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COVID-19 Pandemic and Policy Responses: India¹

I. Introduction

The outbreak of COVID-19 pandemic has seriously hit all the economies in the world. The national lockdowns announced by various countries resulted in a serious loss of economic output. This prompted the governments and the central banks to respond to the pandemic with a mix of conventional and unconventional fiscal and monetary measures.

To break the chain of the spread of the pandemic, India imposed a nation-wide lockdown during the initial phase of the pandemic in March-May 2020, followed by gradual unlocking and phasing out of the restrictions imposed. The lockdown and other containment measures resulted in a huge economic contraction of 24.4 per cent in gross domestic product (GDP) in Q1:2020-21. Industrial sector also witnessed a sharp fall, with gross value added (GVA) growth contracting sharply on a year-on-year (y-o-y) basis by 7.4 per cent in 2020-21. During Q1:2020-21, industrial activity also recorded a steep decline, registering a contraction of (-) 31.1 per cent. The turnaround in industrial activity since then has been uneven. Cumulatively, the Index of Industrial Production (IIP) declined by 8.6 per cent in 2020-21. However, with the gradual unlocking of the economy since June 2020, the economic recovery was evident with lesser contraction in GDP (-7.4 per cent) recorded in Q2:2020-21, a sustained resurgence in high frequency indicators such as power demand, E-way bills, ST collection and steel consumption. Further, after two consecutive quarters of contraction, GDP for the Q3 and Q4:2020-21 returned to positive territory with a growth of 0.5 per cent and 1.6 per cent, respectively. The contraction in real GDP for the entire year 2020-21 is estimated at 7.3 per cent. The much-anticipated boost to economic activity from the vaccination rollouts, however, is being somewhat held back by new mutations of COVID-19 and second wave of infections across the country.

The Government of India with the *AtmaNirbhar Bharat 3.0 Mission COVID Suraksha*, has accelerated the development and production of indigenous COVID-19 vaccines and

¹ The Country paper covers the policy responses of Government of India and the Reserve Bank. It doesn't cover the responses of state governments and other regulatory bodies.

streamlined the rollout of vaccines. India initiated the world's largest vaccination drive starting with Health Care Workers (HCWs) on January 16, 2021, followed by Front Line Workers (FLWs) from February 02, 2021, persons aged 60 years and above and those aged 45-59 years with identified 20 co-morbidities were covered from March 01, 2021. Subsequently, from April 01, 2021, all persons aged 45 years and above were eligible for vaccination. (PIB May 28, 2021). With the constant efforts, India became the second country after the United States of America to administer 20-crore doses of COVID-19 vaccines in a span of 130 days, since the start of the vaccination drive in the country (PIB May 26, 2021). The rollout of the vaccination programme in the country was beginning to get reflected in several high-frequency indicators.

Section II. Measures by the Reserve Bank of India

In view of the extraordinary situation arising out of the COVID-19 pandemic, the Reserve Bank of India (RBI) has been in action on a daily basis with efforts to alleviate financial stress, build confidence and keep the financial system sound and functioning. The monetary, liquidity and regulatory policies announced by RBI can be broadly classified under four categories:

- (1) measures to expand liquidity in the system sizeably to ensure that financial markets and institutions are able to function normally in the face of COVID-19 related dislocations;
- (2) endeavour to improve the functioning of markets in view of the high volatility experienced with the onset and spread of the pandemic;
- (3) steps to reinforce monetary transmission so that bank credit flows on easier terms are sustained to all those who have been affected by the pandemic; and
- (4) efforts to ease financial stress caused by COVID-19 disruptions by relaxing repayment pressures and improving access to working capital.

As classified above, some of the measures introduced by the RBI are provided below: -

- i. In order to mitigate the adverse macroeconomic impact of the pandemic, the Monetary Policy Committee (MPC), between March 2020 and June 2021, voted for a cumulative reduction of 115 basis points in the policy repo rate under the liquidity adjustment facility (LAF) to 4.0 per cent from 5.15 per cent. The MPC also decided to continue with the accommodative stance as long as necessary to revive growth on a durable basis. These decisions were in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth. The MPC's forward guidance over the past year has also

been helpful in anchoring market expectations and strengthening the pace of monetary transmission.

- ii. To tide over the disruption caused by COVID-19, the Cash Reserve Ratio (CRR) of all banks was reduced by 100 basis points to 3.0 per cent for a period of one year ending on March 26, 2021. On a review of monetary and liquidity conditions, in the February 2021 bimonthly monetary policy, it has been gradually restored in two phases in a non-disruptive manner to 3.5 per cent effective from March 27, 2021 and 4.0 per cent effective from May 22, 2021.
- iii. In the wake of COVID-19 pandemic related disruptions, RBI permitted lending institutions to (i) extend moratorium on term loan instalments and interest on working capital facilities for six months from March 1, 2020 to August 31, 2020 in case of qualifying borrowers, without any impact on their 'standard' status; and (ii) restructure credit facilities meeting the prescribed criteria, without any consequent downgrade in asset classification. Following the Hon'ble Supreme Court of India judgement in March 2021, for the period commencing September 1, 2020, asset classification for all such accounts shall be as per the applicable Income Recognition and Asset Classification (IRAC) norms.
- iv. In September 2020, RBI notified the financial parameters and the sector-specific thresholds to be considered while finalising resolution plans for exposures other than personal loans under the resolution framework (recommended by an expert committee).
- v. RBI conducted multiple open market operations (OMOs) and liquidity adjustment facility (LAF) operations to manage the liquidity in the system. The long-term repo operations (LTROs) and targeted LTROs are other major tools used by the RBI to ensure liquidity in the system. In addition, RBI conducted nineteen auctions of operation twists (OTs), which is simultaneous purchase and sale of Government of India securities, during 2020-21 with a view to achieving orderly evolution of yield curve. Overall, the total support announced by RBI for the economy since February 6, 2020 (up to May 5, 2021) amounted to Rs. 15.7 lakh crore (8.0 per cent of 2020-21 nominal GDP).
- vi. Two 6-month US dollar/INR sell/buy swap auctions were conducted on March 16 and March 23, 2020 cumulatively providing dollar liquidity amounting to US\$ 2.7 billion.
- vii. To nurture the growth impulses, special refinance facilities of Rs. 75,000 crore were provided to All India Financial Institutions (AIFIs) like NABARD, SIDBI, NHB and EXIM bank during April-August 2020. Further, RBI, in the April 2021 bimonthly

monetary policy, announced to provide AIFIs a liquidity support of Rs. 50,000 crore for fresh lending during 2021-22. To further support the funding requirements of micro, small and medium enterprises (MSMEs), RBI, in the June 2021 bimonthly monetary policy, decided to extend a special liquidity facility of Rs. 16,000 crore to SIDBI for on-lending/ refinancing through novel models and structures.

- viii. With a view to enabling a stable and orderly evolution of the yield curve amidst comfortable liquidity conditions, RBI introduced a secondary market G-sec acquisition programme or G-SAP 1.0. The endeavour is to ensure congenial financial conditions for the recovery to gain traction. During Q1:2021-22 (up to May 31), RBI, under G-SAP 1.0, injected liquidity to the tune of Rs. 60,000 crore. Further, it was announced to conduct operations under G-SAP 1.0 for Rs. 40,000 crore on June 17, 2021. Of this, Rs. 10,000 crore would constitute purchase of state development loans (SDLs). RBI is committed to buy Rs. 1 lakh crore of bonds under G-SAP 1.0 in the first quarter ending June 2021. To provide further support to the market, RBI, in the June 2021 bimonthly monetary policy, announced to undertake G-SAP 2.0 in Q2:2021-22 and conduct secondary market purchase operations of Rs. 1.20 lakh crore.
- ix. To ease access to emergency health services, RBI on May 05, 2021 announced a term-liquidity-facility of Rs. 50,000 crore with tenure of up to 3 years, at repo rate, for ramping up COVID-related health infrastructure & services. Under the scheme, banks can provide fresh lending support to a wide range of entities including vaccine manufactures; importers/suppliers of vaccines and priority medical devices etc. This lending facility will be available up to March 31, 2022. Additionally, these loans will continue to be classified under priority sector till repayment or maturity, whichever is earlier.
- x. In order to keep essential financial market and payment services available to the nation, RBI activated an elaborate business continuity plan for its own operations and at the same time ensured that banks also activate their own business continuity plans. All regulated entities were also advised to assess the impact of COVID-19 on their balance sheet, asset quality and liquidity, and take immediate contingency measures to manage their risks.
- xi. In order to mitigate the adverse impact of the second wave of the pandemic on certain contact-intensive sectors, RBI, in June 2021, announced an on-tap liquidity window aggregating Rs. 15,000 crore, open till March 31, 2022 for sectors, including hotels and restaurants, tourism, aviation ancillary services etc.

In 2020-21, RBI had to deal with the twin challenges of reviving growth from the ravages of COVID-19 while also ensuring that inflation eased from above the upper tolerance band to align with the target. A range of conventional and unconventional monetary, and liquidity measures ensured adequate surplus systemic liquidity to address COVID-19 related stress in the financial markets and were successful in ensuring a significant softening of interest rates across the spectrum.

Section III. Fiscal and Structural Measures by the Government of India

Governments and central banks across the globe announced measures in the form of additional fiscal spending, foregone revenues, capital and debt injections, contingent liabilities, and liquidity/ funding for lending, adding up to US\$ 16 trillion or 15.3 per cent of world GDP (RBI Annual Report 2020-21). In India, too, a range of reforms were implemented by the Government to ensure that the supply-side disruptions, which were inevitable during the 2020 lockdown, were minimised in the medium to long-run.

To mitigate the economic cost afflicted due to the pandemic, the Union Government announced a series of economic reform measures which cumulatively amounted to Rs. 17.2 lakh crore. The Government announced the *Pradhan Mantri Garib Kalyan Package* (PMGKP) which focused on protecting lives and livelihoods of vulnerable sections of the population through measures like ensuring food security through public distribution system (PDS), direct benefit transfers to widows, pensioners and women, additional funds for MGNREGS, and debt moratoria and liquidity support for businesses. Sector-specific packages were also announced for MSMEs, NBFCs and agriculture, viz., partial credit guarantee scheme for NBFCs, collateral-free loans, additional fund allocation for rural employment, measures to provide relief to contractors, insolvency related measures, relaxation for real estate projects and measures to enhance ease of doing business.

Once travel restrictions were eased and economic activity started to gain momentum, *AatmaNirbhar Bharat Abhiyan 2.0* (October 12) was announced. It included both consumption-based measures in the form of leave travel concession (LTC) cash voucher scheme and interest free loans for government employees and investment measures in the form of increase in the capex budget of the Union Government and interest free loans to state governments for capital expenditure. The thrust on capital expenditure was continued in the *AatmaNirbhar Bharat Abhiyan 3.0* (November 12), which included, *inter alia*, additional outlay for *Pradhan Mantri Awas Yojana - Urban*, further increase in the capex budget, equity

infusion in the National Investment and Infrastructure Fund (NIIF) and a production-linked incentive (PLI) scheme for 10 identified sectors to boost domestic manufacturing, investment and employment at an estimated cost of Rs. 1.5 lakh crore to the exchequer over the next five years.

In order to inoculate the population against the COVID-19 pandemic, the Government made an allocation of Rs. 35,000 crore in the Union Budget 2021-22, for the coronavirus vaccines with the assertion that the Union Government would be committed to provide further support to eradicate the pandemic.

Section IV. Conclusion

With the sudden spread of the COVID-19 pandemic, the global economy plunged into one of steepest decline in economic output in history. India, not immune to the ravages of the pandemic, suffered an unprecedented decline in economic output. The Government and RBI recognized the disruptive nature of the pandemic, and announced a range of policy measures

Fiscal Package Announced by the Union Government

		(Rs. Crore)
S. No.	Scheme	Amount
1	2	3
1	Pradhan Mantri Garib Kalyan Package	1,70,000
2	PM's Health Package	15,000
3	Revenue Loss due to Tax Relief Measures	7,800
4	AatmaNirbhar Bharat Abhiyan 1.0	11,02,650
5	PMGKP Anna Yojana Extension	82,911
6	AatmaNirbhar Bharat Abhiyan 2.0	73,000
7	AatmaNirbhar Bharat Abhiyan 3.0	2,65,080
8	Total	17,16,441
Source: PIB, RBI Annual Report 2020-21		

to support the economy, such as monetary policy measures, liquidity measures, business continuity measures, regulatory forbearance measures and fiscal stimulus measures, with emphasis on social security in the form of cash transfers, provision for additional employment under various schemes and other supportive initiatives for NBFCs, MSMEs, business enterprises, individual loans, among others. The fiscal and monetary measures announced, taken together, cumulated to 15.7 per cent of GDP, including liquidity and other measures taken by RBI.

With gradual easing of the mobility restrictions and expansive fiscal and monetary support, the Indian economy gained traction on brightening long-term economic prospects. However, the

evolving trajectory of the pandemic and progress on vaccination drive remain the key drivers of economic activity, globally and in India.

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