

# COVID-19 and its Impact on Indian Economy

Shyamkumar D. Mandade<sup>1</sup>, Palak D. Pande<sup>2</sup>, Rakesh L. Lichade<sup>3</sup>, Nidhi V. Singh<sup>4</sup>

<sup>1</sup>Student, Dept. of Advanced Management Studies, DAMS, G. S. College of Commerce, Wardha

<sup>2</sup>Student, Dept. of Advanced Management Studies, DAMS, G. S. College of Commerce, Wardha

<sup>3</sup>Student, Dept. of Advanced Management Studies, DAMS, G. S. College of Commerce, Wardha

<sup>4</sup>Student, Dept. of Advanced Management Studies, DAMS, G. S. College of Commerce, Wardha

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**Abstract** - The economic impact of the 2019–20 coronavirus pandemic in India has been hugely disruptive. World Bank and credit rating agencies have downgraded India's growth for fiscal year 2021 with the lowest figures India has seen in three decades since India's economic liberalization in the 1990s. The former Chief Economic Advisor to the Government of India has said that India should prepare for a negative growth rate in FY21 and that the country would need a ₹70 lakh crore stimulus to overcome the contraction. However, the International Monetary Fund projection for India for the Financial Year 2021-22 of 1.9% GDP growth is the highest among G-20 nations. Within a month unemployment rose from 6.7% on 15 March to 26% on 19 April. During the lockdown, an estimated 140 million (140 million) people lost employment. More than 45% of households across the nation have reported an income drop as compared to the previous year. In this paper we depict the condition of the Indian economy in the pre-Covid-19 period, survey the potential effect of the stun on different portions of the economy, examine the arrangements that have been reported so far by the focal government and the Hold Bank of India to enhance the monetary stun and set forward a lot of approach suggestions for explicit segments.

**Key Words:** Economic downturn, Aggregate demand, Supply chain, Informal sector, Financial institutions, COVID-19.

## 1. INTRODUCTION

The World Health Organisation (WHO) has declared that the new coronavirus outbreak is a public health emergency of international concern, officials announced on Thursday, 30th January, 2020. WHO proposed calling the disease "2019-nCoV acute respiratory disease." The 2019 novel corona virus (2019- nCoV) originating in Wuhan, China, has spread to 24 more countries alarming public health authorities across the world. More than 4,900 people have died and over 132,000 have been infected globally, according to the WHO on 13 March, 2020. According to Situation report-48 on Coronavirus disease 2019 (COVID-19) on 08th March 2020 Over 100 countries have now reported laboratory-confirmed cases of COVID19. The report stated that globally 105586 confirmed (3656 new) cases have been reported, whereas in China 80 859 confirmed (46 new) 3100 deaths (27 new) and Outside of China 24 727 confirmed (3610 new) 484 deaths (71 new) (WHO Situation Report-48, March 2020). Delhi has reported six positive cases and Uttar

Pradesh 10 so far. Karnataka has five coronavirus patients, Maharashtra 11 and Ladakh three. Besides, Rajasthan, Telangana, Tamil Nadu, Jammu and Kashmir, Andhra Pradesh and Punjab have reported one case each. Kerala has recorded 17 cases, including three patients who were discharged last month after they recovered from the contagious infection with flu-like symptoms (Economic times, 2020).

The Indian economy is expected to lose over ₹32,000 crore (US\$4.5 billion) every day during the first 21-days of complete lockdown which was declared following the coronavirus outbreak. Under complete lockdown less than a quarter of India's \$2.8 trillion economy is functional. Up to 53% of businesses in the country will be significantly affected. Supply chains have been put under stress with the lockdown restrictions in place; initially there was a lack of clarity in streamlining what is an "essential" and what is not. Those in the informal sectors and daily wage groups are the most at risk. A large number of farmers around the country who grow perishables are also facing uncertainty. Various businesses such as hotels and airlines are cutting salaries and laying off employees.

Major companies in India such as Larsen & Toubro, Bharat Forge, UltraTech Cement, Grasim Industries, Aditya Birla Group and Tata Motors have temporarily suspended or significantly reduced operations. Young startups have been impacted as funding has fallen. Fast-moving consumer goods companies in the country have significantly reduced operations and are focusing on essentials. Some defense deals have been affected/delayed due to the pandemic such as the delivery of Dassault Rafale fighter jets. Stock markets in India posted their worst loses in history on 23 March 2020. However, on 25 March, one day after a complete 21-day lockdown was announced by the Prime Minister, SENSEX and NIFTY posted their biggest gains in 11 years, adding a value of ₹4.7 lakh crore (US\$66 billion) crore to investor wealth.<sup>[17]</sup>

The Government of India has announced a variety of measures to tackle the situation, from food security and extra funds for healthcare, to sector related incentives and tax deadline extensions. On 26 March a number of economic relief measures for the poor were announced totaling over ₹170,000 crore (US\$24 billion). On 27 March the Reserve Bank of India also announced a number of measures which would make available ₹374,000 crore to the country's financial system. On 29 March the government allowed the

movement of all essential as well as non-essential goods during the lockdown. On 3 April the central government released more funds to the states for tackling the coronavirus totaling to ₹28,379 crore. The World Bank and Asian Development Bank have approved support to India to tackle the coronavirus pandemic.

On 14 April 2020, the Prime Minister of India extended the lockdown to 3 May. A new set of guidelines for the calibrated opening of the economy and relaxation of the lockdown were also set in place which would take effect from 20 April. On 17 April, the RBI Governor announced more measures to counter the economic impact of the pandemic including ₹50,000 crore (US\$7.0 billion) special finance to NABARD, SIDBI, and NHB. On 18 April, to protect Indian companies during the pandemic, the government changed India's foreign direct investment policy. The Department of Military Affairs has put on hold all capital acquisitions for the beginning of the financial year.

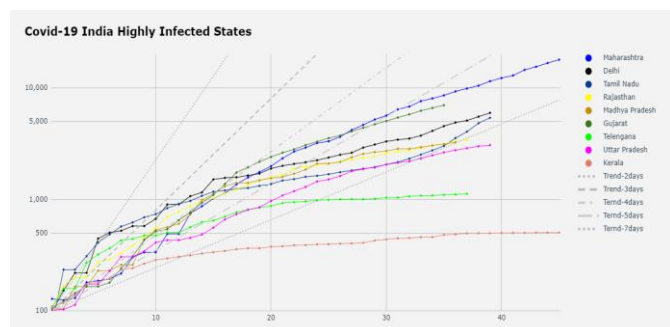


Fig.1 Highly Infected States in India by COVID-19

The Press Information Bureau brought out a fact check that stories about a financial emergency being imposed in India are fake. A financial emergency has never been imposed in the history of India as yet. On 4 April, former RBI chief Raghuram Rajan said that the coronavirus pandemic in India may just be the "greatest emergency since Independence". On 28 April, former CEA Arvind Subramanian said that India would need a ₹720 lakh crore stimulus to overcome the contraction caused due to the pandemic.

We are in the middle of a global Covid-19 pandemic, which is inflicting two kinds of shocks on countries: a health shock and an economic shock. Given the nature of the disease which is highly contagious, the ways to contain the spread include policy actions such as imposition of social distancing, self-isolation at home, closure of institutions, and public facilities, restrictions on mobility and even lockdown of an entire country. These actions can potentially lead to dire consequences for economies around the world. In other words, effective containment of the disease requires the economy of a country to stop its normal functioning. This has triggered fears of a deep and prolonged global recession. On April 9, the chief of International Monetary Fund, Kristalina Georgieva said that the year 2020 could see the worst global

economic fallout since the Great Depression in the 1930s, with over 170 countries likely to experience negative per capita GDP growth due to the raging coronavirus pandemic.<sup>34</sup> It is therefore not certain when the lockdown might be lifted for the country as a whole, what might happen once the lockdown is relaxed even in a phased manner, and how long will it take for normalcy to gradually restored. The lockdown period buys time to prepare the health system and to put together a plan of how to deal with the outbreak once the case-load starts accelerating. India's public health system is relatively weaker than other countries. The government spends only 1.5% of the total GDP on public health as a result of which the system is grossly underprepared to deal with a health crisis.

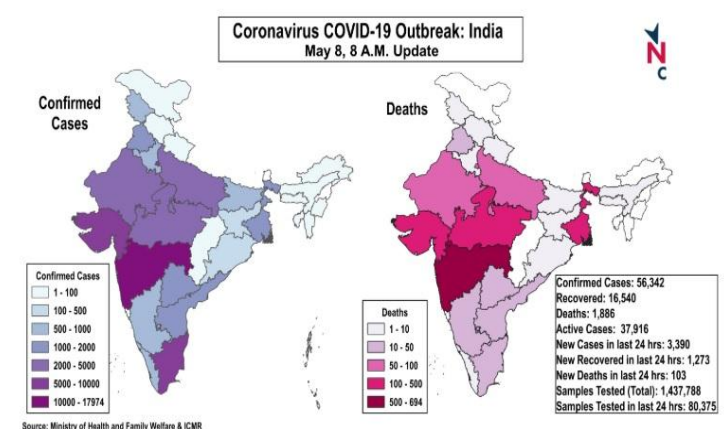


Fig.2 COVID-19 Confirmed Cases and Deaths

## 2. TIMELINE

The trade impact of the coronavirus epidemic for India is estimated to be about 348 million dollars and the country figures among the top 15 economies most affected as slowdown of manufacturing in China disrupts world trade, according to a UN report. Whereas according to Asian Development Bank (ADB) the Covid-19 outbreak could cost the Indian economy between \$387 million and \$29.9 billion in personal consumption losses. For India, the trade impact is estimated to be the most for the chemicals sector at 129 million dollars, textiles and apparel at 64 million dollars, automotive sector at 34 million dollars, electrical machinery at 12 million dollars, leather products at 13 million dollars, metals and metal products at 27 million dollars and wood products and furniture at 15 million dollars. China has seen a dramatic reduction in its manufacturing Purchasing Manager's Index (PMI) to 37.5, its lowest reading since 2004. This drop implies a 2 per cent reduction in output on an annual basis. This has come as a direct consequence of the spread of corona virus (COVID-19) (The Hindu). When we see the China's Share in total import to India, India's total electronic imports account for 45% of China. Around one-third of machinery and almost two-fifths of organic chemicals that India purchases from the world come from China? For automotive parts and fertilisers China's share in India's import is more than 25%. Around 65 to 70% of active

pharmaceutical ingredients and around 90% of certain mobile phones come from China to India.

- On **19 March** the formation of the COVID-19 Economic Response Task Force was announced by Prime Minister Narendra Modi on 19 March 2020 during his live address to the nation. The task force is led by the finance minister Nirmala Sitharaman. Though not formally constituted or no official date for relief packages being made, the consultation process with concerned parties has begun immediately. The Ministry of Finance immediately started consultations with the RBI and ministries to take stock of most affected sectors like aviation, hospitality, and MSMEs.
- On **21 March 2020**, the Union cabinet approved incentives worth ₹40,995 crore (US\$5.7 billion) for electronic manufacturing.
- Various state governments have announced financial assistance for the poor in the unorganised sector. On **21 March** the Uttar Pradesh government decided to give a direct money transfer of ₹1,000 (US\$14) to all daily wage laborers in the state and the following day Punjab announced ₹3,000 (US\$42) each for all registered construction workers in state.
- On **23 March** it was announced that Haryana labourers, street vendors and rickshaw pullers will be provided an assistance of ₹1,000 per week directly deposited into their bank accounts. Below Poverty Line families will be provided rations (including rice, wheat, mustard oil, sugar) free of cost for the month of April.
- On **24 March**, in his address to the nation, the Prime Minister announced a ₹15,000 crore (US\$2.1 billion) fund for the healthcare sector.
- On **24 March** at 2:30 pm, the Finance Minister made a number of announcements related to the economy such as extending last dates for filing GST returns and income tax returns. The due dates for the Sabka Vishwas (Legacy Dispute Resolution) Scheme 2019, customs clearances and for compliance matters under the Customs Act and associated laws has been extended to June 2020.
- On **25 March** the Modi government announced the world's largest food security scheme for 800 million (800,000,000 people) across the country. Cabinet Minister Prakash Javadekar made the announcement in a press conference that the ration would be 7 kg every month (which includes wheat at a cost of ₹2 (2.8¢ US) per kg and rice at ₹3 (4.2¢ US) per kg.)
- On **25 March** the Uttar Pradesh government banned the manufacture and sale of pan masala, stating in the order that "Spitting pan masala can help in spreading Covid-19". Following this, other states such as Andhra Pradesh, Rajasthan and Gujarat also banned spitting in public places.
- On **26 March** the Finance Minister announced a number of economic relief measures for the poor. ₹170,000 crore (US\$24 billion) will fund the Pradhan Mantri Garib Kalyan Yojana which will provide both cash transfer and food security; with the aim that no one goes hungry amidst the lockdown.<sup>[50]</sup> Pradhan Mantri Ujjwala Yojana beneficiaries will get free cylinders for at least three months. This will benefit over 80 million Below Poverty Line families.<sup>[50][51]</sup> The government will expedite payment of the first instalment (₹2,000) due in 2020-21 in April itself under the Pradhan Mantri Kisan Samman Nidhi (PM-KISAN). For the organised sector worker, the government will pay the Employees' Provident Fund (EPF) contributions of both sides for 8 million employees of small companies who earn up to ₹15,000 a month. The raise in the threshold from ₹100,000 to ₹10 million for triggering insolvency proceedings under the Insolvency and Bankruptcy Code (IBC) will help MSMEs. State governments were given various instructions and guidelines such as diverting district mineral funds for health needs relating to the pandemic.
- On **26 March** India participated in the virtual 'Extraordinary G20 Leaders' Summit'. The G20 nations decided to inject over \$5 trillion into the global economy to counteract the pandemic's impacts. They agreed to work together, to strengthen the World Health Organisation, develop a vaccine and make it available. They decided to share timely and transparent information, materials for research and development and data. Besides expanding manufacturing capacity for medical supplies, they agreed to ensure smooth flows of critical supplies.
- On **27 March** the Reserve Bank of India (RBI) Governor Shaktikanta Das made a number of announcements including EMIs being put on hold for three months and reducing Repo Rates. Other measures introduced will make available a total ₹374,000 crore (US\$52 billion) to the country's financial system.<sup>[54]</sup> Delhi government announced that from the 28th they will be providing free food to 400,000 every day.<sup>[55]</sup> Over 500 hunger relief centres have been set by the Delhi government.
- On **28 March** the Prime Minister launched a new fund called PM CARES fund for combating such situations.
- On **30 March** it was announced that the UP government would transfer ₹611 crore (US\$86 million) to 2715,000 workers under MNREGA scheme.
- On **1 April** the RBI announced more measures to deal with the economic fallout of COVID-19. WMA and short-term liquidity has been increased to provide relief to state governments; exporters have also been granted some relief in the form of relaxed repatriation limits.
- On **2 April** the World Bank approved US\$1 bn emergency financing for India to tackle coronavirus labelled 'India COVID-19 Emergency Response and Health Systems Preparedness Project'.
- On **6 April** a 30% salary cut for one year was announced for the President, Vice President, Prime Minister, Governors, Members of Parliament and Ministers. It was also decided to suspend the MPLADS for two years and transfer the money, about ₹7,900 crore (US\$1.1 billion), into the Consolidated Fund of India.
- On **8 April** the Department of Expenditure, Finance Ministry, has allowed states net market borrowings of ₹320,481 crore (US\$45 billion) between April to

December. ₹3,000 crore (US\$420 million) of funds under the PM Garib Kalyan Yojana have been given to over 20 million workers engaged in construction work by the various states and UTs. To provide relief to tax payers amid the covid-19 crisis, the government will release ₹18,000 crore (US\$2.5 billion).

- On **10 April** the Asian Development Bank (ADB) assured India of ₹15,800 crore (US\$2.2 billion) assistance in the COVID-19 pandemic fight.
- On **14 April** at 10 am the Prime Minister made a public speech in which he announced the extension of the nationwide lockdown, as well as a calibrated reopening. "From the economy's point of view, the lockdown undoubtedly looks costly right now, but compared to the lives of Indian citizens, it is nothing" (*translation, original in Hindi*).
- On **15 April** as part of the new lockdown 2.0 guidelines, the Ministry of Home Affairs announced, among other things, that all agricultural and horticultural activities will remain fully functional. Information technology companies can function with 50% staff. The partial lift of restrictions will take place from 20 April.
- On **17 April**, RBI announced more measures to counter the economic impact of the pandemic including ₹50,000 crore (US\$7.0 billion) special finance to NABARD, SIDBI, and NHB. Providing more relief to state governments, WMA limits have been increased by 60 per cent.
- On **18 April**, India changed its FDI policy to protect Indian companies from "opportunistic acquisitions" during the COVID-19 pandemic.
- On **20 April** limited economic activity is expected to resume outside of the COVID-19 containment zones.<sup>[80]</sup> During this selective relaxation of restrictions, numerous activities will remain prohibited such as educational institutions, passenger movement by trains, cinema halls, malls, shopping complexes and gymnasiums.
- On **21 April** it was announced that a team from "The Technology Information, Forecasting and Assessment Council" (TIFAC) under the Department of Science and Technology are preparing a white paper on the revival of the India economy. TIFAC has a "mandate to think for the future".
- On **23 April** The Kerala government has decided to defer one month's salaries of employees. The government will reduce the salaries of all categories of government employees including teachers, university officers and employees in all PSUs, equivalent to a six days' worth salaries every month.
- On **23-24 April** banks from the Shanghai Cooperation Organisation (SCO) agreed upon a "joint roadmap for economic recovery".
- On **25 April** the Ministry of Home Affairs allowed the re-opening of some shops under certain restrictions. As per the "national directives for COVID-19 management", liquor and other shops will remain closed. These relaxations do not apply to hotspots. (Official Communication)

- On **28 April** the ADB approved a ₹10,500 crore loan to India to combat the pandemic.
- On **4 May** India goes into its third stage of lockdown. The country has been divided into various zones (green, orange, red, containment) and as per the zone the economy has been opened up.<sup>[90]</sup>
- On **5 May** Maharashtra put a hold on capital works till March next year and imposed a 67% cut in development spend for 2020-21. This is the largest cut in expenditure since the state was formed.

### 3. INDIAN ECONOMY

The shock is playing out in almost a similar manner in all countries of the world in terms of demand and supply disruptions and the consequent economic slowdown. In case of India however the problem might be more acute and longer lasting owing to the state the economy was in, in the pre-Covid-19 period. By the time the first Covid-19 case was reported in India, the economy had deteriorated significantly after years of feeble performance. According to the official statistics, GDP growth slowed to 4.7% in 2019, the lowest level since 2013. Unemployment reached a 45-year high. Industrial output from the eight core sectors at the end of 2019 fell by 5.2%-the worst in 14 years. Private sector investment had been stagnant for several years and declining in recent times and consumption expenditure had also been falling, for the first time in several decades.

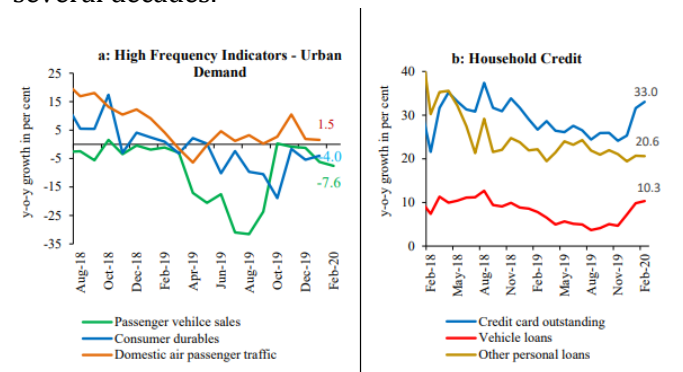


Fig.3 High frequency Indicators

In India up to 53% of businesses have specified a certain amount of impact of shutdowns caused due to COVID-19 on operations (FICCI survey). Various business such as hotels and airlines are cutting salaries and laying off employees. By 24 April the Unemployment Rate had increased nearly 19% within a month, reaching 26% unemployment across India, according to the "Centre for Monitoring Indian Economy". Around 140,000,000 Indian lost employment in the lockdown. More than 45% households across the nation have reported an income drop as compared to the previous year. Live events industry has seen an estimated loss of ₹3,000 crore (US\$420 million). A

number of young startups have been impacted as funding has fallen. A DataLabs report shows a 45% decrease in the total growth-stage funding (Series A round) as compared to Q4 2019. According to a KPMG report venture capital in Indian startups has fallen over 50% in Q1 2020 from Q4 2019. On 4 April, former Reserve Bank of India chief Raghuram Rajan said that the coronavirus pandemic in India may just be the "greatest emergency since Independence". The former Chief Economic Advisor to the Government of India has said that India should prepare for a negative growth rate in FY21 and that India would need a ₹720 lakh crore (US\$10 trillion) stimulus to overcome the contraction.

Numerous companies are carrying out measures within their companies to ensure that staff anxiety is kept at a minimum. Hero MotoCorp has been conducting video townhall meetings, Tata Group has set up a task force to make working from home more effective and the taskforce at Siemens also reports on the worldwide situation of the COVID-19 pandemic. Night lights and economic activity are connected. In Delhi, night light radiance fell 37.2% compared to 1–31 March 2019. This was the biggest fall for any metro in India. Bangalore fell 32% while Mumbai dropped by 29%.<sup>[107]</sup>

## 4. IMPACT OF THE CRISIS

### 4.1 Overall macro impact

The countrywide lockdown has brought nearly all economic activities to an abrupt halt. The disruption of demand and supply forces are likely to continue even after the lockdown is lifted. It will take time for the economy to return to a normal state and even then social distancing measures will continue for as long as the health shock plays out. Hence demand is unlikely to get restored in the next several months, especially demand for non-essential goods and services. Three major components of aggregate demand—consumption, investment, and exports are likely to stay subdued for a prolonged period of time. In addition to the unprecedented collapse in demand, there will also be widespread supply chain disruptions due to the unavailability of raw materials, exodus of millions of migrant workers from urban areas, slowing global trade, and shipment and travel related restrictions imposed by nearly all affected countries. The supply chains are unlikely to normalise for some time to come. Already several industries are struggling owing to complete disruption of supply chains from China. The longer the crisis lasts, the more difficult it will be for firms to stay afloat. This will negatively affect production in almost all domestic industries. This in turn will have further spill over effects on investment, employment, income and consumption, pulling down the aggregate growth rate of the economy. At this early stage it is difficult to fully comprehend the extent of the damage that the Indian economy may incur once the health shock peters out. We are already seeing some early numbers that highlight the severity and duration of the slowdown the economy may experience going forward.

### 1) Agriculture

Due to logistical problems following the lockdown tea estates were unable to harvest the first flush. The impact of this on the second flush is not known. The entire Darjeeling tea based tea industry will see significant fall in revenue. Tea exports could drop up to 8% as a result. From 20 April, under the new lockdown guidelines to reopen the economy and relax the lockdown, agricultural businesses such as dairy, tea, coffee and rubber plantations, as well as associated shops and industries, will reopen.

### 2) Manufacturing

Major companies in India such as Larsen and Toubro, Bharat Forge, UltraTech Cement, Grasim Industries, the fashion and retail wing of Aditya Birla Group, Tata Motors have temporarily suspended or significantly reduced operations in a number of manufacturing facilities and factories across the country. iPhone producing companies in India have also suspended a majority of operations. Nearly all two-wheeler and four-wheeler companies have put a stop to production till further notice. Many companies have decided to remain closed till at least 31 March such as Cummins which has temporarily shut its offices across Maharashtra. Hindustan Unilever, ITC and Dabur India have shut manufacturing facilities except for factories producing essentials. Foxconn and Wistron Corp, iPhone producers, have suspended production following the 21 days lockdown orders.

### 3) E-commerce

In the third week of March, Amazon announced that it would stop sale of non-essential items in India so that it can focus on essential needs. Amazon has followed the same strategy in Italy and France. On 25 March, Walmart-owned Flipkart temporarily suspended some of its services on its e-commerce platform and will only be selling and distributing essentials. BigBasket and Grofers also run restricted services, facing disruptions in services due to the lockdown. Delhi Police began issuing delivery agents curfew passes to make it easier for them to keep the supply chain open. E-commerce companies also look for legal clarity related to what are "essentials".

On 20 April, Telangana extended the lockdown to 7 May. Swiggy and Zomato will not be allowed to function during this extension period.

### 4) Defence

The Department of Military Affairs led by the Chief of Defence Staff has postponed all capital acquisitions until the coronavirus pandemic recedes. No new major defense deals will be made in the beginning of the financial year 2020–21. While the delivery of S-400 missile systems won't be affected, the delivery of Rafale fighter jets might be.

### 5) Stock markets

On 23 March 2020, stock markets in India post worst losses in history SENSEX fell 4000 points (13.15%) and NSE NIFTY fell 1150 points (12.98%). However, on 25 March, one day after a complete 21-day lock-down was announced by the

Prime Minister, SENSEX posted its biggest gains in 11 years, adding a value of ₹4.7 lakh crore (US\$66 billion) crore for investors. On 8 April, following positive indication from the Wall Street that the pandemic may have reached its peak in the US, the stock markets in India rose steeply once again. By 29 April, Nifty held the 9500 mark.

## 6) Estimate of economic losses

The Indian economy is expected to lose over ₹32,000 crore (US\$4.5 billion) every day during the first 21 days of the lockdown, according to Acuité Ratings, a RBI approved credit rating agency.<sup>[7]</sup> Barclays said the cost of the first 21 days of shutdown as well as the previous two shorter ones will be total to around ₹8.5 lakh crore (US\$120 billion).

On 27 March, Moody's Investors Service downgraded its estimate of India's GDP growth for 2020 from 5.3% to 2.5%. Fitch Ratings revised its estimate for India's growth to 2%. India Ratings & Research also downgraded the FY21 estimate to 3.6%. On 12 April 2020, a World Bank report focusing on South Asia said that India's economy is expected to grow 1.5% to 2.8% for FY21. This will be the lowest growth for India in 30 years. The World Bank report said that the pandemic has "magnified pre-existing risks to India's economic outlook". Confederation of Indian Industry (CII) have estimated that India's GDP for FY21 will be between 0.9% and 1.5%. On 28 April the former Chief Economic Advisor to the Government of India has said that India should prepare for a negative growth rate in FY21. Confederation of Indian Industry (CII) has sought an economic fiscal stimulus package of 1% of India's GDP amounting to ₹2 lakh crore (US\$28 billion). The fiscal package and fiscal policies approach is being compared to what has happened in other countries such as Germany, Brazil and Japan. Jefferies Group said that the government can spend ₹1.3 lakh crore (US\$18 billion) to fight the impact of coronavirus. Bloomberg's economists say at least ₹2.15 lakh crore (US\$30 billion) needs to be spent. Former CEA Arvind Subramanian said that India would need a ₹720 lakh crore (US\$10 trillion) stimulus. It is estimated that the loss to the tourism industry will be ₹15,000 crore (US\$2.1 billion) for March and April alone. CII, ASSOCHAM and FAITH estimate that a huge chunk of the workforce involved with tourism in the country faces unemployment.

## 5. CONCLUSION

Covid-19 has represented an uncommon test for India. Given the huge size of the populace, the tricky circumstance of the economy, particularly of the money related segment in the pre-Covid-19 period, and the economy's reliance on casual work, lockdowns and other social separating measures would be massively troublesome. The focal and state governments have perceived the test and have reacted yet this reaction ought to be only the start. Strategy creators should be set up to scale up the reaction as the situations develop in order to limit the effect of the stun on both the formal and casual segments and clear the route for a V-molded recuperation. Simultaneously they should guarantee

that the reactions remain cherished in a rules-based system and breaking point the activity of attentiveness so as to maintain a strategic distance from long haul harm to the economy.

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