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Impact of Lockdown on Indian Economy: Some Policies

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Abstract

The WHO declared COVID-19 outbreak a global pandemic on March 11, 2020 and named it a SARS-CoV-2 and the disease is now called COVID-19. The Indian economy has been hit hard by the COVID-19 pandemic and resultant lockdown as it has upended the lives of people and disrupted normal economic activity. The paper studies the impact of outbreak of the COVID-19 on the Indian economy from the point of view of its four transmission routes through which pandemic outbreak may affect the economy. These are: i) fall in global and domestic demand, ii) supply disruptions, iii) stress on the banking and financial sectors, and iv) decline in oil prices. The challenges for policy makers are dual in nature as they have to save the country from the spread of coronavirus which is related to health care system, and they have to save economy, which has been disrupted from COVID-19 and resultant lockdown at global and national level. To fight with the COVID-19 are daunting for policy makers as they have to find solutions under fiscal limitations and weaker financial sectors. This paper studies about the steps that government is taking to revive economy and to overcome the problem of COVID-19.

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Introduction

The Coronavirus (COVID-19) is a new virus that was discovered in December 2019, in Wuhan city in Hubei province,which accounts for 4.5 per cent of China's output (OECD, 2020: 05). This COVID-19 came to light on December 31, 2019 when China informed the World Health Organisation (WHO) of a cluster of cases of pneumonia of an unknown cause in the Wuhan city in Hubei province. Subsequently, the diseases spread to more provinces in China and later to the rest of the world. When government accepted the fact that the outbreak was fuelled by person-to-person transmission then lockdown was imposed in Wuhan on January 23, 2020 (Bouey, Jennifer, 2020: 04). The WHO declared COVID-19 outbreak a global pandemic on March 11, 2020 and named it as Severe Acute Respiratory Syndrome, SARS-CoV-2 and the disease is now called COVID-19 (https://www.thehindu.com).In India, the first imported case of Coronavirus (COVID-19) was reported on January 30, 2020. The COVID-19 pandemic has created a shock and uncertainties not only in India but across the world, putting two-third of the global population under lockdown. Humanity, knowledge, andscience stand challenged; posing socio-economic and political risks for the whole world. This pandemic has disrupted global economy, flows of investment, global value chains (GVCs)supply chains network, falling global demands, supply gluts leading to price falls. It has become a global crisis. Although economic crisis of lockdown is similar to that of depression of 1930s and that of aftermath of the World War II, yet it cannot be compared to depression of 1930s and World War II. This is because during depression 1930s aggregated demand had fallen due to failure of market forces and during World War II aggregate demand had fallen due to the destruction of production unit. The economic crisis arises due to COVID-19 is the result of lockdown imposed by government. This lockdown prevented businesses from selling their products and services while hindering industrial production and distribution (G., Badri, Narayanan, 2020:50). The COVID-19 will affect the all 17 sustainable development goals: i) no poverty, ii) zero hunger, iii) good health and well-being, iv) quality education, v) gender equality, vi) clean water and sanitation, vii) affordable and clean energy, viii) decent work and economic growth, ix) industry, innovation and infrastructure, x) reducing inequality, xi) sustainable cities and communities, xii) responsible consumption and production, xiii) climate action, xiv) life below water, xv) life on land, xvi) peace, justice, and strong institutions, and xvii) partnership for the goals.In order to contain the spread of coronavirus, the government has imposed lockdown, which disrupted supply-demand management, and consequently aggregate demand has declined. ILO estimates that with this COVID-19, there will be loss of 230 million full time jobs of 40 hours worldwide and OECD estimates a fall in real GDP growth rate to 1.5 per cent. WTO estimates a conservative figure of minus 21.9 fall in world trade in 2020 (Raychaudhuri, Ajitva).

The Indian economy has been hit hard by the COVID-19 pandemic and resultant lockdown as it has upended the lives of people and disrupted normal economic activity. India's trade has been severely impacted. People have a sudden loss of income, causing a major drop in demand. Trade cannot flourish without commensurate policies to revive the economy. At this juncture combination of fiscal, monetary and trade policies are required to revive the economy and trade. Accordingly, India has announced impressive fiscal and monetary stimulus packages to revive economy (Kumar, Mohan, 2020:ix).This time, Indian economy is facing two challenges. First is to save the country from the spread of Coronavirus (COVID-19), which is related to health care system. Second is to save economy, which has been disrupted from COVID-19 and resultant lockdown at global and national level. The challenges for policy makers to fight with the COVID-19 are daunting because they have not only to ensure resources for health-care system but also to secure basic needs, especially for most vulnerable sections of the society, and secure vital economic functions like payment system and banking operations. They must do this under fiscal limitations, existing vulnerabilities of the financial sectors which have become weaker after global financial crisis a bit more than a decade ago (World Bank, 2020: 26).

Data Analysis and Discussion

Coronavirus has eroded the economic foundation of almost all countries of the world. The Organisation for Economic Cooperation and Development (OECD) Interim Economic Assessment published on March 2, 2020 projects that annual global gross domestic product (GDP) growth will drop to 2.4 per cent in 2020 comparing to an already weak 2.9 per cent in 2019. This shows that world economy is going to face recession as global annual growth rate below 2.5 per cent is often takes as the recessionary threshold for the world economy. According to the recent forecast by the World Trade organisation (WTO), the world trade is expected to fall by between 13 per cent and 32 per cent in 2020, thereby indicating the world economy is expected to face recession. This is perhaps the highest fall aftermath of the Great Depression 1930s. There is also a disclaimer: no forecast is perfect when the pandemic is at its peak and changing the contour frequently. In its recent forecast, the International Monetary Fund (IMF) has projected a GDP growth of 1.9 per cent for the Indian economy in 2020. However, in its recent *World Economic Outlook*, the IMF does project a rebound in the growth of the Indian economy in 2021, at a rate of 7.4 per cent. This indicates a hope for the Indian economy (De, Pravir; et.al, 2020: 01). The IMF projects recovery in 2021 only if the world succeeds in containing the virus and takes the necessary economic measures (United Nations, 2020: 01).

The outbreak of COVID-19 has affected international trade of India especially from China as China has been a major market for Indian products like sea food, petrochemicals, gems, and jewellery etc. For instance, the fishery sector is expected to incur a loss of more than Rs. 1300 crore due to fall in exports. Similarly, India exports 36 per cent of its diamond and 34 per cent of its petrochemical to China. The cancellation of four major trade events between February and April is likely to cause an estimated loss of Rs. 8,000 to 10,000 crores in terms of business opportunity for Jaipur alone (FICCI, 2020). Prices of petrochemical products are expected to decline because of restriction on exports of these products to China.

According to United Nations Conference on Trade and Development (UNCTAD), India is expected to suffer a trade loss of US$ 348 million. Due to shutdown of manufacturing industries in China, India has become one of the top 15 countries that have been affected most. Overall trade impact of India is estimated to be the most for the chemicals sector at 129 million dollars, wood products and furniture at 15 million dollars, textiles and apparels at 64 million dollars, leather products at 13 million dollars, automotive sectors at 34 million dollars, metals and metals products at 27 million dollars, and electrical machinery at 12 million dollars (FICCI, 2020: 02).

Asian Development Bank has estimated that COVID-19 outbreak could cost the Indian economy alone between US$ 387 million and US$ 29.9 billion in personal consumption losses. OECD has revised down India's growth forecast by 110 basis points to 5.1 per cent for 2020-21 and by 80 basis points to 5.6 per cent for 2021-22 (100 basis point is equals 1 per cent). OECDhas also estimated that global growth in 2020 could come down by 50 bps as compared to what was projected in November last year. Fitch has forecasted that due to disruption of demand and supply chain, India's economic growth will fall down to 4.9 per cent for 2019-20 from 5.1 per cent projected earlier.India's growth forecast has also been revised down by Moody's to 5.3 per cent for 2020 from its earlier estimate of 5.4 per cent made in February. S & P Global Ratings has also forecasted India' growth rate down to 5.2 per cent for 2020 as against 5.7 per cent projected earlier (FICCI, 2020: 02). .

Agriculture and allied sector activities are likely to be adversely affected by the coronavirus scare. In poultry sector, India has created a foothold at the global level (India is third largest producer of eggs and fifth largest producer of broilers) is now facing losses to the tune of 150 to 200 crore. Due to spread of coroanavirus and spreading misinformation by correlating coronavirus infection to consumption of meat and poultry products, demand for poultry products and their prices have been crashed down to Rs. 10-15 per kg, while cost of production is about 70-80 per kg (FICCI, 2020: 06).

Top five states with highest urban informal workers in non-agriculture are likely to get adversely affected by the lockdown. These states are Rajasthan, Punjab, Andhra Pradesh, Chhattisgarh, and Gujarat. Percentage share of informal workers in non-agriculture of these states are 54.8 per cent, 51.8 per cent, 51 per cent, 49 per cent, and 48.4 per cent respectively (MoSPI, 2019). Following the stalling of urban activities due to COVID-19, around 37 per cent of regular wages/salaried employees in urban India are informal workers in non-agriculture, who will face uncertain income and unemployment. The income shock to migrant workers has resulted in a massive reverse migration, the effects of which will only unravel over time (KPMG, 2020: 12).

India's tourism sector (which accounts for 9.2 per cent of GDP) has been the first industry to be hit by the coronavirus. It is believed that the impact of COVID-19 on the tourism sector is much greater than that of 9/11 and the financial meltdown of 2008-09. The World Travel and Tourism Council (WTTC) estimates the crisis to cost the tourism sector at least USD 22 billion. It is also estimated that this crisis has resulted in loss of 50 million jobs in the travel industry as the travel sector has shrunk by up to 25 per cent in 2020. India is not an exception to the affect of COVID-19. Indian tourism and hospitality industry has suffered a loss of around 38 million job, which accounts for 70 per cent of the total workforce (KPMG, 2020: 21). As compared to the period of January and February of last year, there has been a drop in both inbound and outbound tourism of about 67 per cent and 52 per cent respectively for the same period of this year. Medical value travel business has also affected deeply (FICCI, 2020: 07).

Aviation industry is also affected by coronavirus. International Air Transport Association estimated that airlines globally can lose in passenger revenues of up to US$ 113 billion due to COVID-19. Due to nearly 30 per cent drop in air booking, airfares have come down to 20-25 per cent to virus affected destination. Ministry of Civil Aviation has estimated that nearly 585 international flights have been cancelled to and from India between February 1 and March 6, 2020 because of the outbreak of coronavirus. Cash reserves of airline companies are running low and many are almost at the brink of bankruptcy (FICCI, 2020: 06-07). .

The closure of educational institutions has also hampered the education of students. In order to overcome this transitory phase educational institutions and teachers have turned to online education/ teaching system (FICCI, 2020: 09). Public schools and low-fee private schools are likely face a larger impact on teaching and learning, owing to heavy reliance on brick and mortar means of delivering lessons(KPMG, 2020: 33).

Around 2 billion workers engaged themselves in informal economy[1] most of them in developing and emerging countries. These workers have limited or no access to health services and social protection. Informal workers in urban areas also tend to work in economic sectors that not only carry a high risk of virus infection but are also directly impacted by lockdown measures; this concerns domestic workers, waste recyclers, food servers, street vendors, and construction workers etc. In India almost 90 per cent of people are working in the informal sectors that comes to around 400 million workers in the informal economy are at the risk of falling deeper into poverty due to the outbreak of COVID-19 (ILO, 2020: 06).

Economic Implication of Coronavirus and Lockdown

Globally, economies are connected by cross-border flows of goods, services, knowhow, people, financial capital, foreign direct investment, international banking, and exchange rates. Further, economies are also connected by beliefs. All these channels of connection of economies with each other are also mechanisms for the propagation of economic shocks, or economic contagion. Some of these flows within nations are also likely vectors connecting the medical and economic aspects of COVID-19 (Baldwin; et al.: 16).The COVID-19 is first and foremost a public health threat but it is also a threat to economy. The unfolding economic crisis on account of COVID-19 is unique in several ways. Generally, normal downturns in economy are caused by lack of effective demand but present downturns are caused by supply constraints. Typically, manufacturing sectors are the most cyclical part of the economy but this time service sectors are the hardest hit by resultant lockdown due to COVID-19. Normally, GDP decelerates faster than consumption as consumer smoothen their consumption over economic cycles. However, this time consumption is falling sharply. Moreover, supply disruptions and panic buying of food items can jeopardize food security. The sudden disappearance of service sector jobs, rise in food prices, slackening in demand during lockdown period has aggravated economic hardship, especially for people working the informal sector and for the operation of small scale industries (World Bank, 2020:07). The resultant lockdown due to outbreak of the COVID-19 has compounded structural and financial sector weaknesses. In order to contain the spread of this virus, the government of India has followed the guidelines of social (physical) distancing, which is recommended by the World Health Organisation. Lockdown has been accepted as a measure of social distancing. Under social distancing, citizens are asked to stay in their homes during lockdown period except health related employees and media employees.Lockdown policies have compelled millions of workers to migrate to their home district due to loss of job in urban cities. According to the National Sample Survey 2007-2008 (NSS) one in approximately six households in India has a member who is migrant worker. Reverse migration of workers to their home district may spread the virus to rural areas, which are not well equipped to handle the crisis, especially in terms of hospital and clinics

(World Bank, 2020: 15). The relationship between COVID-19 and lockdown is expressed in Table 1.

Table 1:Relationship between Coronavirus and Nationwide Lockdown

Phase of Nationwide Lockdown	Period of Nationwide Lockdown	Date of Announcement of Nationwide Lockdown	Total Number of Days of Lockdown	Confirmed Positive Coronavirus Cases	Remarks
1.	25th March to 14th April 2020	24thMarch 2020	21 days	500@(approximately) 10877 cases were registered[1]	22nd March public curfew
2.	15th April to 3rd May 2020	14th April 2020	19 days	31094 cases were registered[1]	With conditional relaxation in those regions where coronavirus spread had been contained or was minimal.
3.	4th May to 17th May 2020	1st May 2020	14 days	56636 cases were registered[1]	According to severity of the coronavirus cases, Government divided all districts into three zones, viz., Red, Orange, and Green zones.
4.	18th May to 31st May 2020	17th May 2020	14days	85974 cases were registered[1]	
5.	1st June to 30th June 2020	30th May 2020	30 days	93222 active cases; 91818 cured/discharged, 5394 death.[2], Total Covid-19 cases is 198182, 96988 active cases, 94036 are discharged or cured as on 02-06-2020[3].	Lockdown will be in containment zone. Services will resume in a phased manner from 8th June that will be termed as "Unlock-1."

Sources: Compiled from the[1]hindustantimes.com/india-news, e1 May, 2020 accessed on 02-06-2020. [2]Ministry of Health and Family Welfare, Government of India mohfw.gov.in, [3]The Hindu Net Desk, https://www.thehindu.com/news/morning-digest-june-2-2020.

Note: @ This data reflects till March 24, 2020.

As lockdown 4 comes to an end, The Ministry of Home Affairs has released a new set of guidelines called "Unlock 1.0" even as India registered a highest single-day spike of 8,380 COVID-19 cases in the past 24 hours (www.the hindu.com). The relationship between period of lockdown and number of coronavirus patients is shown in Figure 1, which states that as number of patients are increasing period of lockdown decreases but it must be remembered here that though in the last phase of lockdown period of lockdown has increased but number of economic activities has opened, and it was termed as 'unlock-1' which is explained in Figure 2, which shown that as number of patient increases, government imposed lockdown period very tightly with opening of market only essential commodities and services but as number of patients increases between approximately 80,000 to 1,00,000 most of the economic activities like hotel and restaurant, shopping complexes, shops related to automobiles, transport services, barber shops, parloursetc has been opened. This phase was termed as 'unlock-1'

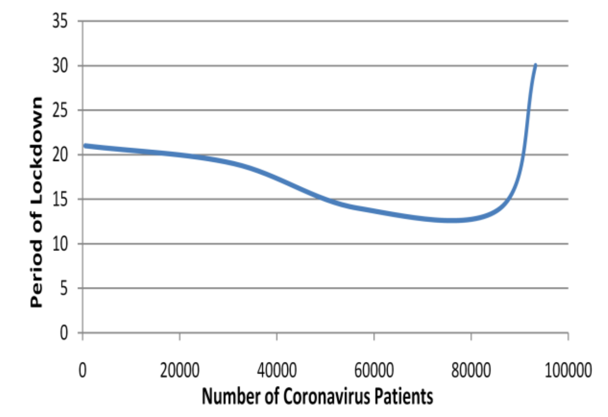

Figure 1: Relationship between Number of Patients and Period of Lockdown

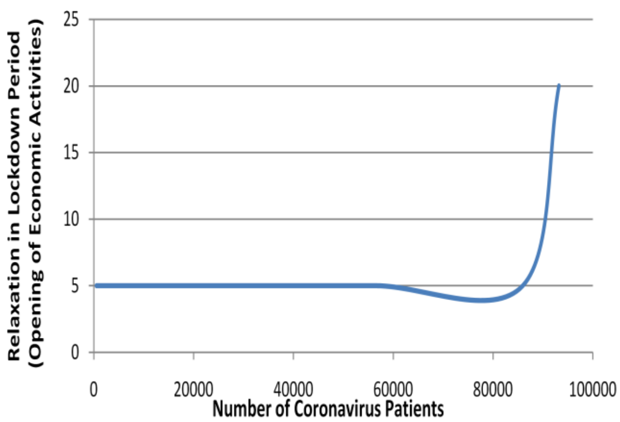

Figure 2: Relationship between Number of Patients and Relaxation in Lockdown Period

Seeing coronavirus as an economic threat, the Centre has relaxed the lockdown rules to revive economy from June 1, 2020.The duration and depth of the crisis will depend on three variables. First, how far and fast the virus spread. Second, how long before a vaccine is found, and third, how effective policy makers will be in attenuating damage to health and economy. There are two possible economic consequences of the COVID-19. Firstly, COVID-19 may upset the global economy which was spluttering but otherwise well aligned global recovery that has set in during the second half of 2017.If the shock of the COVID-19 happens to be short-lived, a familiar mix of accommodative monetary policy (like reduction in Central Bank's policy rate) and automatic fiscal stabilizers may help economy to come out of the crisis. If the crisis happens to be long-lasting due to disruption on supply side of the economy, then the revival of the economy will depend on more sustained and coordinated liquidity injections by the Central Banks, more active fiscal policies besides making efforts to bolster free flow of international trade. Secondly, resultant economic crisis of COVID-19 are less a matter of time and confidence and more a matter of political leadership and policy coordination needed to stem the waves of economic pathogens released by lockdown (UNCTAD, 2020).

The Government of India has taken steps like social distancing and lockdown to contain the spread of coronavirus. Instead of social distancing, protective distancing should be used as this word automatically alert people to protect themselves. Nationwide lockdown has brought down economic activity to a near standstill, with impacts on both consumption and investment. Barring a few sectors, Indian businesses can possibly insulate themselves from the global supply chain disruptions caused by the pandemic due to lower reliance on intermediate imports (KPMG, 2020: 10) as well as common practice in Indian firms of stockpiling inventory, while their exports to COVID-19 infected nations could take a hit. Headwinds are more likely on account of demand rather than supply shocks from COVID-19 affected countries. Disruption of domestic supply chains caused by lockdown may create shortage of input for those firms, who restart their operations (KPMG, 2020: 12).In summary, it may be said that three major contributors to GDP like

private consumption, investment, and external trade are surely going to be hit by the outbreak of COVID-19 pandemic (KPMG, 2020: 10).

Economic activities are governed by two sides, viz., demand side and supply side. Absence of any of the sides affects economic activities adversely. On account of lockdown and social distancing, demand and supply are chocked. This results into slowdown of economic activities. Because of this slowdown in the economic activities financial institutions are facing liquidity issuesand credit crunch is being felt everywhere.In order to understand the potential damages caused by COVID-19, it is useful to distinguish between four transmission routes through which pandemic outbreak may affect the economy. These are: i) fall in global and domestic demand, ii) supply disruptions, iii) stress on the banking and financial sectors, and iv) decline in oil prices. The first three transmission routes will adversely affect the economy, while fourth that is declining in oil prices could be a boon for India's twin deficit (the fiscal and current account deficit) and input prices and may give policy makers some headroom (Deloitte, 2020: 05).

On demand side, declining in income, demand for goods and services, absence of vaccine could affect private spending negatively, particularly those economic activities which are associated with large public events and catering services like hotel and restaurant, tourism etc. Tourism, hospitality, aviations, transport, entertainment, retail, construction, and shopping complexes have been affected most. Closing of all these sectors has affected consumption of both essential and discretionary items (FICCI, 2020). Ceteris paribus, reduced working hours, possible layoffs have reduced household spending and increased economic insecurity of those who are working in unorganized sectors and those who do not have access to social safety net. Due to fear of contagion people are staying in their home, consequently, demand for goods and services are declining. Once vaccine is invented, the net demand effect of COVID-19 will be negative in the short-run (UNCTAD, 2020: 03).

On the supply side, a sudden stop of production unit has caused bottlenecks in global supply chains. The concern is that supply of both final manufactured goods and inputs have affected many Indian manufacturing industries, which source their intermediate and final product requirements from rest of the world. Some sectors like automobile, pharmaceutical, electronics, chemical products are facing the problems of shortages of raw materials and components (FICCI, 2020). If crisis persists employment and wages will also decline. Consequently, disruptions on the supply side can therefore contaminate aggregated demand, and vicious cycle will start. Besides, this will also affect financial stability of the economy (UNCTAD, 2020: 03) as laid out below.

Greater uncertainty and fear of contagion of COID-19 have also made the financial market extremely volatile, leading to huge crashes and wealth erosion, which in turn affecting consumption level. In the foreign exchange market, sharp fluctuations are still to be expected both for emerging- market currencies and primary exporting and financially fragile countries. This is because risk premium of primary exporting and financially fragile countries are expected to move up and the exchange rate between the world's main reserve currencies adjusts to the response of monetary policy. Heavily indebted commodity exporters are likely to be on the front lineof debt related economic stresses from the spread of the virus, particularly of those countries, where foreign exchanges have been on a falling trend. This raises the prospects of credit crunch in a period of high indebtedness, declining global growth, and falling foreign exchange earnings (UNCTAD, 2020: 03).

Falling in oil prices due to lockdown will have positive effect on the Indian economy as 80 per cent of the oil prices are met through imports. However, consumers in India has not been benefited by the falling of oil prices because the government of India has not passed the benefit of falling oil prices to its consumers, instead it has used it to improve its fiscal position (KPMG, 2020: 13). The plunge in oil prices will provide support to external and fiscal balances. India will gain most from the plunge in oil prices because India also imports substantial amounts of industrial metals, the prices of which seem to co-move with oil prices (World Bank, 2020: 24). If plunge in oil prices sustained over the medium term, it could help mitigate the inflationary concerns (World Bank, 2020: 94).

Hard-hit sectors, particularly in low and middle income countries have high proportion of workers in informal sectors and workers with limited access to health services and social protection. These workers may face high risk of falling into poverty should no appropriate policy measures be taken by government. In absence of appropriate policy, these workers may experience greater challenges in regaining their livelihood during the recovery period (ILO, 2020: 01).

Monetary and Financial Sector Response to Covid-19

Faced with weak revenues, fiscal deficit have likely widened in most of the SouthAsia, leaving less space for a fiscal response to the COVID-19 Crisis. India had invoked the 'escape clause' in the Fiscal Responsibility and Budget Management Act in the union budget in January 2020, before COVID-19 hit. India's response to the COVID-19 is as follows (World Bank, 2020: 18).

1. The Invest India Business Immunity Platform is designed as comprehensive resource to help businesses and investors get real-time updates on India's active response to Coronavirus (COVID-19). This platform keeps a regular track on developments in the control of virus, provides latest information on various central and state government initiatives, gives access to special provisions, and answers and resolves queries through emails and WhatsApp. This platform aims to bring facilitation at doorstep.
2. Invest India is looking for organisationwho can support in the supply of critical health and safety supplies and equipments including personal protective equipment, treatment equipment, diagnostic and testing products, essential medicines, and components, as a part of the Government's response to COVID-19.
3. Unified Platform iscreated by government to bring together key government stakeholders, industry champions, and logistic providers to identify and fill the demand-supply shortages in the supplies required to combat COVID-19 https://www.investindia.gov.in).
4. Central Government of India has announced free provision of 5 kg of rice or wheat and 1 kg of preferred pulses per person (which is above the existing entitlements of National Food Security Act), each month for the next three months for 800 million people. States government like Kerala, Delhi, Rajasthan, and Tamil Nadu have initiated their own measures, such as subsidized meals, cash grants for poor households, home delivered dry rations and provisions of cooked meals for school children (World Bank, 2020: 18).
5. The Government of India has set aside one per cent of GDPfor increasing resources for health-care sector and compensate the unemployed, with bulk of money going towards income support measures like free food grain and gas cylinders, cash transfer to poor households, subsidies, and interest free loans to buffer the shock for low income households. The central government has also encouraged state governments to make direct transfers to unorganized construction workers from Labour Welfare Board funds. The Ministry of Finance extended tax filing and deferred tax payments until June 2020 for income year 2019(World Bank, 2020: 27-28).
6. In order to ensure liquidity in the market, the Reserve Bank of India (RBI) cut reserve requirements for all banks from 4 per cent to 3 per cent for a year.It will also conduct long-term repos operations to increase liquidity in the

economy. The RBI also announced a complete moratorium on repayment of all term loans – retail and corporate for the next three months across all financial institutions, along with a deferment of interest on all working capital facilities for three months.In order to discourage persistent excess liquidity, the monetary policy rate corridor (i.e., the difference between the repo rate and reverse repo rates) has been widened by 15 basis points to 40 basis points.The Monetary Policy Committee (MPC) cut the repo rate by 75 basis points to 4.4 per cent at the end of March 2020. The RBI will merge facilities for residents and non-residents to make them to access to domestic foreign exchange derivatives markets easily and allow users to hedge any available instruments, effective from June 1, 2020 (World Bank, 2020: 28).

The Way Forward and Policy Suggestions

Pandemic comes at worst of time when global economic order is already exposed to rising protectionism, ongoing tariff wars, unilateral economic sanctions, standstill at WTO talks, warning economic and financial institutions and lack of mutual trust, wisdom and initiation among global leadership (Sehgal, Ravi, 2020: xi). The outbreak of the COVID-19 came at a time when India's economy is facing slowdown, due to persistent financial sector weaknesses. The present crisis is dual in nature, which is combination of health and economic crisis. Thus, government is also investing in two ways. First, government is heavily investing in health related measures, like newly invention of vaccines or medicines. Second, government is coming out with fiscal and monetary stimulus packages in order to boost the economy and break the supply and demand disruption. These two measures will surely help the economy to come out of the recession. The major aim of fiscal and monetary stimulus packages is similar to the traditional Keynesian prescription of 'pump-priming' principle whereby income transfers to people having higher marginal propensity to spend can boost up the aggregate demand.

The countries across the world have come forward with economic packages to rescue the economies. The U.S. had already announced a 10 percent of GDP package of US$ 2 trillion dollar which will go partly to low income individuals as direct income transfer as well as partly to boost up ailing Micro, Small and Medium enterprises (MSMEs). Like other nation, India has also come forward with economic packages to transfer income to the poorer sector in the economy. Apart from income transfer scheme, India has adopted expansionary monetary policy in order to encourage investors to start investment for expansion of production.

Medical practitioner are doing their best and scientist are engaged themselves in inventing vaccine for coronavirus. Meanwhile, government must keep the economy to such a sustainable level from where economy could be revived easily after pandemic is over. At this juncture government must focus on the survival of MSME, which are suffering from adequate liquidity crunch.

The COVID-19 is indicating towards restructuring of economy as capitalism, communism and socialism models have failed to overcome the problem of health related issues as well as economic related issues. Now the time has come to restructure our economy in such a way which revolves around the human being and governed by the human being rather than forces of market, such as supply and demand. Instead of moving resources towards one large corporation, it should spread to meet the interest of all people. Instead of developing large and multinational corporations, government should focus on development of small scale industries in rural and urban areas according to the intensity of resource endowments of that region. This will not only help to avoid concentration of wealth in one person but also help to have equal distribution of resources and thereby reduces economic inequality. Due to lockdown labour are migrating towards their homes because private companies are not able to provide them wages and they have no place to live in the urban cities. This happens because of existence of economic inequality on large scale. At this juncture only public sector and government sector are proving helpful. Karl Polanyi in his book, *The Great Transformation*, published in 1944 and reprinted in 2001, stated that self-regulating market or economy dominated by free forces of market brought miseries for the people of Europe in the form of destruction of community life, trust, massive unemployment, inequality in the distribution of income, wealth, and poverty during 1870s and 1880s. This created an urgency to replace the laissez faire policy, where government plays an important and dominant role in regulation of the operation of private enterprises. Polanyi believes that free play of market forces destroys natural environmentand consequently sustainability of life is threatened. The regulation of private sector and dominance of public sector enterprises enables the state to protect the health of the people, and their employment, and ensure their social security. The COVID-19 gives us a lesson that government should run public sector enterprises in health, education, transport, defence, law and order, social security, and social infrastructure with strong regulation of private enterprises especially in regulation of labour market.Policies should be framed according to the nature of production of economic activities. Those sectors, where production and consumption go hand in hand, like hotel and restaurant require different policies from other sectors of production, consumption and distribution.

An effective response to the economic consequences of COVID-19 must be based on two parameters: (i) macroeconomic stabilization, and (ii) microeconomic structural adjustments. Macroeconomic stabilization measures are pervasive in nature as it spread across all sectors of the economy, and thus affect the entire economy. It includes short-term measures like monetary policy, fiscal policy and exchange rate policy to correct imbalances in the system. Microeconomic structural reform policy focuses on structural changes in the economy, which has specific bearing on different sectors of the economy (Pal, Rajesh, 2009: 235). It includes policy like price policy, industrial policy, tariff policy, trade policy, and public sector policy etc. Further, series of remedial policies and institutional reforms are required to build a robust sustained, equitable and climate friendly growth trajectory that would undermine the chances of subsequent economic breakdown (UNCTAD, 2020).

The government should release extra funds for public healthcare sector to fight with COVID-19 as players are making all efforts to support the government in this hour of crisis. The government must ensure the adequate supply of masks, gloves, medical kits for the health workers, medicines, health centre, and more hospitals etc. At this juncture, government should relax the fiscal deficit target in order to promote economic growth (FICCI, 2020, a: 07).

Since density of interaction and concentration of people in mandis are intense, government must ensure adequate steps to prevent spread of coronavirus. The Indian Government must ensure effective procurement and storage of rabi harvest by directing Food Corporation of india (FCI) to get support of private warehouses service provider. Government must step up procurement minimum support price immediately. As country is in crucial phase of harvesting of Rabi crops and sowing time for coming (kharif season) crop, farmers will require input for coming kharif season, which is the main season for agricultural production. Government must ensure supply of seeds for upcoming kharif season to nooks and corners of the country as any restriction on supply of seeds may affect food security. In countries like France, Italy etc. who are at 3rd and 4th stage of infections has kept production and supplies of seeds and agrochemicals in the essential category and operations are allowed. Indian Government should follow the same policy in order to ensure food security besides protocol may be developed to ensure safety of workers (FICCI, 2020 a: 16-18).

MSMEs are much more affected sectors. They must be protected by the government as most of the labour forces are employed in these MSME. Their loss will not only stop functioning of these MSMEs but is likely to have adverse effect on livelihood of several people working in this sector. From economic perspective, government must ensure the flow of money into the working capital of these enterprises otherwise there will be risk to survival of these enterprises (FICCI, 2020: 14).

International Labour Organisation has provided four key pillars to fight with COVID-19. They are (ILO, 2020: 08):

1. Stimulating the Economy and Employment. This pillar focuses on the active role of fiscal and accommodative monetary policy and states that specific sectors including health sector should be given financial support.
2. Supporting Jobs, Enterprises, and Income. The second pillar emphasizes on provision of social protection to all, income supporting and retention programme. Further it advocates for financial/tax and other relief for enterprises.
3. Protecting Workers in the Workplace. Under this pillar measures are taken to protect workers in the workplace. For instance, expand access to paid leave, provide health access for all, adapt work arrangements (eg. teleworking), and prevent discrimination and exclusion.
4. Relying on Social Dialogue for Solutions. This pillar focuses on strengthening of social dialogue, collective bargaining and labour relations institutions and processes. This also emphasizes on strengthening capacity of government, capacity and resilience of employers' and workers' organizations.

Conclusion

The sudden outburst of coronavirus (COVID-19) and its aftermath have tested the effectiveness of health care system and robustness of economic system. The economic impact of COVID-19 needs to be analysed on two dimensions. First, severity of the disease and effectiveness of health care system. Second, financial and economic impact on the liquidity and capital robustness of financial system.The resultant lockdown of COVID-19 is bound to be recessionary if no action is taken regarding recovery of economy and improvement of health system. The recessionary may lead to large scale of unemployment and poverty. The government must work out to exit from the lockdown with the consultation of all stakeholders. The need of the hour is to design different policy for different sectors. There are many sectors where production and consumption go hand in hand, like hotel and restaurant. These sectors required totally different policy. At this juncture, government is expected to ensure effective and well-resourced public health measures to contain the spread of virus, and implement well-targeted policies to support health care systems and workers, and protect income and employment, particularly for the more vulnerable section of the society through implementing direct cash transfer programmes backed by adequate monitoring and evaluation mechanisms, and support the corporate sector and MSMEs to minimize economic impact of resultant lockdown of COVID-19 and facilitate quick recovery through immediate measures like credit support to MSMEs and relaxation of taxes on corporate and small scale industry.

Endnotes

1. *The term "informal economy" refers to all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements. This includes wage workers without social protection or other formal arrangements in both informal and formal sector enterprises, own account workers such as street vendors and domestic workers (ILO, 2020: 06).*

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