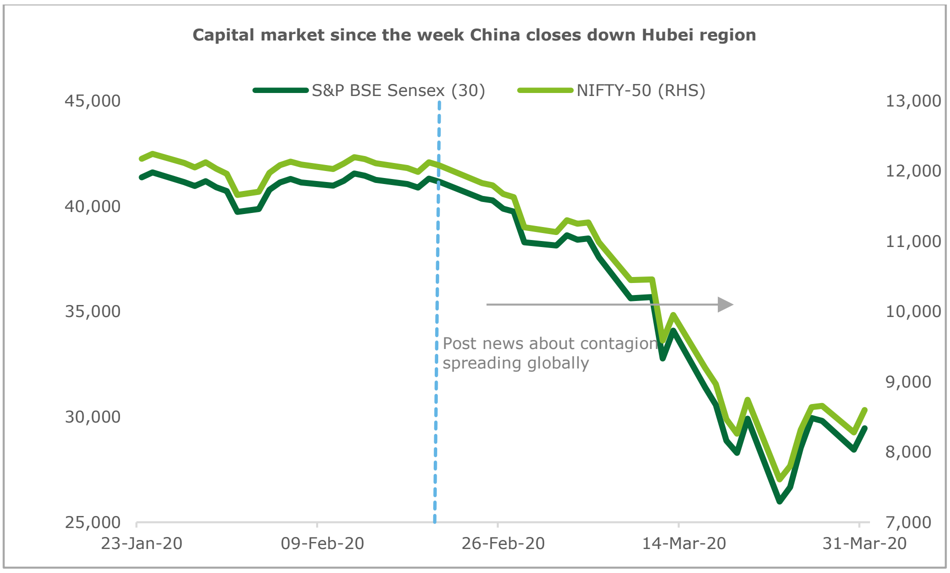
Macroeconomic overview

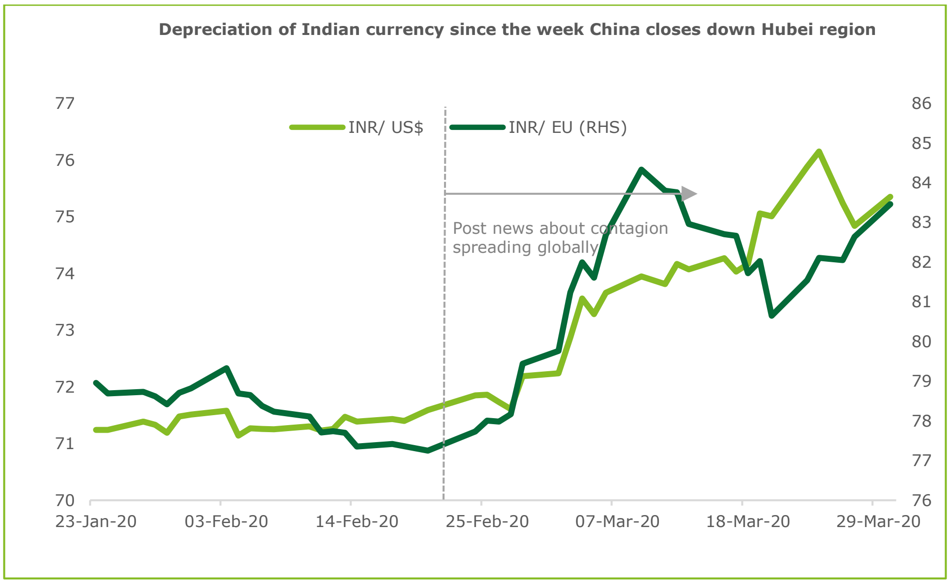
The COVID-19 outbreak has presented new and significant downside risks to the global economic outlook. China, the second-largest economy in the world and the initial epicentre of the outbreak, has recorded a low and deeper decline in industrial activity than what it witnessed during the 2008-09 global financial crisis. According to the International Monetary Fund, several developed countries (such as North America and Europe) may already be in a recession in the January-March quarter.[i]

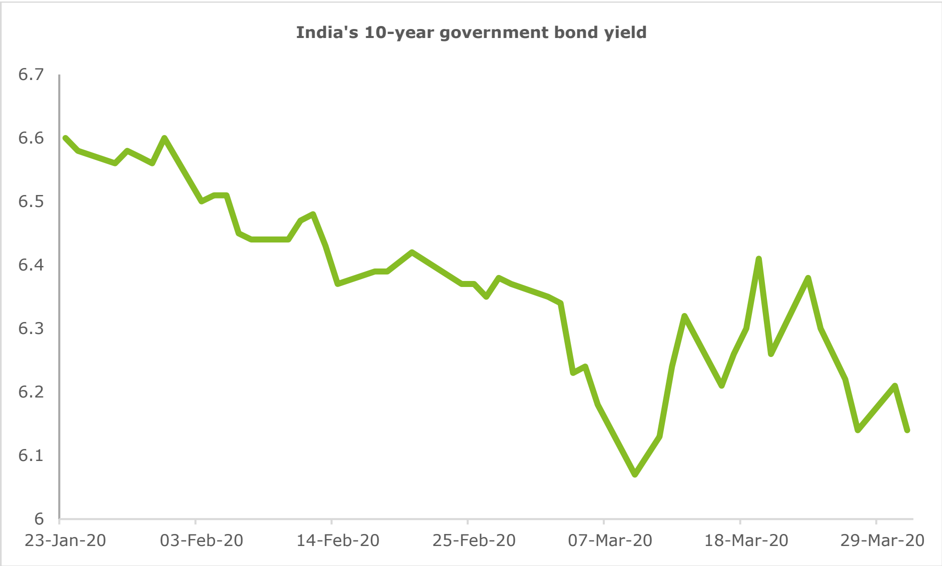
India started witnessing COVID-19 cases in late February this year. The number of positive cases is rising rapidly. Central and state governments have announced, and are announcing new measures almost daily, to contain the spread and treat the afflicted persons, after the nationwide lockdown. The central government has issued guidelines to the state governments to restrict the movement of the migrant workers and strictly enforce the lockdown.[ii] These guidelines include providing temporary food and shelter to the poor and needy, including migrant labourers. The government has also issued consolidated guidelines for exempting select business establishments from the lockdown. These commercial and private establishments include shops, such as ration shops, those dealing with food, groceries, fruit and vegetables, banks and insurance offices and ATMs including IT vendors for banking operations, petrol pumps, telecommunication services, and 10 other such businesses. [iii] The government has also set up 11 high-level empowered groups to identify and initiate specific measures focused on health, logistics, economic and welfare measures, coordination with private sectors, technology and data management, etc. These measures are intended to ensure effective implementation of social distancing, continuity of essential services and time-bound implementation of plans and strategies in a comprehensive manner.

Currently, there is little visibility on how long the pandemic will last and what its impact will be on the economy. However, the economy undoubtedly would be affected because of this “black swan” event. The sharp fall in the capital market indices, the depreciation of the rupee, and the reversal of the 10-year government bond yields are some indicators (Figure 1). A survey conducted by the Federation of Indian Chambers of Commerce and Industry shows that more than 53 percent of the respondents have felt the impact of COVID on their operations and 80 percent reported a decline in business cash flows.[iv] The key question on everyone’s mind now is what the overall impact will be on the economy and how long will it last.

Figure 1. Impact on the financial sectors becomes prominent after the pandemic starts spreading rapidly in the US and Europe in the third week of February







Source: CMIE, data till 30 March 2020

Four transmission routes for economic disruption

The pandemic outbreak is likely to affect the economy through four levers: supply disruptions, fall in global and domestic demand, stress on the banking and financial sectors, and decline in oil prices. While the first three will adversely affect the economy, the falling oil prices could be a boon for India’s twin deficit and input prices and may give policymakers some headroom.

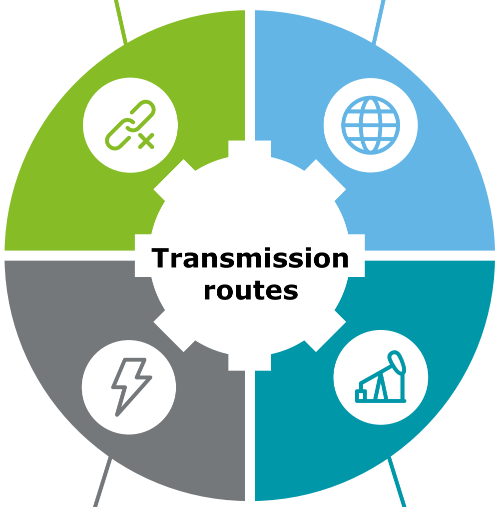
Figure 2: The four transmission vectors through which COVID-19 may affect the economy

Supply disruptions

- Dependence on China for the import of raw and intermediate materials
- Higher input prices and reduced profitability, leading to decline in capacity building
- Supply-side disruptions may be temporary as China revives production units

Global and domestic demand

- Consumer spending to take a hit due to movement restrictions and the fear of falling sick
- Reduced wealth effect due to falling share prices
- The hospitality and aviation sectors are affected the most at a short span of time
- Low profitability and production disruptions affect business sentiments and investments
- Loss of employment, especially in the informal sector and for contractual workers, reduces consumer spending
- Demand in top few export destinations (China, the US, and Europe), accounting for 40 percent of India's exports, is severely hit



Stress on banking and financial sectors and parameters

Banks

- Exposure to stressed industries and MSMEs
- Rising consumer loan default because of high unemployment and household leverage
- Stress on banks' impact credit growth

Capital market and financial parameters

- The stock market has fallen 30 percent since the pandemic started spreading in the West.
- A sharp depreciation of rupee against the dollar worsens trade deficit as export's contribution to GDP is low.
- Rising bond yields make borrowing more expensive, thereby reducing bank margins.

Falling oil prices

- Oil prices have fallen sharply. Brent crude oil fell from US$68.5 per barrel on 3 January to US$28.2 per barrel on 20 March.
- Lower oil prices could be a boon for India's twin deficit (the fiscal and current account).
- This gives policymakers some headroom to act.
- The rupee depreciation may partially offset the gains. Rupee has depreciated from INR 71.7 per US$ on 3 January to INR 75 per US$ on 20 March.

Source: Data is from CMIE

Possible consequences of this outlier event on India's outlook

Undoubtedly, there is little precedent of what to expect in such a situation. According to Nassim Nicholas Taleb, a Lebanese-American essayist and statistician, *". an outlier. lies outside the realm of regular expectations, because nothing in the past can convincingly point to its possibility…. (and) it carries an extreme 'impact'."*[v] COVID-19 is an outlier and to assess its impact requires a scenario analysis. The sheer magnitude of the current shock introduces an unprecedented complexity to economic forecasting.

Considering that such a major economic and financial crisis is putting significant strain on our country, we postulate three possible scenarios drawn using Oxford's global economic model to provide a probabilistic economic outlook.[vi] The outlook is based on the following assumptions (details are available in Appendix 1):

Scenario 1: The optimistic scenario – a temporary impact of COVID-19 and a V-shaped recovery

While China has now managed to check the spread of the disease, the country took about two months to stop the contagion from spreading after following stringent social distancing measures and galvanising its public health care system. China also undertook aggressive fiscal and monetary policy measures to cushion the economic impact. In scenario 1, we assume that the world follows China's footsteps and with that, is able to contain the spread by May 2020.

In India, the contagion, which started a few weeks later compared with other major economies, will be controlled efficiently by June 2020. This will be achieved by a complete lockdown of the nation as well as effective government investment in protecting the weaker sections, supporting specific sectors, boosting healthcare resources and services, and keeping the monetary policy benign.

The model predicts the economy will start recovering from Q2 FY 2021 on the back of positive market sentiment and then rapidly grow from Q3 FY 2021 as consumer spending gains momentum. Overall, the model expects a synchronised global recovery from Q3 FY 2021.

Scenario 2: A somewhat optimistic scenario – a severe and extended impact of COVID-19 and a U-shaped recovery

In this scenario, it is assumed that initial supply chain problems from China will be multiplied as lockdowns in major economies affect other industries and the services sector globally. China takes more-than-expected time to get its production back on its feet and achieve full production capacity in Q3 FY 2021. Meanwhile, global demand sharply declines as several economies struggle to contain the spread and lockdowns are extended. Lower global economic activity, high unemployment, and company defaults create stress in the financial sector and slow growth.

India will witness limited success in controlling the spread, despite the government's focus on public health-related measures and fiscal policies to contain the pandemic. Movement restrictions will become stringent as lockdowns will be extended in several cities at varying degrees until September 2020. A few industries face pressure as rising debt and defaults affect market sentiments, stress the financial sector, and reduces domestic demand.

The model suggests the economy will recover and resume normalcy from Q4 FY 2021. Growth picks up pace rapidly in FY 2022.

Scenario 3: The pessimistic scenario – a prolonged severe downturn, leading to a new low-level normal

This third scenario posits that the regional outbreak of COVID-19 is followed by a series of successive variants of the disease (and several outbreaks) as the contagion continues globally for a prolonged period leading to negative consequences. Global production adjusts to a new low-level normal, which is way below the current level. High unemployment, increased household debt, and extended lockdowns affect consumer demand for goods and services. Global investment contracts fast while business sentiments remain low.

In India, the disease will spread rapidly and movement restrictions will remain stringent across several cities until Q4 FY 2021. This will lead to a steep decline in demand and cuts in production capacity. The situation is expected to ease in Q1 FY 2022 through medical interventions. After this, the economy will revive only modestly because consumers will remain wary of major expenses even after the pandemic dissipates. This will affect long-term spending demand.

The model predicts that over the next two years, the economy will grow by 1.5-2 percent, lower than it would have grown otherwise, with unequal recovery across sectors.

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

Table 1: The likely impact of each scenario on growth and inflation

Scenario 1: The optimistic scenario - a temporary impact of COVID-19 and a V-shaped recovery					
Quarters	**Q4 FY20**	**Q1 FY21**	**Q2 FY21**	**Q3FY21 .....**	**Q4 FY22**
GDP growth	3.9-4.0%	2.4%-2.6%	3.2-3.5%	4.0%-6.8%	
Inflation	Moderate	Low	Low	Rises but moderates around target	
Scenario 2: A somewhat optimistic scenario - A severe and extended impact of COVID-19 and a U-shaped					
Quarters	**Q4 FY20**	**Q1 – Q3 FY21**	**Q4 FY21**	**Q1FY22 .....**	**Q4 FY23**
GDP growth	3.9-4.0%	2.2%-3.0%	3.8%- 4.1%	4.5%-7.5%	
Inflation	Moderate	Low	Moderate	Rises above 4%, moderates by	
Scenario 3: The pessimistic scenario - a prolonged severe downturn, leading to a new low-level normal					
Quarters	**Q4 FY20**	**Q1 – Q4 FY21**	**Q1 – Q4 FY22**	**Q1FY23 .....**	**Q4 FY23**
GDP growth	3.9-4.0%	1.8%-3.5%	3.8%- 4.5%	5.0% - 6.0%	
Inflation	Moderate	Moderate	Moderate	Moderate	

Note: 1. Colour of the tables indicates the phases of the slowdown and revival. Red is a sharp decline in growth, while green is recovery.

2. In scenario 2, inflation picks up in H2 FY 2021 as demand revives faster than supply. Inflation is expected to 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 on weak demand. This is also because of a sharp fall in production.

Need for focused and timely government actions

The pandemic has led to economic, financial, and social shocks. The policy measures across the world have primarily emphasised on protecting lives, employment, livelihood, and industries and sectors (with a special focus on micro, small and medium-enterprises) facing tremendous stress because of COVID-related disruptions. An urgent priority is being given to minimising the loss of lives and health. First and foremost, governments are trying to contain the spread by pooling medical resources quickly, prohibiting movement strictly, and raising public awareness through advisories. Second, policymakers have been announcing measures to secure jobs and ensure wages for sustenance to displaced workers. Third, the emphasis has been given on cushioning the blow by dealing with demand-side and supply-side impact on industries and consumers, and containing the stress on the financial sector. Towards these ends, the governments are announcing relief measures, and disbursements to sectors and industries to deal with the COVID-related stress and save assets. Details of various measures are available in Appendix 2.

Given the specific economic context for India and in line with the interventions being made by other leading economies, the Government of India has already initiated some measures as mentioned earlier and is expected to continue initiating additional action on the following fronts:

1) Managing the endemic and the resultant public health crisis

2) Protecting income and employment, particularly for the disadvantaged and vulnerable sections of the society

3) Supporting the corporate sector to minimise adverse economic impact and facilitate quick recovery

These actions, although they may appear to be separate, their outcomes are interlinked, as the government notification on creating the empowered committees suggest. Only with immediate, large-scale, and coordinated actions, the country and the economy will be able to absorb the shock and be ready for a quick and vigorous restart.

Some countries, such as the US and the UK, have announced large fiscal stimulus packages to fight COVID-19. The overall fiscal impact due to actions taken to fight COVID-19 in large economies has been significant in most instances. Some economies have gone to the extent of breaching conventional fiscal deficit management guidelines. Given the exponential rate at which the pandemic is spreading, public policymakers in India, especially the empowered committees, may need to act on the following measures to manage the negative fall-out of the endemic.

Managing the endemic and the resultant public health crisis

Containment and mitigation policies are essential for health care systems to lower the peak in demand for care and, hopefully, reverse the flow of the pandemic. Responses by the governments across the world have focused on (a) controlling the spread of the disease, (b) beefing up and augmenting public health care systems, (c) engaging the private sector in the overall country-level response, and (d) identifying cures through conducting epidemiological and pharmacological research, taking preventive measures (such as vaccines), and simulating potential scenarios of disease progression.

Adopting and enforcing measures for social distancing in communities; tracing and testing people who have been exposed to the infection, and; isolating people who test positive have been the main strategies for controlling the spread of the disease. An information technology (IT) based platform for treatment, containment, and management of COVID-19 patients and quarantined persons both at the Central and State level would be required on an urgent basis. The health system is likely to face challenges such as tracing contact effectively, identifying and prioritizing care to potentially infected people, enforcing uniformity of the treatment protocol and capacity building of staff, synchronizing actions with a clear articulation of available resources and designated health infrastructure, and managing shortage of medical and other professionals. The proposed technology platform can act as a key enabler to facilitate all these activities as well as take policy decisions based on actionable intelligence.

Though the main focus will no doubt continue to be on ensuring an adequate supply of hospital beds, testing kits, medicines, and critical medical equipment such as ventilators, excessive workload on doctors and other caregivers and their exposure to COVID-19 infection would be a key challenge. The same has been faced by most countries. Governments across the world have involved the private health care service provider network in this initiative to augment capacity in terms of both physical facilities, as well as doctors and other caregivers.

In addition to the above-mentioned measures, multiple countries have taken focused research, clinical trial, and related initiatives in the global hunt for curative and preventive medicines and vaccines.

Based on experience in other leading economies, some key initiatives that the government can consider are mentioned below:

a) Creating a national database of the available physical health infrastructure and medical and para-medical resources: The crisis has underlined the need for a central database, comprising both public and private infrastructure on a national basis to be regularly updated. The essential medical consumables, like testing kits, face masks etc., also need recording. Strategies need to be formulated for making good the shortfall in a time-bound manner.

b) Segregating the public and private health care facilities by earmarking a section of available hospital beds for treating COVID-19 patients only: There may be a need for creating temporary facilities and equipping them with the required medical devices, beds, etc., to augment existing capacity. In case of anticipated shortage of physicians and other caregivers, measures such as involving a section of the retired workforce and/or putting in place a mechanism to impart quick training to an additional workforce (will primarily apply to caregivers who are not physicians or nurses) may be considered.

c) Extending additional one-time budgetary support, as already announced by the Government of India, to augment public health care system in terms of facilities, equipment, and human resources capacity: A part of the additional outlay can be used to support the additional expenditure being incurred by each state.

d) Earmarking financial resources to provide one-time grants/financial support to research institutions and leading pharmaceutical/biotechnology/medical equipment companies: This will help identify/develop medicines and protocols for preventive and curative treatment; cost-effective testing kits and medical equipment (such as ventilators); undertaking statistical and econometric modelling around spread/impact of COVID-19; etc. This would need to be supplemented by (a) a suitable institutional mechanism (for example, a committee of specialists from leading institutions/organisations) to assess and decide on an initiative to be supported; (b) a streamlined regulatory process to evaluate and approve the new product/protocol to ensure quick commercialisation. Several countries have in-built mechanisms to encourage joint initiatives by government centres of excellence, academic institutions, and leading private-sector players. There already seem to be quite a few instances of frugal innovation in the development of testing kits, ventilators, etc., by leading centres of excellence, such as IITs and/or start-ups. A structured mechanism, set up by the government enabling quick go-to-market, would facilitate rapid adoption once the product/process/protocol has been tested and approved for use at a large scale.

e) Extending the coverage of Ayushman Bharat and other applicable insurance schemes to COVID-19 if not already included. The government has already decided to include testing and treatment of COVID-19 under Ayushman Bharat-Pradhan Mantri Jan Arogya Yojana. This will enable Ayushman Bharat beneficiaries to get themselves tested and on testing positive, avail treatment at an isolation ward of any empanelled private hospital free of cost. Since the coverage of the Ayushman Bharat scheme is currently limited to the most vulnerable sections of the population and some states are yet to enlist on the scheme, the Government may consider extending the scheme to a larger section of the population in all parts of the country for universal health coverage.

f) Tweaking the existing customs duty structure for select components, which are essential for manufacturing testing kits, ventilators etc.: The move will ensure cost-effective import of items required for manufacturing/producing essential equipment to fight COVID-19. The fast tracking of approvals to ensure quick ramp-up of manufacturing capacity of testing kits, medical equipment, etc., as applicable may also be required.

Protecting income and employment, particularly for the more vulnerable sections of society

The Union Finance Minister, on March 26, 2020, announced a number of relief measures under the Pradhan Mantri Garib Kalyan Yojana 2020. As part of the initiative, the Ministry of Labour and Employment would be implementing, as part of economic response to fight COVID-19, some pro-poor initiatives aimed at ameliorating the hardships faced by the workers. Key interventions include direct cash transfers to organised sector workers, covering 80 lakh workers earning less than INR. 15,000 per month in 4 lakh business establishments having less than 100 workers. The government also announced that it would contribute both the employees' share (12% of salary) as well as the employers' share (12% of salary) to the Employees' Provident Fund for the next 3 months.

The government also announced that the state governments should give assistance in building and other construction workers from the Building and Other Construction Workers (BOCW) Welfare Fund. This fund has an accumulation of INR. 31,000 crores and would benefit around 3.5 crore registered workers.

In addition, the government has also directed employers in both public and private sectors to not terminate their employees, particularly casual or contractual workers, from their jobs or reduce their wages. If workers are on leave, they would be deemed to be on duty without any consequential deduction in wages during this period. This is an immediate employment and social-policy response that would address a large segment of organised-sector employees. Low-paid workers (drawing wages of INR 21,000 or below per month) in the organised sector can also take paid sick leave and unemployment allowance through the insurance cover available under the Employees State Insurance Corporation (ESIC) scheme. They also have access to health care facilities at ESIC hospitals across the country.

Vulnerability is a concern for the unorganised sector, with close to 40 crore workers not in a position to access any social security cover. A majority of the workers in the unorganised sector would be self-employed. Construction workers constitute roughly 10 percent of this group. The vulnerability, therefore, of the remaining workers, estimated at 35 crore, having no social security or wage support to cope with disruptions caused by the pandemic still needs to be addressed. The government needs to create a Aadhaar-seeded national database of unorganised workers on an urgent basis to provide targeted benefits in the form of basic income transfer and other benefits such as health, pension and other social security benefits.

Problems caused by migration would need to be addressed for the delivery of benefits. This will require a national-level response. This will also need integrating with the existing MGNREGS scheme beneficiaries.[vii]

Supporting the corporate sector to minimise adverse economic impact and facilitate quick recovery

One of the biggest challenges for the governments will be to spur private investment and domestic consumption, which together constitute over 85 percent of the GDP (70 percent of which comes from private consumption).[viii] The economy has been slowing for over six quarters. Even private investments has significantly slowed down. Private consumption spending has remained relatively steady but lower than in previous years. Given the COVID-19 situation, the likelihood of private demand improving appears slim. Governments around the world have announced several measures to avoid financial distress, protect employment with the overall objective of reviving private consumption. Based on these experiences, the following measures may be considered in the immediate to medium term.

Immediate measures

The Reserve Bank of India has announced a number of monetary policy measures, in addition to the government's fiscal policy announcements. The RBI declared a sizeable reduction in the policy repo rate by 75 basis points to 4.4 percent, which is the lowest policy rate in this century. It also announced other measures, which would inject around ₹3.74 lakh crore liquidity into the system.

Additionally, the RBI also permitted all lending institutions to allow a 3-month moratorium on payment of installments on the existing term loans. The RBI announcements also said that banks would maintain an "accommodative" stance for "as long as necessary" to revive growth while ensuring inflation remained within the target. These announcements are likely to help industries and firms, especially the micro, small and medium enterprises (MSMEs), in dealing with the COVID-19 financial stress.

These RBI measures are expected to provide relief to businesses and borrowers from COVID-19 related stress. However, they may not be beneficial immediately as the demand for credit offtake is likely to remain low due to restrictions on movement and low business sentiments. This demonstrates the limitations of monetary policy in managing the supply and demand shocks induced by COVID-19.

That said, the RBI will have to keep a vigil on the situation with the objective of maintaining liquidity in the system. Businesses must have access to funds to run their day-to-day operations and service their debt. The RBI, in line with some of its already announced measures, can continue maintaining the accommodative monetary policy stance, and inject funds in the short-term market and conduct long-term repo operations (commonly called LTROs) to improve liquidity in banks. Ensuring liquidity and smooth cash flow among medium and small firms will be another attention area for the policymakers.

The much-needed policy coordination between the government and the RBI, as we are seeing now, will be key in fueling the eventual recovery. It will help businesses, especially those in the informal sector, to remain afloat and then revive once the crisis is over (and it will eventually be over).

Ensure smooth supply of essentials: Among some of the immediate measures (to contain the economic impact of the COVID-19 outbreak), the government has to ensure minimal supply disruptions for essential products and commodities. There are speculations among consumers regarding stock availability due to national lockdown and restrictions on movements. Although the government, as mentioned earlier, has already ensured transportation relaxation of essential and some non-essential goods, it can also ensure minimum disruption for consumers and businesses by encouraging and facilitating e-commerce transactions. Various existing players in the consumer industry, especially in the food-service segment with contactless delivery models, can be leveraged to minimise contagion risks. Business models based on kerbside delivery can be encouraged.

The other measure could be to incentivise logistics and delivery staff for distributing essential products and mandating timely disbursements of their salaries. This will not only protect and create jobs, but also ensure that the supply of goods is properly maintained. Large players, such as hyper malls, can be encouraged to work with smaller retailers (kiranas) and e-commerce marketplaces, and supply their stocks to ensure product availability.

The government should also consider giving GST concessions or reductions in certain categories, such as household goods of daily use, and sanitation and medical and health care products. This will help boost the demand for these products and would go a long way in reviving the growth in consumption. Suggested rate reductions are given in Appendix 3.

Credit support to MSMEs: With the government's overarching goal of positioning the economy for the eventual recovery, private-sector players' role cannot be ignored. We emphasized earlier in the paper on preventing asset destruction and reducing defaults, thereby reducing stress on the banks that lend them. This has huge relevance for MSMEs, which often operate with low inventory and working capital. In a COVID-related situation, MSMEs will find it hard to sustain. RBI's announcements in reducing the repo rate would translate into more cash available with banks to lend at lower rates (to MSMEs).

Representative measures, drawing on experience in other large economies, could be of giving temporary wage subsidies to MSMEs for a period of, say, three months, subject to the retention of the existing contractual workforce during this period. Many countries have adopted a mechanism of providing this subsidy through set-off with existing statutory liabilities that are due to the government. As has been discussed earlier, the government has already announced paying the employees' and employers' contribution to the EPF, and also allowing employees to withdraw 75 percent of their EPF corpus or the three months' salary, whichever is lower.

Some of the other specific measures that could be considered for supporting MSMEs and protecting employment have been highlighted below:

Salaries paid by MSMEs to employees affected by COVID-19 could be reimbursed for a defined timeframe through a possible set-off against taxes and other statutory dues payable to the government where possible.

Necessary refinancing mechanisms could be made available to banks and financial institutions for extending the timeframe for principal and interest-related payments on outstanding loans. For some time, these concessions may only be considered for sectors such as travel and hospitality, which are directly affected by COVID-19.

Credit flow to MSMEs could be augmented through additional refinancing facilities to banks and other financial institutions such as SIDBI, which are focused on these enterprises. Suitable provisions on the use of incremental credit facilities in terms of supporting salary payments, etc., may also be stipulated to ensure targeted end-users are considered.

Encouraging investments by corporates: Measures such as one-time set off of capital investments made by corporates during a defined time-period for income-tax computations can be considered.

Sector-specific measures: Segments, including automotive, consumer products, retail, wholesale and distribution, and transportation, hospitality, and services have been severely affected due to the pandemic outbreak. One of the ways to cut automotive sector losses would be an urgent relief from the government in the form of extending the BS-VI deadline from 1 April by at least six months or, better still, by one year to give time to existing players to liquidate old BS-IV inventory.

In the transportation and hospitality services sectors, measures such as deferment or waiver of interest payments on loans or working capital, increasing working-capital limits and credit terms, provisioning short-term interest-free loans, and deferment of statutory dues could help the sectors tide the wave as they have been hit the hardest. While the government has already announced the deferment of term loan liabilities, it should be till a later date when the situation stabilises and the business environment permits normal operations. Supply chain continuity could be facilitated by increasing the list of “non-essential items”.

Medium-to-long-term measures

Once the spread of the pandemic and the consequent economic fall-out have been arrested, the primary focus should be on the country’s economic development strategy, including how to reposition itself in the global value chain participation. With COVID-19 having created significant disruptions in global value chains, most large anchor investors are likely to look at de-risking their supply chains by avoiding over-concentration in a few countries. With its large internal market and demographic advantages, India would be well-positioned to capture a large part of this opportunity through the right mix of policy/regulations, physical and virtual infrastructure, and an appropriately skilled workforce.

Finally, using lemons to make lemonade

India should reflect on the opportunities and challenges that it may encounter in the future. For instance, multinationals are looking for alternate manufacturing destinations to diversify their supply chains to different countries and reduce costs. Can India come out stronger on the other side of the pandemic and present itself as the next emerging manufacturing hub? It is not impossible – the country has dealt with trying situations prudently in the past, built its reputation in service exports, and remains an attractive investment destination.

At the same time, disruptions to the existing industries and security threats that will emerge during and after this crisis will require adequate resources and technology. Revisiting the targets set under the Fiscal Responsibility and Budget Management (FRBM) Act may also be required. Priorities and action plans will require resetting.

In the next articles in this series, we will try to discuss potential policy options and interventions in some of these areas as well as others.

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[iii] Order dated March 27, 2020, Ministry of Home Affairs, https://mha.gov.in/sites/default/files/PR_ConsolidatedGuidelinesofMHA_28032020.pdf, (accessed on March 30, 2020)

[iv] FICCI, *Impact of COVID-19 on Indian economy*, March 20

[v] Nassim Nicholas Taleb, "The Black Swan: Chapter 1: The Impact of the Highly Improbable", *The New York Times*, 22 April 2007,

[vi] Global economic model by Oxford Economics is an econometric platform that is used to provide projections for macroeconomic variables. The platform provides the facilities for several economies, including India.

[vii] During FY 2020-21, government has allocated Rs. 61,500 crores. Sourced from PTI, “Budget 2020: MGNREGA funds down by 13%, marginal dip in other rural development schemes”, *The economic times,* https://economictimes.indiatimes.com/news/economy/policy/budget-2020-mgnrega-funds-down-by-13-marginal-dip-in-other-rural-development-schemes/articleshow/73847723.cms?from=mdr

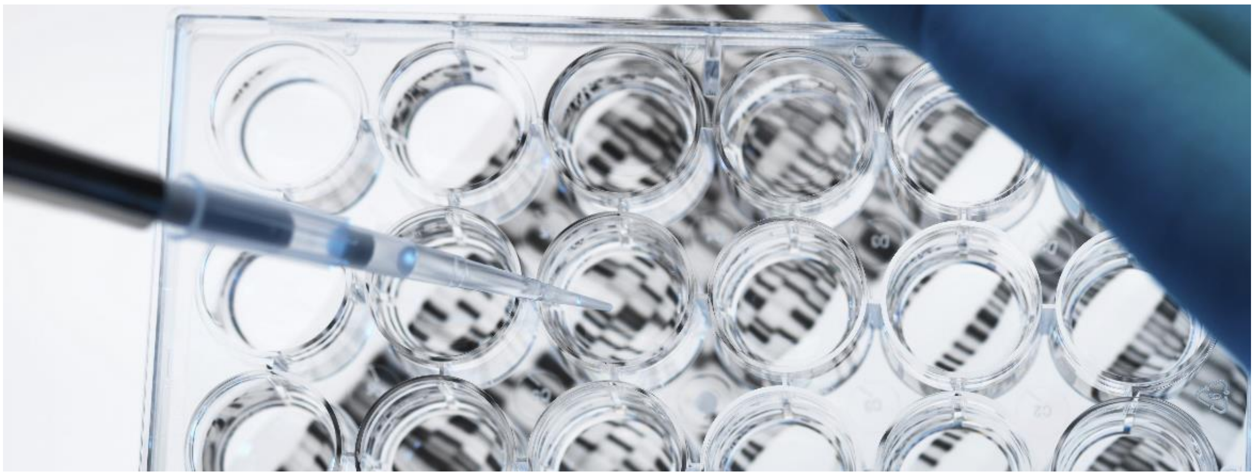
[viii] Data estimated from GDP accounts obtained from the Ministry of Statistics and Programme Implementation (MOSPI)

Appendix 1

Details on alternate economic scenarios

Factors for assumptions	Scenario 1: The optimistic scenario- A temporary impact of COVID-19 and a quick recovery	Scenario 2: A severe and extended impact of COVID-19 with a quick recovery	Scenario 3: The pessimistic scenario- A prolonged severe downturn leading to a new low-level normal
		Assumptions	
Extent of the contagion	A majority of the large economies prevent the contagion from spreading within 2 months of undertaking strict measures.	Lockdowns for a majority of large nations are extended.	A series of successive variants of the disease makes it hard to contain the spread and the contagion continue globally for a prolonged period
	In India, the spread is contained through a complete lockdown by June. Effective government investment in protecting the weaker sections, supporting specific sectors, boosting healthcare resources and services, and keeping the monetary policy benign help India get back to its feet.	In India, 100,000 people get infected. The movement restrictions remain stringent for longer. Many cities remain locked down at varied degrees until September.	The contagion in India affects 10 million of India's population by the end of one-and-a-half years. The movement restrictions remain stringent (at varied degrees) for over 4 quarters.
Global supply disruption and impact on India	Lasts for 2 quarters and integrates thereafter. Global production is back up quickly.	China takes time to revive production and is back up in Q3 FY2021. Disruptions multiply across industries globally, endure for 3 or 4 quarters, and revive quickly thereafter.	Global production adjusts to a new low-level normal, which is lower than the current levels.
		In India, prolonged supply chain disruptions cause stress on several industries depending on China. A few industries face pressure as rising debt and defaults reduce investment and disrupts production and jobs.	
Global and domestic demand	Major economies recover right after the relaxation of movement restrictions	High unemployment, household debt, lengthier lockdowns impact consumer spending till Q3 FY 2021. Spending picks up sustainably in early FY 2022 owing to pent-up demand.	High unemployment, increased household debt, and lengthier lockdowns impact consumer demand for goods and services. Consumers put off big-ticket purchases such as automobiles and home renovations. Even after the pandemic dissipates, consumers are wary of major expenses impacting long-term spending demand. Investors cut production capacity in several major industries
	In India, pent-up demand results in a surge in consumer spending globally from July. Businesses pump up investments to meet the rising demand.	High unemployment, low rural demand, and the fear of falling sick after an extended lockdown cause consumption spending to pick up in India with a lag.	

Factors for assumptions	Scenario 1: The optimistic scenario- A temporary impact of COVID-19 and a quick recovery	Scenario 2: A severe and extended impact of COVID-19 with a quick recovery	Scenario 3: The pessimistic scenario- A prolonged severe downturn leading to a new low-level normal
Stress on the (global and domestic) financial sector	Global investor sentiments improve. Equity markets reverse the losses by August 2020. Global financial sector stress reduces.	Investor flight to safe assets and rising defaults increase financial stress.	Investor flight to safe assets and rising corporate defaults increase financial stress across the globe. Capital markets shed off over a decade of gains. Central banks' balance sheets deteriorate.
	Indian banks remain resilient through policy support and efficient liquidity management.	Indian banks' balance sheet worsens. NPAs jump up to double digits. High fiscal deficit increases capital outflows till Q3 FY 2021	In India, MSMEs default in large numbers and big industry firms delay debt payments lead to an extreme financial crisis. Liquidity dries up in short-term money market. Several small banks liquidate as margins fall, while a few consolidate with larger banks. RBI's balance sheets deteriorate.
Policy prudence (global and in India)	The government announces massive bail-out packages and engages in direct transfers effectively with desired outcomes. Monetary policy remains highly accommodative. There is a synchronised global recovery from Q3 FY 2021.	Monetary policy remain ineffective globally. Economies scramble for right health measures and fiscal policies to contain the pandemic and its impact. Lack of coordination among nations reduces policy effectiveness.	Policy rates in advanced nations are at an all-time low. The fiscal deficit and debt soar in emerging nations. Unsynchronised recovery across the globe results in acute disparity and social upheaval, leading to tensions across borders.
		In India, policy measures impact demand with a lag and by Q4 FY 2021.	In India, high fiscal deficit and rising external debt increase capital flow vulnerability till the Q1 FY 2022. Policy measures impact demand with a lag and by mid FY 2022, but it remain modest.



Appendix 2:

COVID-19 Global governmental approach*

EMEA

Denmark	A compensation fund for employees who are not fired but sent home from work	Aid to Scandinavian Airline System	Aid to retailers etc. who have been forced to close stores at least until March 30th	The government has also communicated that new initiatives will be announced	
Spain	Bailout €200bn package (€117bn public resources/€83bn private resources), including bonding with the guarantee of the Kingdom of Spain.	Acceptance of temporary dismissals due to the crisis as "force majeure". This is very important because many large, medium and small size companies are using this system to temporarily dismiss thousands of people. At the same time, corporates are exempt from paying the contributions to the Public Social Security system while these dismissals are in place.	Suspending the payment of mortgages for people whose monthly installment weights more than 35% of the available income.	Liquidity through funding via the institutional banking (INSTITUTO DE CRÉDITO OFICIAL –ICO-).	Deferrals in the payment of certain taxes.
	Private hospital are now under the control of the Public Administration.	Hotels are being medicalized due to the shortage of beds for sick people in the hospitals network.			
Netherlands	Extension of subsidizing working hours reduction; for companies with a min. revenue drop of 20% for a period of 3 months the government will provide a subsidy up to 90% of the wages provided no retrenchment	Extra income support for free-lancers, app € 1500 per month per family for a period of three months	Easing deferral of payment for taxes and fines	Extension of government guaranteed Company-financing, 50% government guarantee with a minimum of € 1,5 million and a maximum of € 50 million per company	Interest discount on microcredits for SME and starters facilitating a delay of payments for 6 months
	Temporary guarantees for food- and agricultural companies	Temporary stop on local taxes (municipalities).	Compensation scheme for specific sectors EUR 4000 for entrepreneurs especially meant for services that can no longer be provided because of the demands on social distancing	Revision of tax applications for 2020 based on revised income and profit expectations	

EMEA					
Belgium	Temporary unemployment due to force majeure shall be extended by three months, until 30 June 2020. The government has decided to grant a fixed amount of €1,450 per month immediately to anyone using the unemployment system for the first time	Temporary unemployment benefits shall be increased from 65 % to 70 % for a period of three months	Payment plan for employers' social security contributions of the first and second quarters of 2020	Possible to spread VAT payments and debtors can be exempt from the usual fines	Possible for the withholding tax on professional income to spread payments and be exempt from fines
	Possible to request deferral of payment for personal and corporate income tax.	Reduction of the advance payment for self-employed persons if their income is lower than the amount used to calculate their contribution, they can request a reduction in the contribution	Postponement of or exemption from payment of social security contributions for self-employed workers, for the first two quarters of the year 2020, for one year, without interest on arrears is gran ted	Obtaining a replacement income for self-employed persons (bridging right). The financial support amounts to €1,266.37 per month without family charge and €1,582.46 with family charge.	For all federal government contracts, the federal state will not impose fines or penalties on service providers, companies or the self-employed.

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Morocco	Interruption of the social security charges payments (CNSS1 contribution) until the end of June Introduction of a moratorium on the repayment of bank loans to companies until the end of June Grant a net monthly allowance of MAD 2 000, in addition to the family allowances paid in accordance with the regulations in force, to employees declared to CNSS Coverage by the State of the employer's share of social security contributions and the training tax for companies that commit not to reduce their workforce by more than 20% for the period spreading from 15 March to 30 June 2020	Fund endowed to date with an amount of c. MAD24bn with diversified contributions: budget, public contributions, private donations from companies (tax deductible) and donations from individuals This fund will be primarily dedicated to: Cover the cost of upgrading the medical system, in terms of appropriate infrastructure and additional resources to be acquired, in order to treat infected people in good conditions The support of the national economy to manage the impact implied by this pandemic through measures to be proposed by the EIC in order to mitigate the social impacts	Postpone the due dates of the amortizable loans For private individuals and private professionals : deferral of payments of amortizable instalments (real estate and consumer loans), for a period of 3 months, renewable once for a similar period For professionals and very small companies: deferral of the payment of their medium and long-term loans, for a period of 3 months, renewable for a similar period For regular companies: deferral of the settlement of their medium and long-term loans instalments for 3 months, renewable for a similar period. These requests will be considered on a case-by-case basis Hedging the corporate working capital requirements, resulting from the situation caused by the crisis: Extension of current operations (LCs, foreign exchange/spot refinancing) Support companies to provide them with the appropriate measures to meet their cash flow requirements	Bank Al-Maghrib (central bank) lowers its nominal rate by 25 basis points to 2.0% to support the economy The Moroccan Capital Market Authority has revised downwards the maximum thresholds applicable to financial instruments listed on the Casablanca Stock Exchange (for the same trading session): between 2 and 4% upwards and downwards	Interruption of tax charges as of March, 31st 2020, as well as wage charges for all sectors, except those not affected by the effects of the crisis Moratorium on bank maturities for companies and individuals impacted, especially for small and medium companies Interruption of tax inspections and notices to third party holders to the CNSS, the tax authorities and the customs services Introduction of a job loss indemnity for low wages, to be activated via the CNSS for all job losses due to economic layoffs Establishment of a dedicated fund to support the most affected sectors Declaration of the epidemic as force majeure for procurement arrangements

EMEA

	Total exemption of social security charges and income tax for small/medium companies and self-employed entrepreneurs during the pandemic period, as well as the inception of a support fund for small/medium companies Make all small/medium companies and self-entrepreneurs benefit from the INTILAKA support financing programme Cancel the late payment penalties and release advance and final payments related to the fulfilment of public contracts for small/medium companies Postpone the deadlines for tax returns, set at 31st of March for legal entities and 30th of April for individuals and self-employed people Deferral of the payment of taxes and duties	In order to enable banks to meet their additional cash requirements, the banks request the support of Bank Al-Maghrib on the following topics: Softening of the refinancing mechanism with Bank Al-Maghrib Decrease of the debit account rate from 7% to 2% in order to inject liquidity Reduce the monetary reserve, for a period of 3 months to be extended, if tensions persist Loosening of the central bank in terms of prudential regulation	Removal of social security charges, as well as tax breaks for the entire crisis period Postponing bank instalments by 12 months Maintain credit lines and set up bank loans over 12 months with a reduction of the interest rate to 2% Set up a dedicated fund to support companies in the tourism sector and help the establishment of a partial unemployment scheme Acceleration of VAT refund		
Saudi Arabia	SAMA cut repo rate from 2.25% to 1% and reverse repo from 1.75% to 0.5%.	Deferred payments programme deferring the SMEs payments due for 6months (SAR 30bn)	Concessional finance lending programme for SMEs (SAR13.2bn)	Loan guarantee programme (SAR 6bn)	Supporting fees of e-commerce and POS (SAR 800m)

AMERCIAS

USA	Food and Drug Administration US$61 million, including medical countermeasures, devices, therapies, and vaccines to combat the coronavirus.	Small Business Disaster Loans – Allows US$1 billion in loan subsidies to be made available to help small businesses, small agricultural cooperatives, small aquaculture producers, and nonprofit organizations including US$20 million to administer these.	Centers for Disease Control and Prevention: US$2.2 billion to support federal, state, and local public health agencies to prevent, prepare for, and respond to the coronavirus.	Vaccines, Therapeutics, and Diagnostics – More than US$3 billion for research and development of vaccines, therapeutics, and diagnostics to prevent or treat the effects of coronavirus	Healthcare Preparedness, Pharmaceuticals and Medical Supplies, Community Health Centers – Nearly US$1 billion for procurement of pharmaceuticals and medical supplies, to support healthcare preparedness and Community Health Centers.
	State Operations – US$264 million for consular operations, emergency evacuations of State Department staff and dependents, and other emergency preparedness needs at embassies around the world. Increases transfer threshold for emergency evacuations from US$10 million to US$100 million.	Global Health Response – US$435 million to support health systems overseas to prevent, prepare and respond to the coronavirus, of which US$200 million is for the Emergency Reserve Fund.	Humanitarian Assistance – US$300 million to respond to humanitarian needs arising in countries coping with a coronavirus disease outbreak.	Economic and Security Stabilization – US$250 million to protect against the effects of an outbreak including economic, security, and stabilization requirements	https://appropriations.house.gov/sites/democrats.appropriations.house.gov/files/Coronavirus%20Supp%20Summary%203.4.20.pdf
	Oversight – US$1 million for the USAID Inspector General to perform oversight of coronavirus response activities.	Emergency Telehealth Waiver: Allows the Secretary of Health and Human Services (HHS) to waive certain Medicare telehealth restrictions during the coronavirus public health emergency c. US$500 million	Second and third bills to follow…		
Mexico	N/A	Business chamber has requested exemption for Income tax	Business chamber has requested a decrease in IEPS (fuel specific tax)		
Columbia	Social Help Programs will be reinforced, these populations will receive an extra bonus in the subsidies they get monthly form government	200 000 homes that were disconnected from water services (because of nonpayment) will be reconnected to the service in order to enhance public sanitization	IGV (VAT) will be reimbursed to the low income population on essential goods	Loan payments will be delayed and restructured into several smaller payments over the next months (this is a measure supposed to help small and middle size companies)	Extra guarantees from Central Government (through a Special Fund) to support extra loans needed by small/medium size companies

AMERCIAS

Canada	Emergency care benefit (US$10 million): People that fell ill, quarantined, self-isolating or taking care of ill dependents will received US$900 bi-weekly for a period of 15 weeks. Emergency support benefit (US$5 million): for those retrenched or self-employed.	GST credit boost of US$400/individual or US$600/couple and Canada child benefit to increase by c. US$300	Additional money for indigenous community support (US$305 million)	6month interest free moratorium on Canada student loans (US$190 million)	Reducing RRIF minimum withdrawals by 25% for 2020 (US$495 million)
	Increasing the reaching home initiative by US$158 million	Additional support for woman's shelters and sexual assault centres US$50 million	Deferral of income tax payments until 31 August 2020	6month payment deferral for mortgages and other credit products for individuals effected by COVID-19	CMHC mortgage default management tools (deferrals, re-amortisations etc.) US$50 million
	Wage subsidy programme (US$3.8 billion) programme planned to run for 3months and subsidise up to 10% of wages up to US$1,375/employee and US$25,000/employer	https://www2.deloitte.com/ca/en/pages/finance/articles/economic-outlook.html			

ASIA-PAC

New Zealand	Slashing the OCR by 75bp to 0.25% and assured markets of this rate for the next 12 months	RBNZ also delayed, (for a year) its plan to require banks to hold more capital	Initial US$500 million boost for health services	US$5.1 billion for wage subsidies (capped at US$150,000 per business for a total of 12 weeks, who can show a 30% month-on-month decline in revenue in 2019)	US$2.8 billion income support measures including an immediate increase in current weekly benefits
	US$2.8 billion changes to business tax rules to free up cash flow, e.g., accelerated depreciation	US$126 million in COVID-19 leave and self-isolation support	US$100 million for workforce redeployment	US$600 million airline/aviation support package (noting Air NZ is 52% government owned)	
Japan	The government will significantly expand special measures on the Employment Adjustment Subsidies so as to protect employment and secure the stability of the people's lives	The government will implement financial measures totaling 1.6 trillion yen from the Japan Finance Corporation and other institutions, primarily focusing on micro, small and medium-sized business operators.	Establish a COVID-19 special loan programme (on the scale of 500 billion yen) and reduce the interest rate, as well as provide real interest-free, unsecured financing support to micro, small and medium-sized business operators and others	Applying safety net guarantee system No. 4 (100%) and No. 5 (80%) of credit guarantee corporations, as well as crisis-related guarantees (100%)	Support financing and reorganization of domestic supply chains through operations to facilitate crisis response by the Development Bank of Japan (DBJ), and the Shoko Chukin Bank (on the scale of 204 billion yen)
	Call for private financial institutions to actively provide new loans and change terms for existing debt	Make use of the Growth Investment Facility and other measures of the Japan Bank for International Cooperation (JBIC) (on the scale of up to 500 billion yen) - Support reorganization of domestic supply chains through the DBJ, etc. (same measure as previous item)	Measures for the tourism industry	Strengthening comprehensive supports through promoting the use of the self-reliance support system for people in need	http://japan.kantei.go.jp/ongoingtopics/_00015.html

* The information is collated from various media and publication reports. Deloitte analysis and includes announcements till 18 March.

Appendix 3: Proposed GST rate concessions

Rate for goods

Chapter	Product	Existing rate	Proposed rate	Reasons
Household goods of daily use				
0405	Ghee and butter	12%	5%	Several essential commodities such as food grains, cereals, and pulses are NIL rated. However, there are certain essential household commodities that could require rate rationalisation as the prices of these commodities are expected to move upwards due to reasons such as scarcity, temporary shutdown of businesses, loss of inventory due to disruptions in supply chain across distribution channels (right from producer/manufacturer, distributor, wholesaler, and retailer chain). It is thus expected that the base price of such commodities could see an upward trend due to these reasons, as well as inflationary pressures, and lowered consumptions during this temporary shutdown period. It is recommended that these household items receive immediate GST rate reduction to mitigate the negative impact caused by the pandemic on the common man, and thereby increase consumption.
0902	Tea	5%	3%/Nil	
0901	Coffee	5%	3%/Nil	
0910	Spices (other than fresh ginger, fresh turmeric)	5%	Nil	
10, 11	Branded wheat, rice cereals, and other essential items	5%	Nil	
15	Edible oil for daily use	5%	Nil	
2106	Idli/dosa batter, chutney powder	5%	Nil	
2710	Kerosene oil	5%	Nil	
94	Kerosene Pressure lanterns	5%	0%	
Educational				
4202	School Bag	18%	12%	
Sanitation, Medical and Health care				
3306	Toothpaste	18%	12%	Sanitary items, toiletries, and medical items used for personal hygiene purposes, and other medical items used for prevention of COVID-19.
34	Soap; organic surface-active products and preparations for use as soap in the form of bars, cakes, moulded pieces or shapes (whether containing soap or not)	18%	12%	
37	X-ray films for medical use	12%	5%	
9020	Other breathing appliances and gas masks, excluding protective masks that have neither mechanical parts nor replaceable filters	12%	0%	
30 or any other chapter	Drugs or medicines and diagnostic test kits specified in list 1.	5%	Nil	

Chapter	Product	Existing rate	Proposed rate	Reasons
	Diagnostic kits and reagents other than specified in list 1.	12%	5%	
4015	Surgical rubber gloves or medical examination rubber gloves	12%	NIL	
9020	Other breathing appliances and gas masks (excluding protective masks that have neither mechanical parts nor replaceable filters)	12%	NIL	
27	Ethyl alcohol, if used as raw material for the production of antiseptics.	18%	5%	

Rate for Services

Service	Existing rate	Proposed rate
Commercial leasing of premises	18%	5%

Travel and Transportation Sector

Product	Existing rate	Proposed rate
Transport of passengers by air in economy class	5% with ITC of input services	3%/NIL
Transport of passengers, by air, embarking from or terminating in a Regional Connectivity Scheme (RCS) airport	5% with ITC of input services	3%/NIL
Renting of motor cab where the cost of fuel is included in the consideration charged from the service recipient	5% no ITC	3%/NIL
Transport of goods by rail	5% with ITC of input services	3%/NIL
Transport of goods in a vessel	5% with ITC of input services	3%/NIL
Supply of tour operator services	5% with no ITC	3%/NIL
Transport of goods in containers by rail by any person other than Indian Railways	12%	3%/NIL

Tourism and Hospitality Industry

A. Accommodation services	Existing rate	Proposed rate
Accommodation in hotels, inns, guest houses, clubs, campsites, or other commercial places meant for residential or lodging purposes with a room tariff of INR 1,000 and above, but less than INR 7,500 per room per day	12%	5%
Accommodation in hotels, inns, guest houses, clubs, campsites, or other commercial places meant for residential or lodging purposes with room tariff of above INR 7,500 per room per day	18%	12%

B. Restaurants, catering and related services	Existing rate	Proposed rate
Supply of food and beverages by railways/IRCTC	5% without ITC	3% without ITC
Stand-alone restaurants	5% without ITC	3% without ITC
Stand-alone outdoor catering services	5% without ITC	3% without ITC
Restaurants within hotels (Where room tariff is less than INR 7,500)	5% without ITC	3% without ITC
Normal/composite outdoor catering within hotels (Where room tariff is less than INR 7,500)	5% without ITC	3% without ITC
Restaurants within hotels* (Where room tariff is more than or equal to INR 7,500)	18% with ITC	12% with ITC
Normal/composite outdoor catering within hotels* (Where room tariff is more than or equal to INR 7,500)	18% with ITC	12% with ITC

* This covers individuals supplying catering or other services in hotels (with room tariff of INR 7,500 or more).

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