INSTITUT MONTAIGNE

POLICY BRIEF

CHRISTOPHE JAFFRELOT – *JUNE 11, 2020*

From slowdown to lockdown, India's economy and the COVID-19 shock

The Indian economy that is facing the COVID-related crisis today was already badly affected by an under reported slowdown for more than one year. This state of things complicates the government's response - that is not, today, proportionate to the challenge.[1]

It was just yesterday that the IMF was congratulating India for being a driving force of the global economy, with growth rates flirting with 8% in 2016. The economic slowdown that hit the country in 2017-2019 divided this rate by almost two – as the growth rate for the fiscal year 2019-2020 as been only 4.2% according to the Indian government, after a steady decline, month after month (the growth rate of the last quarter, from January to March 2020, was only 3.1%). This decline, that came as a surprise, deserves examination, going beyond explanations focused on the artificial inflation of Indian performance by the authorities.[2] The issue of transparency with the manipulation of figures adds to problems linked with the non-publication of certain statistics, including unemployment and consumption figures. Yet, this still does not explain the signs of an economic and social crisis that appeared in 2019.

Using the most reliable data available, we will first try to assess the extent of the 2017-19 slowdown and its social and fiscal consequences before looking at the impact of the COVID-related crisis and the remedies implemented by the authorities since March 2020.

[1] I am grateful to Sreenivasan Subramanian, Bruno Dorin and Eve Colson-Sihra for their comments on an earlier version of this brief.

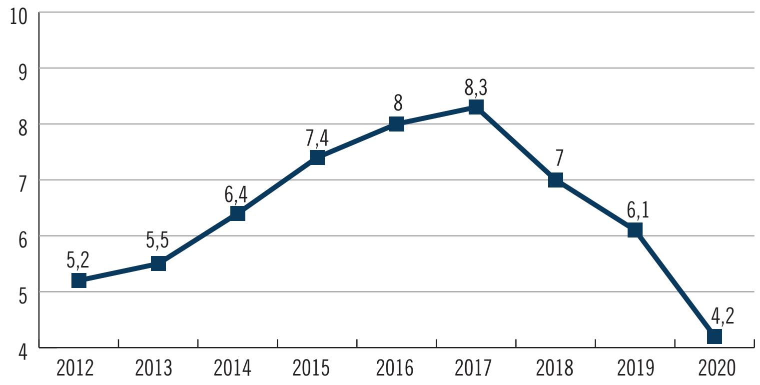
[2] Indeed, by the very admission of Arvind Subramanian, the former Chief Economic Advisor of the Modi government who resigned in 2018, the real growth rate of the economy has been amplified by two and a half percentage points since 2015, the year in which the government adopted a new method of calculating GNP. If Subramanian is correct, India's growth rate in 2019 has been between 2 and 3% according to the old method of calculation.

The 2017-19 slowdown:
an economic, social and budgetary crisis

When many indicators were at half-mast…

The magnitude of the slowdown became clear in the fall of 2019, in the third quarter of the fiscal year – which runs from April 1 to March 31 – when the annual growth rate fell to 4.5%, with some sectors even experiencing negative growth. The manufacturing sector, for example, fell by 3.9% in September, led by the decline in industrial production (-4.3%) and energy production (-2.6%). **This was the second consecutive month of negative growth**. It fell again by 3.8% in October before narrowly returning to a positive value in November. In 2019-20, the growth rate of the manufacturing sector dropped to 0.9% (against 5.7% one year before).

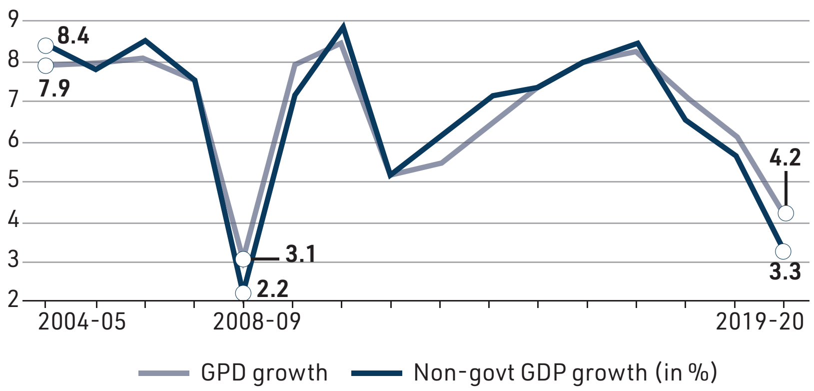
GDP Growth Rate (%)



Source: National Accounts Statistics (2019).

The graph below shows that the growth rate of India, *before the country was hit by the COVID crisis*, was almost back to what it was during the 2008-2009 crisis.

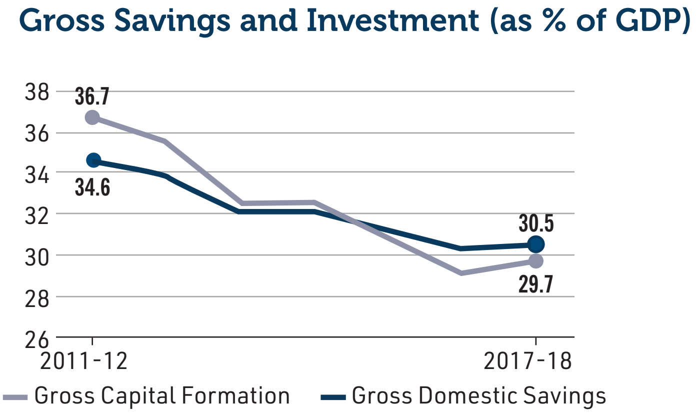
GDP Growth and Non-Government GDP Growth



The decline in industrial production primarily reflected a demand drop, the real crux of the problem. Manufacturers have seen sales of consumer staples and durable goods fall. In the automotive sector, the fall of 2019 was particularly sharp, with some manufacturers recording declines of 20 to 30%[3]. The latest study by India's National Statistical Office also reported a consumption drop that was unprecedented since 1972-73. **From an average level of 3.7% between 2011-12 and 2017-18, this drop is as high as 8.8% in rural areas, a clear reflection of the rise of poverty in Indian villages (an issue to which we'll return below)**.

The government prevented the publication of this study by incriminating the methodology used. However, these figures – obtained according to a proven methodology – are corroborated by the increase in industry's unused production capacity, which reached 24% in 2019 and even 30% in the first months of 2020 according to the Reserve Bank of India (RBI).

Under these conditions, companies were not investing and, in fact, the ratio of gross capital formation to GDP – corresponding to the investment rate – had already fallen from 36.7% in 2011-12 to 29.7% in 2017-18. According to the Centre for Monitoring Indian Economy (CMIE), the amount of domestic investment projects, both private and public, fell from Rs. 21 trillion (€260 billion) in 2015 to Rs. 11 trillion (€136.4 billion) in 2019. The private sector faced a higher decline here than the public sector, with an investment rate decreasing from 26.9% in 2011 to 21.4% in 2018. In 2019-20, the total amount of investment in the economy contracted by 2.8%.



Source: Reserve Bank of India Bulletin (March 2019)

[3] These decreases followed a poor performance in 2018-2019, the worse in eight years for the car making industry (A. Kotoky, "India Just Posted The Worst Car Sales Data In Eight Years", *NDTV*, 13 May 2019, https://www.ndtv.com/business/india-just-posted-the-worst-car-sales-data-in-eight-years-2036960). On the consumption pattern of India in 2019, see S. Subramanian, "Letting the Data Speak: Consumption Spending, Rural Distress, Urban Slow-Down, and Overall Stagnation", The Hindu Centre for Politics and Public Policy, 11 December 2019 (https://www.thehinducentre.com/thearena/current-issues/article30265409.ece).

A sharp rise in youth unemployment

The rise in the unemployment rate was the first social consequence of the economic slowdown, which also came at a time when demographic dynamism remained very strong. India's population, which is one of the youngest in the world with 46% of Indians being under the age of 25, is growing by 16 million souls every year and half of them are entering the labour market, girls having often given up on finding work. These demographics combined with the economic slowdown explain why India, in 2019, had the highest unemployment rate recorded in 45 years, according to the Periodic Labour Force Survey of the National Sample Survey Office (NSSO)[4]. **The unemployment rate calculated by the NSSO was especially high among India's youth: 34% for those between 20- and 24-years old, even up to 37.5% among urban dwellers of this same age group.** These figures overlap with those of the CMIE, according to which the unemployment rate for 20- to 24-years old was 37% against 17% in 2017), and that of 20- to 29-years old was around 28%. For the latter age group, this meant that 30.7 million young people in this age group would be unemployed, compared to only 17.8 million in 2017. In two years, the number of unemployed young people had thus increased by 73%.

The urban youth were the most badly affected by unemployment. 44% of the 20-24 years old living in cities were jobless in December 2019. Ironically, the more they were educated, the more unemployed they were too: 63.4% of the graduates belonging to this age bracket were unemployed (against 55.1% and 42% in the two previous years).

Public finances in difficulty

Another consequence of the economic crisis is a decline in tax revenues for public finances, in a country where the tax to GDP ratio is below 17-18%. During the 2019-20 fiscal year, the tax revenue dropped by more than 5% - an unprecedented development in the 21st century, making the government's hoped for target of a public deficit contained at 3.3% illusory. The most reliable estimates put the budget deficit at 4.3% of GNP, i.e. one point of GNP above the official target – the government has finally admitted, in late May 2020, that it had reached 4.6% of the GDP during the fiscal year 2019-2020. This figure is in any case a decoy because the central state's deficit must be aggregated with that of the federated states, bringing the total to nearly 9% of GDP in 2018 already – it has probably reached 12% today. We should also take into account public enterprises' deficit, which the government has used to borrow and bail itself out.

This situation has pushed both the central government and state governments into heavy indebtedness. Their debt increased by 9.8% in 2018-19 and 11.5% in 2019-20, making India exceed the highest subnational debt ratio among the BRICS countries.

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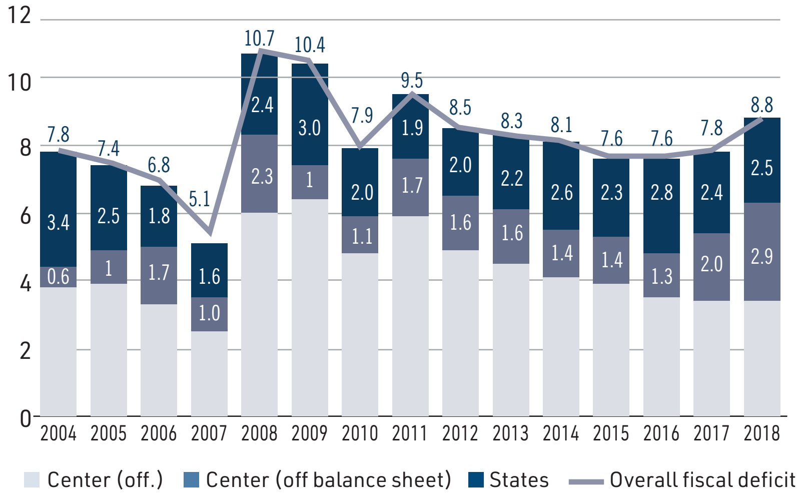
[4] The authorities have prevented the release of national unemployment statistics by the NSSO in 2019 which led to the resignation of two National Statistical Commission's statisticians, rather than condone the government's criticism addressed to the NSSO.

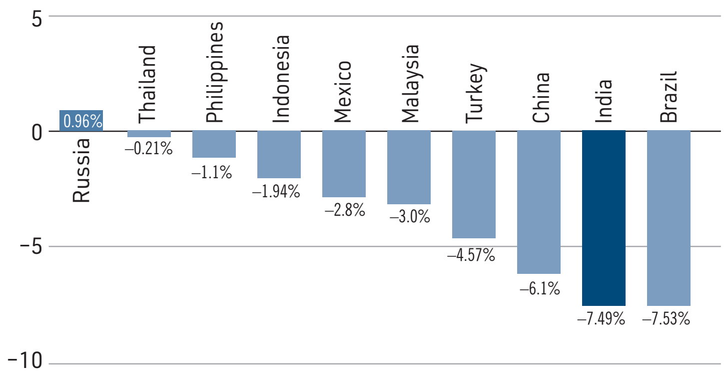
Official and Adjusted Fiscal Deficits (% of GDP)



Source: Motilal Oswal (2019).

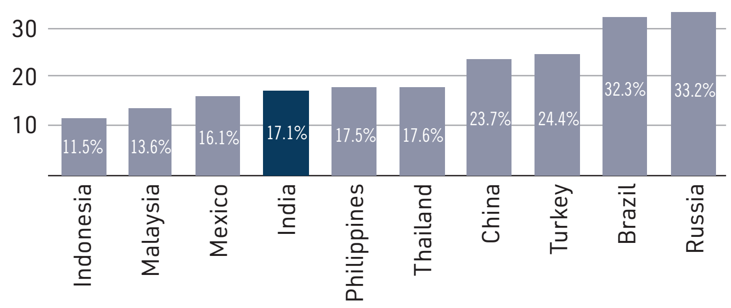
The state's financial difficulties will have an impact on public spending, starting with welfare spending, especially education and health, both particularly under-funded segments of the Indian welfare state. It has already resulted in some more debts, as evident from the IMF net lending/borrowing estimates for 2019 and the debt-to-GDP ratio, two indicators which show that India is not doing as well as other emerging countries – except Brazil.

Net lending/borrowing estimates (for 2019 as % of GDP)



Source: IMF Fiscal Monitor.

India's debt-to-GDP Ratio, compared with peers



Source: OECD Global Revenue Statistics Database, UNU WIDER, IMF Country Reports.

The Roots of Evil: Immediate and More Structural causes

While economists multiply hypotheses that could explain the Indian slowdown, they agree on the distinction between long-term factors pre-dating 2019 that already made India vulnerable and more recent ones that have to varying degrees precipitated the crisis.

Cyclical factors

Among the non-structural factors explaining the Indian slowdown, two were related to external shocks (the repercussions of the 2008 financial crisis and the fall of India's exports) and three harked back to major decisions of the Narendra Modi government: demonetization, the introduction of the Goods and Services Tax (GST) and agricultural prices policy.

External shocks and their consequences

Arvind Subramanian and Josh Felman convincingly argue that external shocks need to be factored in first, in a somewhat historical perspective, to make sense of the Indian slowdown. According to them, India had experienced a vigorous growth rate in the 2000s because of the international context. **Exports – besides investments, including FDIs – had been the main engine of the economy**. Indeed, their growth rate had remained around 15% per year, as an average, between 2000 and 2011. Investments, the second engine, in parallel, had been boosted by an easy access to credit and a rather irrational belief in the sustainability of growth – as if "sky was the limit" (a phrase we heard a lot in India at that time). As a result, **the growth rate of investment has been similar to the exports' growth rate: 12% a year in 2002-2011, when the growth rate of credits to the industry was identical to the exports' growth rate, 15%.**

The 2008 crisis precipitated a general decline**: the growth rate of exports dropped to 5% in 2012-18 and those of investment and credit to industry to 2% and – 0.5% respectively**. India partly put up with these shocks thanks to the fiscal deficit mentioned above, the decrease of the oil price after 2014 (a windfall of $ 50 billion a year) and the role that Non-Bank Financial Companies (NBFCs) have played as substitutes of the banks after they stopped financing the economy (an issue we'll return to below). However, the NBFCs have met difficulties too when the real estate bubble (that was also related to excessive trust in the future) exploded: the largest one, Infrastructure Leasing & Financial Services (ILFS) went bankrupt in September 2018, making access to credit even more challenging.

Demonetization

In November 2016, Narendra Modi announced that the government was withdrawing Rs 500 and Rs 1000 banknotes from the money supply in circulation, representing 86% of the means of payment in circulation. Exchanging these old low-denomination notes for new ones proved to be a real headache, with ATMs not supplying on demand. With the overwhelming majority of Indians having neither bank accounts, check book, nor credit cards, the informal sector of the economy, **which represents 80% of the total economy, broke down: unpaid migrant workers returned to their village, unpaid suppliers went bankrupt, peasants whose products could no longer be bought had to sell by bartering…**

This measure, which according to Narendra Modi was intended to purge the economy of all dirty money, has put the Indian economy on the back burner for a sustained period of time. Three years later, economists still attributed much of the blame to it for the slump, without the effects on corruption networks having borne any significance[5].

The Goods and Services Tax

The impact of demonetization was all the stronger as it coincided with the introduction of the GST. This initiative, potentially beneficial to the economy in that it standardized the rate of indirect taxes on goods and services, was introduced and implemented in a chaotic and brutal manner. On the one hand, businesses had little time to adjust to the new accounting system, and few had anticipated the amount of effort it required, especially among SMEs. On the other hand, the rates varied several times according to the products because of the Indian Union States' attempts to renegotiate what was offered or imposed on them, as they considered themselves to be losing out in the operation. **These two factors combined to make life particularly difficult for businesses and consumers alike.**

A report by the All India Manufacturers' Organisation (AIMO) based on 34,000 Micro, Small and Medium Enterprises (MSMEs) shows that these enterprises saw their

[5] On demonetization, the best sources are Rammanohar Reddy, *Demonetisation and black money*, Hyderabad, Orient Blackswan, 2017, J. Ghosh, C.P. Chandrasekhar and P. Patnaik, *Demonetisation Decoded: A Critique of India's Currency Experiment*, London, Routledge, 2017 and A. Lahiri, "The great Indian demonetization", Journal of Economic Perspectives, vol. 34, no 1, Winter 2020, pp. 55-74.

profits fall by 43, 35 and 24% respectively as a result of demonetization and GST, which led them to reduce their workforce by the same proportion.

Unfavorable policies for the agricultural sector

In his 2014 election platform, Modi promised farmers that the state would buy their produce on agricultural markets at a price one and a half times higher than their production costs. When prices rose, the state in fact often tried to bring them down by importing more food and preventing farmers from exporting, in order to maintain abundant supply. The Modi government refused to increase the price of agricultural products even when states of the Indian Union governed by his party, the Bharatiya Janata Party, were asking for such a decision – an emergency one, they thought[6].

This approach brings us to the sociology of the BJP electorate. In 2014, its success was mostly in cities with 42% of its base concentrated in urban constituencies, while it only scored 30% in rural constituencies. This "urban consumers bias" had the effect of weighing down on farmers' purchasing power[7].

At the same time, the Modi government reduced support to landless farmers. The *National Rural Employment Guarantee Act* (NREGA) introduced in 2005 by Manmohan Singh was indeed one of the first collateral victims of his policy. This was one of the most ambitious programs to help the rural poor in India, with a commitment to provide 100 days of work at minimum wage for every rural family suffering from unemployment. The amount the Singh government spent on this program was as much as 0.6% of India's GDP, providing work for 50 million households and lifting 14 million people out of poverty, not only by giving them an income, but also by raising the rural minimum wage from Rs. 65 (€0.8) per day in 2005 to Rs. 162 (€1.96) in 2013. The average rural income growth rate of 2.7% per annum between 1999 and 2004 increased to 9.7% between 2006 and 2011.

The Modi government quietly gutted this very popular program by reducing the funds allocated to it: announcements remained phenomenal, but during the budgetary year, either the money was not distributed, or deep cuts melted the envelope. The Supreme Court was forced to intervene in May 2016 to require the government to disburse the funds. Still, civil servants responsible for implementing the program in the field were instructed not to pay the allocations, which in fact fell to 0.27% of GDP in 2014-15. The number of people working 100 days a year fell from 470,000 in 2013-14 to 250,000 in 2014-15 and again to 170,000 in 2015-16. In parallel, the NREGA wages increased marginally to reach Rs. 172 (€2.12) per day in 2017-18 (whereas the average salary of agricultural labourers was between Rs. 264 and 271 (€3.24 to 3.36)

[6] D. Mishra, "Exclusive: Centre Rejected MSP Hike Recommendations by Several BJP-Ruled States", *The Wire*, 8 February 2020, https://thewire.in/government/msp-increase-state-recommendations. The fact that the Indian government was not terribly interested in agriculture was well illustrated by the non-use of most of the Market Infrastructure Fund that had been designed for modernizing agricultural markets (Zia Haq, "Only Rs 10 crore of Rs 2,000-crore farm fund used in two year", *The Hindustan Times*, 27 January 2020, https://www.hindustantimes.com/india-news/only-rs-10-crore-of-rs-2-000-crore-farm-fund-used-in-two-years/story-PlIEd7GAOoIdQBX89kYhVJ.html).

[7] Christophe Jaffrelot and Sanjay Kumar, "The Impact of Urbanization on the Electoral Results of the 2014 Indian Elections: With Special reference to the BJP Vote", *Studies in Indian Politics*, vol. 3, no 1, June 2015, pp.39-49.

according to the state. **Certainly, the Modi government has announced that this quasi-stagnation would be compensated by the launch of a new program, the PM-Kisan Samman Nidhi. But, while this program was almost fully distributed before the 2019 election, only 62% of the money was distributed to the farmers in the second half of 2019 and 50% since the beginning of 2020.**

The fall in agricultural prices and the truncation of the NREGA - that has not been fully replaced by any other program - largely explain the consumption drop in rural areas, and therefore in demand for industry with the countryside accounting for 40% of Indian consumption. **But this drop also owes much to the rise in the prices of industrial products that farmers had to buy in urban areas – and particularly the price of inputs necessary for agricultural production, from which a veritable scissor effect emerged.**

Agriculture and rural wages

(2014-2018, year-on-year wage growth in %)

Month and Year	Rural wages	Agriculture wages	Skilled worker wages	Rural Consumer Price Index inflation (%)
December 2014	4.58	5.13	6.16	4.16
December 2015	4.68	4.67	4.38	6.32
December 2016	6.07	6.77	5.5	3.83
December 2017	4.21	4.5	3.91	5.27
December 2018	3.84	4.64	4.06	1.5

Note: All figures for male workers. Rural: Simple average for 25 occupations. Agriculture: Average for ploughing, sowing, harvesting, picking, horticulture, animal husbandry, general farm labour and plant protection. Skilled worker: Average for carpenter, blacksmith, mason, plumber, electrician, and LMV/tractor driver.

Source: Damodaran (2019).

Semi-cyclical and semi-structural factors: the financial dimension of the crisis

The decline of investments noted above can further be explained by the over-indebtedness of companies, whose debt rose from 32.4% of GDP in 2002 to 56.8% in 2018, as well as difficulties in accessing credit, the two being partly linked. While companies financed their investments through borrowing during the boom years of almost double-digit growth between 2000 and 2008, the slowdown following the global financial crisis prevented them from repaying, while still continuing to borrow in a perverse mechanism partly linked to India's particular crony capitalism. **Indeed, public banks (and, to some extent, private banks too) continued to lend to large industrialists close to members of the government who could twist the arms of recalcitrant bank managers.**

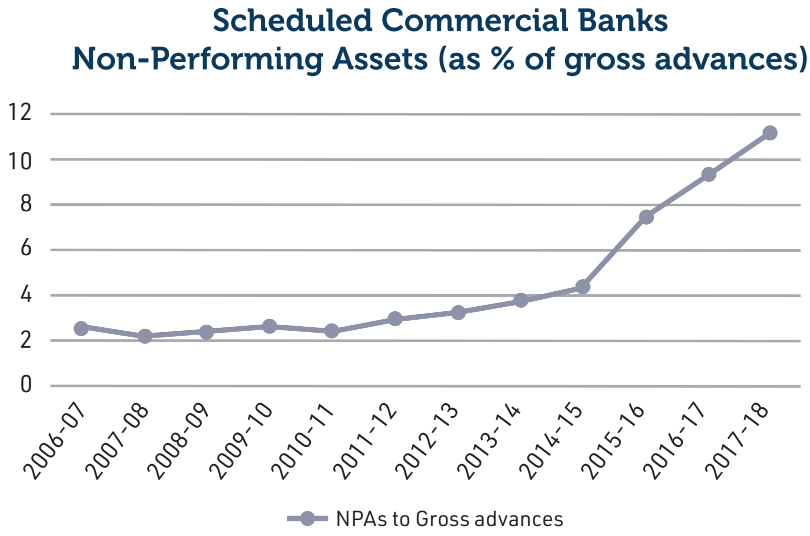
Eventually, these banks found themselves riddled with bad loans. In May 2018, the Non Performing Assets (NPAs) of public banks, i.e. loans whose holders had not repaid interest or principal for at least 90 days, amounted to $12.65 billion, approximately 14% of total loans, compared to 12.5% in March of the previous year and only 3% in March 2012. This development has led the Reserve Bank of India to ban several banks from continuing to extend credit. This banking crisis has in turn severely penalized private investment.

These NPAs are largely due to a small number of borrowers, including well-known crony capitalists. In 2015, Credit Suisse detailed in a 57-pages' document the formidable level of debt of ten Indian firms that continued to borrow despite the alert rating they had reached. In 2018, 84% of bad debts were still owed by large firms, and 12 of them owed 25% of NPAs.

Subramanian and Felman emphasize that the duration of the NPAs-related crisis is difficult to understand as the Insolvency and Bankruptcy Code (2016) had spelt out the terms along which a company unable to repay its debts should sell its assets. Whereas the whole process was not supposed to exceed 270 days, its average duration was 409-days long at the end of 2019[8]. **Things were so slow because of the judiciary's painstaking work as well as because of the political connections of the corporate houses at stake.**

Because the banking crisis is not only the result of the international financial situation, including the 2008 crisis, but also of the very special relationship that exists between the business and the political worlds in India, it can be seen as a structural factor in the Indian slowdown. Note that the NPAs have sometimes also been due to the cancellation of farmers' debt to which the authorities willingly concede to as elections approach.

[8] Subramanian and Felman, op. cit., p. 14. It took more than 800 days for Essar to sell a chronically loss-making steel mill before Arcelor-Mittal finally bought it back in the autumn of 2019.



Source: Reserve Bank of India (2019).

Structural factors: the legacy of growth without development

For many Indian economists, the pre-COVID-19 slowdown was not due to cyclical factors only. For them, it did not result from external shocks (especially because India's integration to the global economy was limited), or from temporary causes, but from structural developments. More precisely**, it was the product of the imbalances of years of growth without development, a situation in which the cyclical factors have merely played the role of catalysts.**

Unprecedented inequalities

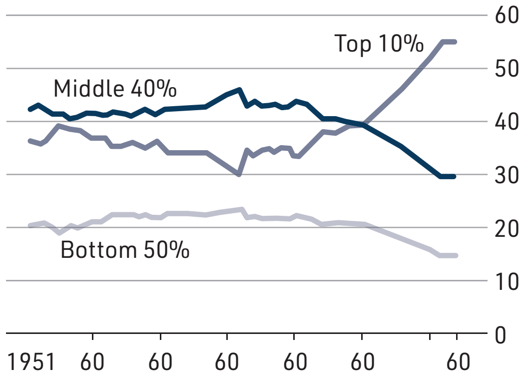
For Rathin Roy, Director of the National Institute of Public Finance and Policy (NIPFP), in New Delhi, the slowdown was largely due to the growing inequalities of post-liberalization India. In the 2000s, the engine of growth, more than anything else, had been the new middle class and its consumption pattern. (Incidentally, a large fraction of this middle class, including the IT engineers, was extraverted and benefited for all kinds of outsourcing from the West[9]). This engine, that is "activated" by not more than 150 million people (a little bit more than 10% of the population), has reached a saturation point as a market in the 2010s: after buying a house, two cars and sophisticated high tech products, this group could only spend his money by traveling abroad... (when it was not parking its money abroad).

No social group has taken over the middle class as the new engine of growth, as a market, simply because the purchasing power of the rest of India remained too low: the "neo middle class" that Narendra Modi referred to in 2014 as the rising star of India has been a short-lived phenomenon. **In the early 2010s, several scholars had pointed out that growing inequalities were not only a human problem, but would**

[9] Between 1993 and 2004, the Indian exports of softwares has increased by 34% a year, as an average.

make the Indian economy derail and that the "trickle down" effect was an illusion[10]. To no avail, but the data published by *The Economist* made it pretty clear.

Share of National Income (%)



Source: World Inequality Report, 2018.

To measure the extent to which the national wealth is concentrated in India, one needs to go beyond the usual "1%" – which owns 45% of this wealth[11], i.e. four times more than the poorest 70% - and also needs to look at evolutions: the share of the national wealth in the hands of the richest 10% has jumped from 35% of the total to 55% in 25 years, between the early 1990s and the mid-2010s. At the same time, the share of the poorest 50% dropped from 25% to 15%.

Inequalities have precipitated the slowdown, not only because, on the demand side, the middle class market had reached a saturation point, but also because the poor could not consume either after digging for years in their savings – as the decline of the saving rate, from 40 to 32% in 2019 has already shown.

One may argue that inequalities are inevitable in the context of emerging economies, but what is at stake here is more serious: a pauperization process has been registered by the Indian statisticians. Indeed, the NSSO has seen that the proportion of Indians living below the poverty line has increased. This evolution took place between 2011-12 and 2017-18 because of the data coming from rural India – a clear indication that another structural issue pertained to the agricultural crisis.

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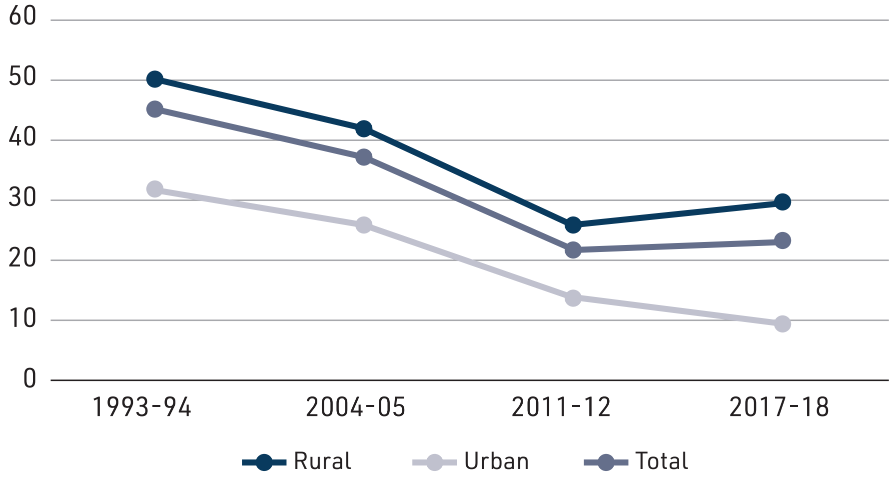
10 See A. Kohli, *Poverty amid plenty in the new India*, Cambridge, Cambridge university Press, 2012, C. Jaffrelot, *Inde : l'envers de la puissance. Inégalités et Révoltes*, Paris, Presses du CNRS, 2012 and J. Drèze and A. Sen, *An uncertain glory : India and its contradictions*, New Delhi, Penguin, 2013.

11 Compared to 18% in Japan, 22% in France and Italy, 29% in the UK, 30% in China and Germany and 35% in the US according to Crédit Suisse. Note that the Indian "1%" possessed "only" 38% of the national wealth in 2000 (P. Patnaik, "India's Shameful Record on Wealth Inequality", *International Development Economic Associates*, 27 January 2020).

Poverty rates in India (% of population)



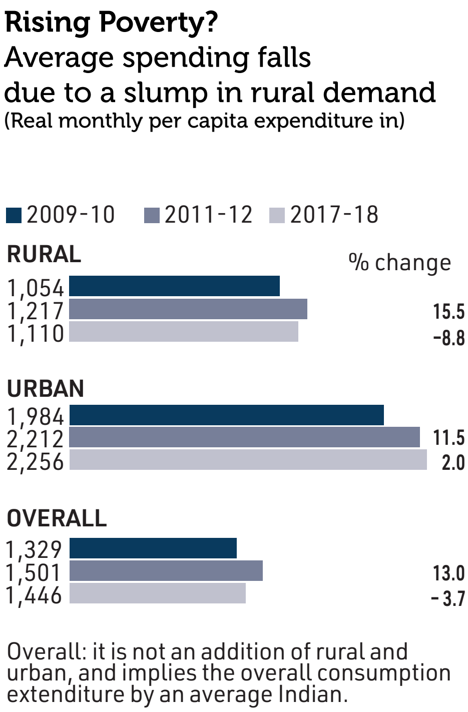
Source : Pramit Bhattacharya, Sriharsha Devulapalli, "India's rural poverty has shot up", *Mint,* 3 December 2019, https://www.livemint.com/news/india/rural-poverty-has-shot-up-nso-data-shows-11575352445478.html

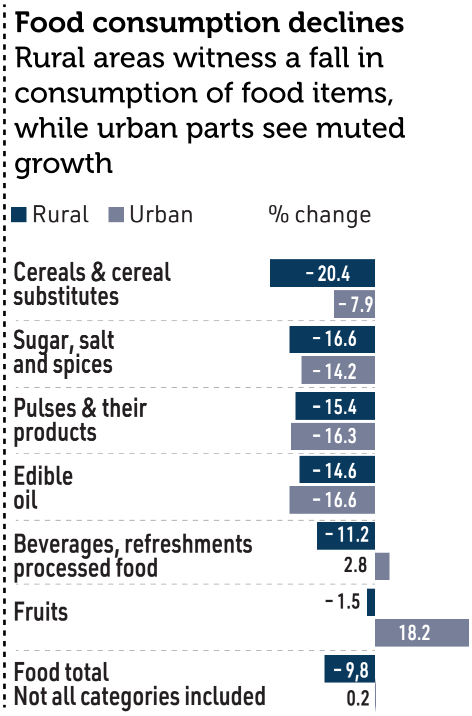
Indian agriculture's crisis

Besides Modi's agricultural policies, the decline of Indian agriculture resulted from structural factors. While still employing 55% of the workforce, agriculture accounts for only 15-16% of GDP[12]. **The decline in agricultural income comes, among many structural factors, from (1) land parceling from father to sons – plural – to the extent that today 70% of farmers cultivate less than 1 ha and that the number of farm workers exceed those who live off their land, and (2) water-related issues, either too scarce or too abundant, whether as a result of climate change leading to an increasingly erratic monsoon regime or the drying up of water tables from which sugar cane and cotton growers have been drawing with restraints.**

Rural India is facing a steep decline of the revenue of agriculture. While the peasants' revenue had increased by 6.8% a year in 2008-09/2013-14, it has increased by only 6.6% a year between 2014-15 and 2017-18. This trend has resulted in diminishing consumption of milk and pulses, making the impoverishment process palpable.

[12] Dorin Bruno, Aubron Claire, "Growth and agricultural labour productivity in India: a political economy of divergence (1950-2014)", *Economie Rurale*, 352, March-April 2016, pp. 41-65.





To sum up: in early 2020, when the COVID-19 crisis started in India, the country was already facing economic challenges which were bound to make the impact of the epidemics more devastating.

From slowdown to lockdown: the impact of COVID-19 on India's economy and society

India registered its first COVID-19 case on January 30, as a press release by the Ministry of Health and Family Welfare testifies. But Ray and Subramanian emphasize that "it took till March 6 for the Ministry of Health and Family Welfare to launch its COVID-19 awareness program". Few weeks later, on March 24, the Prime Minister announced a full lockdown for a period of three weeks. But on April 14, the lockdown was extended till May 3, on which date it was extended again till May 18. However, from April 20, there were some provisions for relaxation for selected activities, in some areas, after the government introduced a three-fold classification of districts in red, orange and green zones.

Making India's precariat visible: the humanitarian crisis

In spite of this relaxation, the lockdown was rather draconian and has badly affected the Indian economy for different reasons:

- Factories, shops, agricultural markets were shut down – or not functioning normally even, sometimes, despite the fact that there was no ban on them. The zealous use of the *lathis* (a bamboo stick) by the police contributed to these anomalies;

- Transports services were discontinued and inter-state borders were sometimes closed;
- Many supply chains were broken, including the distribution points for food items sustaining the poor;
- Millions of migrant workers, who had lost their jobs, had to leave their accommodations whose rents they were not in a position to pay for anymore. As there was no train and no bus, many of them started to go back to their village by foot or bicycle.

Ray and Subramanian point out that such a draconian lockdown was a decision that only rulers ignoring the living conditions of the poor or indifferent to their fate could take:

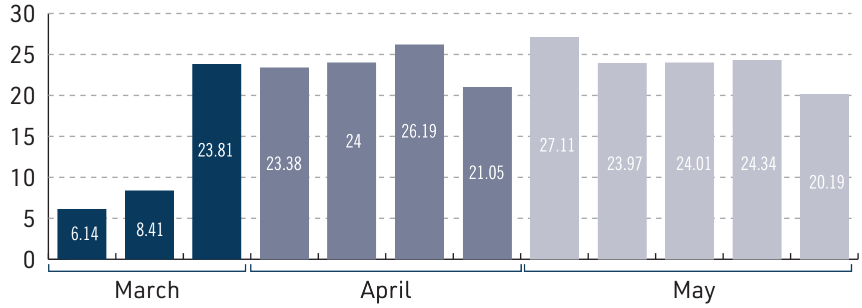
"The problem is that in India, and without the shadow of a doubt, **an economic lockdown will entail the widespread loss of life**. There are lives that will be lost by lockdown-induced conditions of starvation, ill-health, violence, a rise in indebtedness, and persistent loss of incomes and livelihoods. **Without sustained and comprehensive protection to those at risk, the entire philosophical question of whether a human life has finite value or not is far less relevant**. In India especially— and in poor countries more generally — it is not a question of lives versus economics, it is a question of lives versus lives. Or more pertinently, it is a question of which lives have greater visibility"[13].

The life of the migrant workers had no visibility, but suddenly, these men and women became visible because they were on the road for weeks and months. Some state governments tried to prevent them from going away because they anticipated economic scarcity of manpower after the lockdown – but even without clear permissions and without any means of transportation, they left.

Migrant workers were the first collateral casualties of the lockdown because they form the backbone of the informal sector that employs 80% of the workforce and represents 40% of the GDP : they were the core " group" of this "precariat". **These labourers were immediately hit by the crisis because they lost their jobs: according to the Centre for Monitoring the Indian Economy (CMIE)**, 91.3 million of them (including small traders who often owned only one cart for selling fruits or vegetables) lost their job in April. But others found themselves in the same situation, including 18.2 million self-employed people and 17.8 million salaried workers. The total number of additional jobless Indians was 122 million in April, pushing the unemployment rate from 8.7% in March to 23.5% in April. It has jumped to 27.1% in early May. According to the CMIE only 27.7% of the 1 billion Indians above 15 years old were employed in April 2020.

[13] Ray and Subramanian, op. cit., p. 11.

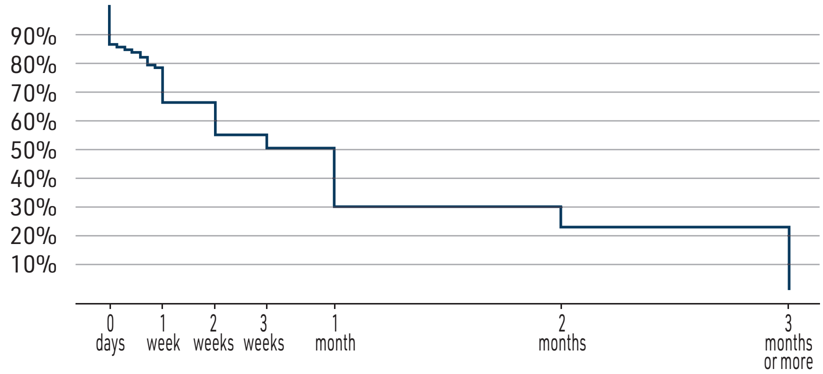
India's Unemployment Rate (%)



Source: Centre for Monitoring Indian Economy (https://unemploymentinindia.cmie.com/kommon/bin/sr.php?kall=wshowtab&tabno=0002)

Joblessness provoked a humanitarian crisis because, according to the CMIE estimates, about 50% of the households could not survive more than three weeks without a salary.

Proportion of households surviving without additional assistance



Source: CMIE CPHS.

State policy response to the COVID-related crisis

What stimulus package?

The first relief plan was announced on March 27. It amounted to Rs. 1.7 trillion ($22.5 billion). The expenditures were listed as follow:

1. Rs.500 ($6.65) per month, for 3 months, to an estimated 200 million Jan Dhan Yojana (JDY) female account holders – started by Narendra Modi in 2014, the JDY is a scheme of financial inclusion consisting in helping the poor to open bank accounts (50% of them are held by women);

2. An additional 5kg of wheat or rice per person on the Public Distribution System list, and 1kg of pulses per PDS household, for 3 months – the PDS, that has been reformed by the National Food Security Act (2013), is one of the oldest system giving food rations to the poor and, as a result, it covers about two thirds of the population, mostly in rural India;

3. Enhanced "rural employment guarantee" daily wages, from Rs.182 ($2.42) to Rs.202 ($2.68), presumably available for job card holders on the NREGA list.

4. A cash transfer of Rs.2000 ($26.63) to 87 million farmers under the PM Kisan scheme;

5. Free Liquefied Petroleum Gas cylinders for 86 million Ujjwala scheme beneficiaries (who are all Below Poverty Line families) for 3 months;

6. An ex gratia payment of Rs.1000 ($13.31) to poor senior citizens, widows and disabled persons.

7. Medical insurance of Rs.5 million for health workers fighting COVID-19.

8. Collateral-free loan of up to Rs. 2 million for female self-help groups[14].

This plan represented less than 1% of the Indian GDP – much less than what other countries were already doing – and was not conceived very pertinently. For instance, the NREGA wages which had been announced remained below those which were already applied in some states and more importantly, what kind of work could the state offer to casual laborers when the economy was paralyzed ? In April, only 3.4 million households were employed in the framework of the NREGA, compared to 17 millions in April 2019[15]. Similarly, it seems that the JDY accounts were not accessible to more than half of their holders – either because they leave too far from the nearest banking point or because of personal (family-related) issues.

On May 12, Prime Minister Narendra Modi announced **a second relief plan that, he said, represented 10% of India's GDP – that is, Rs. 20 trillion, or $270 billion**. Finance Minister Nirmala Sitharaman specified that this plan comprised five tranches. In fact, these Rs. 20 trillion included the first relief package and, more importantly, the huge infusions of liquidity by the Reserve Bank of India, totaling Rs. 8.02 trillion, that had taken place in April.

The 11 items of this plan were revealing of the will of the Indian government to promote its supply-side economy agenda:

1. Collateral-free loans to Micro, Small and Medium-Scale Enterprises (MSMEs) up to $39.95 billion and an equity infusion of $6.66 billion, with an additional $2.66 billion in loans to stressed MSMEs;

2. $12 billion for power distribution companies, $4 billion of "special liquidity" for non-banking financial institutions (NBFCs) and Micro-Finance Institutions (MFIs) and a $6 billion partial credit guarantee scheme for NBFCs, housing finance companies (HFCs), and MFIs with low credit rating.

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[14] This list is adapted from Ray and Subramanian.

[15] Ray and Subramanian, op. cit., p. 28 .

3. Liquidity relief through reduction in Tax Deducted at Source (TDS) and Tax Collected at Source, valued at $6 billion, and “expedited" income tax refunds of $2.4 billion.

4. Concessional credit of $26.67 billion for 25 million farmers, fishermen and animal husbandry farmers under PM-Kisan.

5. Additional emergency working capital of $4 billion for farmers through the National Bank for Agriculture and Rural Development.

6. Extension of the Credit Linked Subsidy Scheme for the housing sector and middle income group, amounting to $9.33 billion;

7. A special credit facility for street vendors, amounting to $0.66 billion;

8. Employees’ Provident Fund support for businesses and workers, amounting to $0.33 billion;

9. Promotion of Affordable Rental Housing Complexes for migrant workers and the urban poor, in a scheme whose physical contours and fiscal provision are as yet not quite clear;

10. Foodgrains for non-ration card holders (5 kg of wheat/rice per person and 1 kg chick-pea per family) for 2 months, intended to cover 80 million migrants, amounting to $0.46 billion; and allowance for the use of ration cards anywhere in the country, with financial implications which are not yet clear;

11. An additional $5.33 billion to be allocated to NREGA employment, over and above the earlier budget estimate of $8.13 billion for fiscal 2021[16].

The first seven items all mention credit-related expenditures. Note that what **the government is planning to give to MSMEs as loans is twice more than the first relief plan – but much less than what they need[17].** Ray and Subramanian point out: “For a country already so flush with liquidity that banks are very reluctant to on-lend, this sort of strategy appears to be somewhat unthinking, to put it mildly. Alternatively**, it is a strategy conceived with only some economic agents—principally business enterprises and tax assess—in mind”[18]. Indeed, this approach is a reflection of a business-friendly attitude.**

The second relief package was flawed because banks have become reluctant to lend money. In fact, the Minister of Finance herself admitted that there may be a serious

[16] Ray and Subramanian, op. cit., pp. 36 and 37.

[17] See “MSME trade body pegs loss to sector at Rs 40,000-crore per day”, *Financial Express,* 24 April 2020, https://www.financialexpress.com/industry/sme/msme-trade-body-pegs-loss-to-sector-at-rs-40000-crore-per-day/1937945/

[18] Ray and Subramanian, op. cit., p. 38.

problem there, as she reiterated that banks should not be afraid of lending money[19]. But even if they do, *The Economist* observed, the effect of these "supply-side inducements and prods such as credit guarantees [...] will only be felt in the medium term, at the earliest".

In any case, there was hardly any new money in this package. According to a dozen financial experts, it ranged from 0.7% to 1.3% of the Indian GDP. The Chairman of Maruti Suzuki India Ltd., the largest car maker of the country – which could not sell any car for weeks as all the dealers and factories were shut - declared: "The Prime Minister in his speech on May 12 had mentioned five pillars as the focus area of the relief package and one of them was demand. But nothing has been specifically done to address that. Possibly the intention is that all the money that is being made available to different sectors and MSMEs will create demand. All of this will take time".

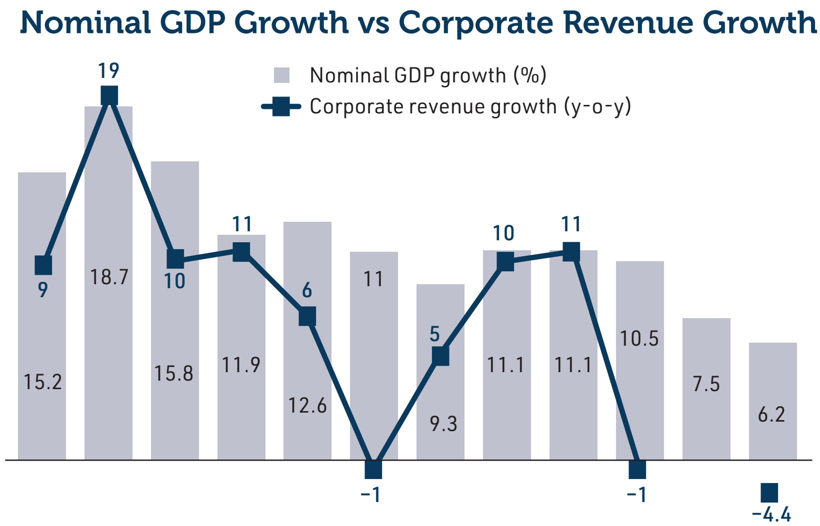
Why has the Indian government decided not to spend more? For the reasons mentioned above – including a supply-side bias –, but also because the fiscal deficit, even with such a limited stimulus package is bound to jump above 12% of the GDP[20]. Indeed, the government seems to offer loans to MSMEs because it does not want to pay its arrears! For years, the state-owned units are not clearing dues amounting now to millions of rupees to MSMEs which are, sometimes, on the verge of bankruptcy and are therefore laying off employees.

In this context, the Indian economy will experience a severe recession. The National Council of Applied Economic Research, a Delhi-based think-tank, predicts a contraction of the GDP of 12.5% this fiscal year. Even the RBI governor hinted at negative growth, without using the word "recession". Others are more pessimistic. On May 17, Goldman Sachs announced that India's GDP would contract by an annualized 45% in the second quarter (from the previous one) and by 5% for the 2020-21 fiscal year, "which would be deeper than any other recession India has ever experienced". This assessment is similar to the prediction of the State Bank of India, which assumes that the growth rate should reach 7.1% in the second quarter. For the fiscal year 2020-21, according to the SBI, the economy should contract by 6.8%.

[19] According to *The Hindu*, "She said clear instructions had been given in a meeting with CEOs and MDs of public sector banks and financial institutions on Friday that the banks should not be scared to extend loans as 100% guarantee is being given by the government". But FM Nirmala Sitharaman admitted that in six months she had to meet "at least three different times with the banks to say that the fear of the 3Cs should not be in their minds". "3Cs" refers to all kinds of "policemen": Central Bureau of Investigation (CBI), Central Vigilance Commission (CVC) and Comptroller and Audit General (CAG). ("Extend loans without fear of 3Cs:FM", *The Hindu*, 23 May 2020).

[20] Ray and Subramanian, p. 42.

Corporate revenue may drop substantially in 2020-2021 – below 10% according to CRISIL.



Based on the trend of 800+ listed companies (non-oil and non-BFSI), including standalone and consolidated companies.

Source: CRISIL Research (https://www.crisil.com/content/dam/crisil/our-analysis/views-and-commentaries/impact-note/2020/april/covid-19-impact-on-economy-corporate-revenue-and-profitability.pdf)

This episode of negative growth is bound to have serious social consequences. According to a report of the Oxford Poverty and Human Development Initiative for the UN, "260 million people in India could be pushed into poverty...". **While India had changed its image to appear as an emerging country on its way to modernity, mass poverty may stage a comeback, as the COVID crisis may be more a humanitarian than a sanitary disaster**. At the time of writing, a cause of concern comes from the fact that the state mechanisms do not deliver quickly enough to reach the poor, and the NGOs are running out of donations.

To sum up, while for most of the experts, the government's response should have been fiscal rather than monetary, demand-oriented rather than "pro-supply", partly because India had to deal with a humanitarian crisis as well as a demand problem, partly because Indian banks have become risk-averse because of their non-performing loans, the state has been very reluctant to increase public spendings – making the crisis only deeper -, but for one good reason: after years of slowdown, the fiscal deficit had already become very deep.

Seizing an opportunity for structural reforms?

In fact, the government of India and some state governments have been more interested in using the COVID crisis as an opportunity for making structural reforms**. In his May 12 speech, when he announced the second package, Narendra Modi stated that it was now time, for India, to be "self-reliant"** (the Hindi word he used was not the old gandhian concept of Swadeshi, but Atmanirbharta).

What self-sufficiency?

This return to the Nehruvian notion of self-sufficiency – a legacy Modi did not acknowledged as Nehru is Modi's *bête noire* – had already found expression in clear signs of protectionism in 2019[21] and one month before Modi's speech, on April 18, the Indian Department for Promotion of Industry and Internal Trade had revised its foreign investment policy, making prior approval of the government mandatory for investment activities including mergers and acquisitions from countries that share a border with India. A Chinese think tank interpreted this move along the following lines:

"The revised investment rules are aimed at curbing "opportunistic takeovers/ acquisitions" of Indian companies as a result of the COVID-19 pandemic. Since China is India's only land-bordering neighbor with significant investment in India, and the only country capable of investing in India in the context of the global spread of the virus, the intention of this policy is clear".

Yet, Modi's quest for self-reliance needs to be qualified**. On one hand, India is eager to protect its companies – weakened by the crisis – from Chinese takeovers and to emancipate its pharmaceutical sector from its dependence vis-à-vis the Chinese manufacturers of active principles. As a result, the Modi government decided to invest $1.8 billion for "setting up three drug manufacturing hubs". On the other hand, India had to admit that it needed China's help during the crisis: medical supplies (including personal protective equipment kits for the hospital workers and testing kits, not always of the right quality) came from China in large numbers.**

More importantly, besides China, India acknowledged that it had to rely on external support when it started to try to attract the companies which were invited to leave China by the western governments, including the US administration. Indian authorities announced in early May that they were in a position to offer to foreign investors "land twice Luxembourg's size" – in a country where access to land for building factories has always been a problem.

[21] The economic slowdown had already had a major geopolitical consequence as it heavily weighted in India's decision not to join the Asian trade grouping known as the Regional Comprehensive Economic Partnership (RCEP) in the fall of 2019. It was abandoned under pressure from multiple interest groups, including Hindu nationalist workers and farmers' unions, which highlighted the vulnerability of the Indian economy. For them, competition from East Asian agricultural producers and businesses would have had disastrous effects.

Privatizations and "disinvestments"

If the "self-reliance" turn needs to be qualified, another structural reform that has been announced in the framework of the second relief package, a series of privatizations, may have more substantial consequences. "Disinvestments" – a formula that the Indian government uses for 20 years to designate the withdrawal of the state from Public Sector Undertakings (PSUs) – was already on the agenda of the Modi government. In fact, in February 2020, presenting the yearly budget in parliament, the Finance Minister had announced that a large number of PSUs would be privatised (including Air India) or would have their capital open to private investors (including Life Insurance Company, a huge undertaking of 1 million agents and 300 million policies). But of course, the deepening of the fiscal deepening, in the context of the COVID crisis led the government to upgrade and accelerate its privatization plans.

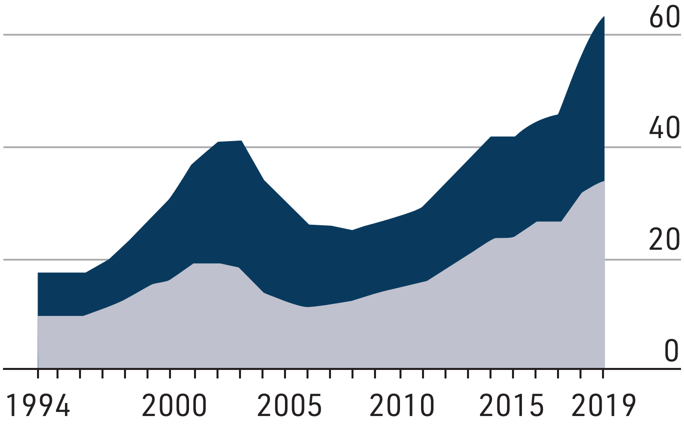
It presented this move as a structural reform again. Nirmala Sitharaman, while announcing the fifth and last tranche of the Rs. 20 lakh crore stimulus package, told that, according to the new Public Sector Enterprises Policy (PSEP), **a list of strategic sectors will be notified where there will be no more than four public sector enterprises – the rest would be merged or privatized**. The new PSEP was presented as a strategic move intended to rationalise the public sector, but the way India was trying to quickly raise revenue by selling government entities looked like an emergency move.

This reform may have long term consequences on the Indian economy. Indeed, Jaffrelot and Jumle wrote in a recent article that "those who may be in a position – financially and politically – to buy big PSUs are a handful of Indian capitalists who are already at the helm of oligopolies. If they were allowed to grow even more by acquiring public entities, sectors of the Indian economy would be under the influence of quasi monopolies. Such an evolution would foster crony capitalism and may even result in the making of oligarchs". In the same vein Raghuram Rajan had already pointed out in late 2019 – when privatization plans were not so important - that government assets should not "be sold to already-dominant family enterprises in the economy…".

Already, 20 Indian companies account for nearly 70% of India Inc's total earnings, up from 14% three decades ago". Among them "are huge private companies with mediocre returns but a knack for navigating both India's labyrinthine bureaucracy and its corridors of power. They operate in heavily regulated industries: Larsen & Toubro, an engineering group, builds roads; Hindustan Zinc, a subsidiary of London listed Vedanta Resources, is a big miner. The canonical example is Reliance Industries. Its net income last year of $5.2 billion made it India's most profitable firm — and accounted for 13% of the country's corporate profits.

India, top 20 companies by profits[1]

As % of total corporate net income[2]



(1) In any given year, three-year average

(2) 20,200 private and public companies

Source: Marcellus Investment Managers

But are these disinvestment plans feasible? Not only trade unions will resist this move, but buyers may not be interested and/or in a position to pay the price (even if it is rather low). This is not a new problem: after all, the government of India met its asset sale target only on two occasions over the last 9 years, partly because the PSUs for sale were too expensive and/or in the red. Air India still has more than $ 8.4 bn in debt, for instance.

Liberalizing the agriculture

Another structural reform has been announced by the central government along with the second relief package, this time in the agricultural sector. Some observers considered that this development amounted to a "1991 moment" for India's agriculture. **This formula suggested that this sector would be liberalized like the industry and the services under the Narasimha Rao government in the early 1990s.** Indeed, the plan was to amend the Agricultural Produce Marketing Committee (APMC) Act, the Essential Commodities Act in order to deregulate trading practices in the agricultural markets (known as "mandis"). Peasants, for instance, would be allowed to sell their products wherever it was valuable for them and barriers to inter-state trade in agriculture would be lifted. Last but not least, contract farming would be introduced in such a way as "the buyer can assure a price to the farmer at the time of sowing".

Some of these innovations may be real game changers. But, in fact, as Himanshu pointed out, such reforms had already been implemented for decades by many states – as agriculture is a state subject. And some of these changes have not helped the peasants as private companies were not particularly interested in taking over from the government to develop market places - which remained too few and not modern enough. In practice, reforms have " led to proliferation of private unregulated markets which charge a market fee from traders as well as farmers, and without any infrastructure for weighing, sorting, grading and storage".

Reforming the labor laws

While the Modi government has initiated most of the structural reforms which have been announced in the context of the COVID crisis, some BJP-ruled states have contributed to such reforms too. The governments of Uttar Pradesh, Gujarat, Karnataka and Madhya Pradesh have all passed ordinances or bills exempting the industrialists from most of the labour laws.

In UP, the list of laws which have been suspended via the Uttar Pradesh Temporary Exemption from Certain Labour Laws Ordinance, 2020 is very long: The Minimum Wages Act, The Maternity Benefit Act, The Equal Remuneration Act, The Trade Unions Act, The Industrial Employment (Standing Orders) Act, The Industrial Disputes Act The Factories Act, The Contract Labour Act, The Inter-State Migrant Workmen Act, The Working Journalists Act, The Employees' Provident Funds and Miscellaneous Provisions Act, The Employees' State Insurance Act, The Payment of Bonus Act, The Unorganized Workers' Social Security Act. In fact, only four labour laws continue to apply: The Building and Other Construction Workers Act, 1996; The Workmen Compensation Act, 1923; The Bonded Labour System (Abolition) Act, 1976; and Section 5 of the Payment of Wages Act, 1936 (the right to receive timely wages). The Chief Secretary of the UP administration explained: "The idea is that in the present circumstances, where we need to provide employment to workers who have migrated back to the state and to protect the existing employment, some flexibility has to be given to business and industry".

In Madhya Pradesh, the situation was very similar. **The Chief Minister argued that he felt "the need to give various concessions to industries in the next 1,000 days", which implied "changes to labour laws, including allowing more factories to operate without following safety and health norms and give a free hand to new companies to 'keep labourers in service as per their convenience'".**

Ironically, the Bharatiya Mazdoor Sangh, a trade union organically linked to the BJP, protested that such moves were "rare even in most undemocratic countries". Its head wrote to all the Chief Ministers of the states in question, arguing that if their decisions were implemented, there would be "no other way out except going for agitation". Interestingly, the Modi government itself objected that the suspension of labour laws by some state governments "doesn't seem right".

Conclusion

The Indian economy is particularly badly affected by the COVID crisis. Not only the Modi government imposed a drastic lockdown to a fragile society that includes a large informal and poor sector, but a slowdown had already made it vulnerable since 2017. As a result, the government did not have the same resources as the Manmohan Singh government, which had been able to release a relief package representing 4% of the Indian GDP in 2008-2009, during the previous serious crisis. In contrast, the Modi government – that was already facing a growing fiscal deficit – cannot and/or does not want to spend so much money to help the poor and strengthen the demand side. **This is partly due to the fear of losing some international credibility, as rating agencies have already started to downgrade India**: in late May, Moody's joined S&P and Fitch Ratings to lower India's sovereign ratings from Baa2 to Baa3 (the last step before the junk status), citing "persistent weak private sector investment, tepid job creation and an impaired financial system"[22].

The rating question has been emphasized by the former RBI governor, Raghuram Rajan. Worried about "the extent of the catastrophe", he pointed out that "**the challenge was not just to repair the damage done by the coronavirus and the lockdown but the preceding 3-4 years of economic drift**" and for that, he requested the government not to "worry about what the ratings agencies would do if the fiscal deficit grew. […] the agencies can be told that increased spending is necessary to preserve the economy but also that as soon as possible India will return to the path of fiscal rectitude".

The Modi government's reluctance to spend more is also due to its anticipations that the crisis will last for years and that it needs to keep some of its resources for the future. This is probably why it has not touched its treasury, its Rs.35 trillion of foreign exchange reserves, while several economists have argued that the country should use them for facing the present-day challenge – to no avail.

But the fact that public expenditures do not increase is also a reflection of the priority that the Modi government has always granted to the supply side economy. This is why the relief packages consist more in support to the Indian entrepreneurs than to the consumers. However, would the entrepreneurs keep their employees because they have access to loans? Will the banks lend them money anyway in the context of growing NPAs? And if so will loans result in investments if there is no demand? As Raghuram Rajan said, "loans take time to work" - and to paraphrase Keynes "in the long term we'll be all dead".

22 Interestingly, Moody's tends to look at the Indian crisis as "structural", considering that "the pandemic amplifies vulnerabilities in India's credit profile that were present and building prior to the shock" (S. Verma, "Moody's lowers India rating citing low growth prospects", *The Indian Express*, 2 June 2020, https://indianexpress.com/article/business/economy/moodys-lowers-india-rating-citing-low-growth-prospects-6438029/).

I suspect that India will inevitably need to increase public spending and, therefore, to borrow as well as to print some money in the near future – all the more so as foreign funds are fleeing India. Indeed, the 40 bps rate cut that the RBI has decided in May has reduced the appeal of Indian debt. The *Business Standard* points out:

"The amount of sovereign securities held by global funds has slumped Rs. 76,700 crore ($10 billion) from this year's peak in February as steep hedging costs diminished pay-offs in one of Asia's highest-yielding markets. The rupee's plunge by about 6% in 2020 further reduced the appeal of Indian debt".

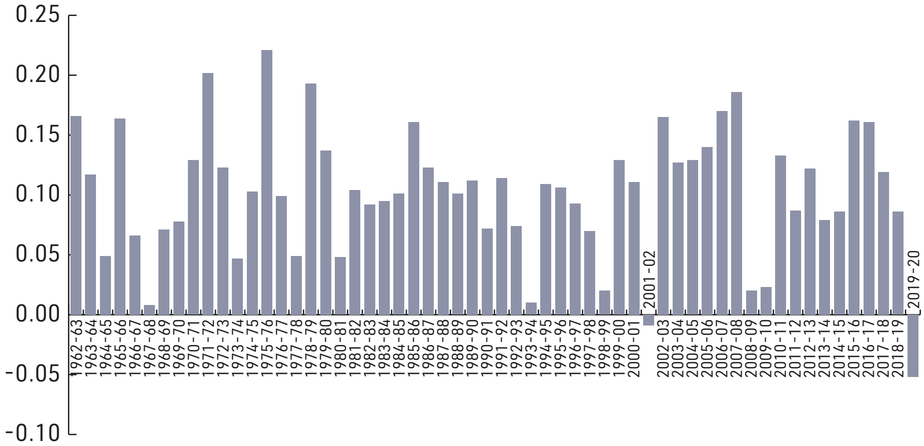
In this context, India may have to turn to external borrowing, even though this is also a problematic move for three reasons**. First, the rupee is at its lowest compared to the dollar and any more devaluation will only make it harder for the government to pay back its debt.** Secondly, India should account for the inevitable global slump in international demand and a consequent drop in its exports – one of the ways the country could have paid for its debts. Besides, as Jaffrelot and Jumle wrote recently, "Indian industries are already a bit debt laden – they raised over $45 billion in form of external commercial borrowings (ECB) and foreign currency convertible bonds between April 2019 and February 2020. The risk in Indian banking sector, tight liquidity in debt markets, comparatives lower international borrowing rates and RBI's ECB rationalizing measures have all likely compelled them to resort to overseas borrowing. **Should India resort to more overseas borrowing, its combination with Indian industry's high debt status may lead rating agencies to downgrade India's investment prospects and hence deter foreign investments**".

At the same time, India's debt ratio is not yet alarming and its dependence vis-à-vis bilateral donors may be alleviated by the international aid it is already receiving from the World Bank ($2 bn) and the Asian Development Bank ($1.5 bn). India may, indeed, accept foreign help again.

However, donors and multilateral institutions are not in a position to provide India with the huge amounts the country needs to restart the economy – which are in dozens of billion dollars. That is why the government is focusing on another strategy: it tries to attract foreign investors**. The structural reforms listed above are aiming to achieve something big in this vein: privatization, land for foreign investors, liberalization of the agricultural sector, relaxation of labor laws**, all these changes fit in this plan, for which the ground had already been prepared in October 2019 when the government lowered corporate tax rate from 35 to 25%, thereby further widening the public deficit which falls short of $20 billion but putting India's corporate tax on the level of other Asian countries, aimed to attract investors, especially those wishing to relocate their production from China to a country escaping the customs duties that the United States imposes on the "Middle Kingdom".

This supply-side oriented approach of the economy is especially problematic at a time when the government needs money and does not collect enough taxes anymore. In 2019-20 India's tax buoyancy was -0.05, the lowest since 1962-63 -and that was part of a trend as it had been falling since 2016-17 onwards.

Tax Buoyancy Rate (%)



Tax buoyancy is defined as change in taxes per unit increase in GDP. It is negative when tax collections go down despite positive growth.

Source: Centre for Monitoring Indian Economy.

The fiscal problem that India is facing leads some economists to recommend the introduction of wealth taxation, a mechanism India has abandoned de facto years ago and de jure in 2015-16, an idea that has been suggested to other countries too.

While this wealth taxation does not fit in the worldview of the Modi government, it may resign itself to rely on such a policy if loans and FDIs are not sufficient - and more especially if this is one of the ways and means which can be used to avoid the IMF and its conditionalities sometimes in 2021.

Whatever the financial mechanisms India will resort to, the recovery of its economy will be slow. The pace will be a function of at least three variables (not to mention the evolution of the international context, including the appetite of multinationals for investing in India). First, a third relief package seems to be inevitable before the end of the fiscal year. But how big will it be and whether it will be more demand-oriented this time remains to be seen? **Secondly, the Indian industry – this is now very clear – is dependent on the migrant workers who continue to go back to their village: will they return to the city? And how quickly?**

Thirdly, the pace of recovery will not only vary from one state to the other (those with few cases of infection will return to work first) but will also depend upon the quality of the collaboration between the Union government and the state governments. A learning curve is visible in this respect. While Narendra Modi imposed a draconian lockdown without consulting the Chief Ministers in March, his government is now reaching them out on a more regular basis. But will the Centre give the states the money it owes them, in the form of GST dues in particular? Will it relax the conditions attached to the permission for states to increase their borrowing caps from 3 to 5%? (New Delhi has raised the borrowing limit of states from 3% of gross state domestic product (GSDP) to 5% in 2020-21, but under strict conditions.)

In fact, the federal structure of the state may well be one of the collateral casualties of this crisis. There were already tensions between the Union government and state governments directed by opposition parties before the pandemics, because of political competition (West Bengal was a case in point) and because of fiscal "unfairness" (to use the word of Southern CMs who resented the way their states subsidized northern and western states – governed by BJP, mostly). Tensions may get exacerbated by the fact that some states governed by opposition parties– Kerala, Rajasthan, Punjab, Chhattisgarh etc. – are dealing with the crisis more effectively than BJP-ruled states. **Opposition parties may appear champions of good governance, when the Centre may look unreliable, not delivering and not disbursing enough: this policy vs. politics scenario could be described as governance vs. *tamasha* (spectacle).** However, except few Chief Ministers, opposition leaders may not be able to capitalize on such developments and Narendra Modi may continue to appear as the strong man India needs and to mobilize the nation on emotional issues.