Impact of COVID-19 on the Indian economy – A Study

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ABSTRACT:

With COVID-19 coming into the picture, the Indian economy is going through a major slowdown, which was evident over the recent quarters even before the crisis struck. In the third quarter of the current financial year, the economy grew at a six-year low rate of 4.7%. With all these problems hitting the world of work from multiple directions, companies are finding it difficult to sustain in this environment. They are forced to take tough decisions such as cutting down the salaries, giving pink slips to employees and opting for other cost-cutting measures. The outbreak has presented new roadblocks for the Indian workforce and especially for the daily wage and contractual workers.

Coronavirus has disrupted the demand and supply chain across the country and with this disruption, it can be seen that the tourism, hospitality, and aviation sectors are among the worst affected sectors that are facing the maximum impact of the current crisis. Closing of cinema theatres and declining footfall in shopping complexes has affected the retail sector by impacting the consumption of both essential and discretionary items. As the consumption of any product or services goes down, it leads to an impact on the workforce. In the current scenario, with all the retailers closing down their services, the jobs of the employees are at a huge risk.

Key Words: Coronavirus, Economy, disrupted, demand, supply, chain.

INTRODUCTION:

The financial market has experienced uncertainty about the future course and repercussions of COVID-19. An estimated Rs 10 lakh crore of market cap was reportedly wiped off due to the fall of sensex in the second week of March 2020. The fall has continued till date as investors resorted to relentless selling amid rising cases of coronavirus. The supply-side impact of shutting down of factories resulted in a delay in supply of goods from China which has affected a huge number of manufacturing sectors which source their intermediate and final product requirements from China. Some sectors like automobiles, pharmaceuticals, electronics, chemical products etc were impacted big time.

The United Nations Conference on Trade and Development (UNCTAD), has suggested that India’s trade impact due to the COVID-19 outbreak could be around US$ 348 million. India is among the top 15 countries that have been affected most as a result of manufacturing slowdown in China that is disrupting world trade. For India, the overall trade impact is estimated to be the most for the chemicals sector at 129 million dollars, textiles and apparel at 64 million dollars, the 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. As per UNCTAD estimates, exports across global value chains could decrease by US$ 50 billion during the year in case there is a 2% reduction in China’s exports of intermediate inputs.

According to a survey by the Federation of Indian Chambers of Commerce & Industry (FICCI), the immediate impact of COVID-19 reveals that besides the direct impact on demand and supply of goods and services, businesses are also facing reduced cash flows due to slowing economic activity which in turn is having an impact on all payments including to those for employees, interest, loan repayments and taxes.

Major survey results

- A significant 53 per cent of Indian businesses indicate the marked impact of the COVID-19 pandemic on business operations even at early stages.

- The pandemic has significantly impacted the cash flow at organizations with almost 80 percent reporting a decrease in cash flow.

- The pandemic has had a major impact on the supply chains as more than 60 per cent respondents indicate that their supply chains were affected. The companies also highlighted that they are closely monitoring the situation and expect the impact of the pandemic on the supply chain to worsen further.

- Organizations have brought in a renewed focus on hygiene aspects concerning the pandemic. Almost 40 per cent have put in place stringent checks on people entering their offices and disinfection. Nearly 30 per cent organizations have already put in place Work-from-Home policies for their employees.

- Nearly 42 per cent of the respondents feel that it could take up to 3 months for normalcy to return.

For some of the sectors, the work-from-home proposition is posing implementation challenges as it has a direct bearing on the business operations. This is particularly true for manufacturing units where workers are required to be physically present at the production sites, and services sectors like banking and IT where a lot of confidential data is used and remote working can enhance security threats. Hence, companies operating in these sectors are finding it difficult to implement work-from-home facilities without compromising on their day to day operations.

The industry members have also shared suggestions on possible actions that the government and RBI can take to contain the spread of coronavirus in India and mitigate the immediate concerns of the Indian companies.

Implications on the workforce

Job losses and salary cuts are likely in the high-risk services sector, including airlines, hotels, malls, multiplexes, restaurants, and retailers, which have seen a sharp fall in demand due to lockdowns across the country. If the current global and domestic economic slowdown persists, it will impact demand and realization.

Undoubtedly, with this crisis impacting the business around the country, it will create very challenging situations for the workforce. Companies are not meeting the revenue targets hence, forcing employers to cut
down their workforce. The World Travel & Tourism Council has predicted 50 million tourism jobs getting eliminated because of the pandemic. Not only the employees of multinational companies, but daily wage workers have been impacted the most during this crisis.

The International Labor Organization has called for urgent, large-scale and coordinated measures across three pillars - protecting workers in the workplace, stimulating the economy and employment, and supporting jobs and incomes.

According to a preliminary assessment report, nearly 25 million jobs could be lost worldwide due to the coronavirus pandemic, but an internationally coordinated policy response can help lower the impact on global unemployment.

While on one hand, Indian employees are losing their jobs and receiving a salary cut, there is also an assumption that the majority of expats have gone back from India and they will take time to return. Different sectors such as automobile, banking and manufacturing employ a large number of expats. Indian companies need expats for several industry verticals and job functions such as after-sales services, business development and market audits.

Need for policy intervention

There is an urgent need to take instant steps to not only contain the spread of the virus, but also to address the key pain areas of the industry which can help in minimising the impact of the outbreak on the Indian economy and businesses. The Indian Government & RBI need to support the Indian industry and economy at this juncture in different ways:

- Maintain liquidity at surplus levels and provide special liquidity support for any companies / NBFCs / banks that come under strain due to intensifying risk aversion in financial markets or due to large demand shock.
- Increase credit limits for all regular banking accounts by 25 percent across the board. Also, Increase overdraft facility to state governments from the RBI. Pay the pending GST compensation immediately.
- IBC to be suspended for a short period for the aviation and hospitality sectors as they are the worst affected.

Since a large number of people will stand to lose their jobs especially in the retail, hospitality, travel, construction sector, the government can consider giving incentives for employers to keep the workers, while the coronavirus problem tides over.

On March 24th, 2020 the Finance Minister extended the filing dates of ITR, GST, linking of PAN and Aadhar and other reliefs for the big and small enterprises. The finance ministry is already working on an economic package to mitigate the impact of coronavirus on the Indian economy.

The government is taking necessary steps that will not damage the economy further but the damage that has been done in the previous few months will definitely last for a longer period of time. As the country is locked
down for the coming three weeks, India Inc has to stretch themselves to sustain the situation and face the challenge. The Indian government has also urged employers to not cut jobs and salaries. Many CEOs and management teams are taking pay cuts to ensure their workforce does not have to bear the brunt.

A newspaper vendor in Tamil Nadu, India wearing goggles, safety mask and hand gloves.

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. 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”.

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%.

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.

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 and Thermax have temporarily suspended or significantly reduced operations in a number of manufacturing facilities and factories across the country. 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.\footnote{Cummins} Hindustan Unilever, ITC and Dabur India have shut manufacturing facilities expect for factories producing essentials.\footnote{Hindustan Unilever, ITC and Dabur India} Foxconn and Wistron Corp, iPhone producers, have suspended production following the 21 days lockdown orders.\footnote{Foxconn and Wistron Corp}

**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.\footnote{Amazon} Amazon has followed the same strategy in Italy and France.\footnote{Amazon} On 25 March, Walmart-own Flipkart temporarily suspended some of its services on its e-commerce platform and will only be selling and distributing essentials.\footnote{Walmart-owned Flipkart} BigBasket and Grofers also run restricted services, facing disruptions in services due to the lockdown.\footnote{BigBasket and Grofers} Delhi Police began issuing delivery agents curfew passes to make it easier for them to keep the supply chain open.\footnote{Delhi Police} E-commerce companies also look for legal clarity related to what are "essentials".\footnote{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.\footnote{Swiggy and Zomato will not be allowed to function during this extension period}

**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.\footnote{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.\footnote{The delivery of S-400 missile systems won't be affected, the delivery of Rafale fighter jets might be.}

**Stock markets**

On 23 March 2020, stock markets in India post worst losses in history.\footnote{Stock markets in India post worst losses in history.} SENSEX fell 4000 points (13.15%) and NSE NIFTY fell 1150 points (12.98%).\footnote{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 lockdown 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.\footnote{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.\footnote{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.}

**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.\footnote{Acuité Ratings, a RBI approved credit rating agency} 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).\footnote{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%.\footnote{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%.\footnote{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.\footnote{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
The World Bank report said that the pandemic has "magnified pre-existing risks to India’s economic outlook". The Confederation of Indian Industry (CII) have estimated that India's GDP for FY21 will be between 0.9% and 1.5%.

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.

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.

Concerns and commentary

Adar Poonawalla, CEO of Serum Institute of India said that "the economic danger of the outbreak was exponentially greater than its health risks," as reported in Economic Times. There are concerns as to where will the government find the funds to fight coronavirus and keep the economy alive. Subramanian Swamy tweeted on 21 March 2020 asking whether declaration of an financial emergency was inevitable (in the light of the situation because of the coronavirus pandemic).

Supply chains and logistics

Following the lockdown certain essential supply chains broke down. Britannia Industries, supporting the lockdown, urged the government to ensure inter-state movement of the raw material for the food processing industry was not hampered. The Managing Director of Britannia stated that "if even one link in the supply chain is broken, the country could run out of stocks of packaged food in the next 7-10 days." Although inter-state travel has been banned, it doesn't apply to essentials, and in places like Maharashtra the state police is yet to streamline the process, causing a disruption to supply chains.

Vidya Krishnan writes in The Atlantic that due to the lockdown even movement of medical goods were affected. On 29 March the government allowed the movement of all essential as well as non-essential goods across the country during the lockdown. The milk and newspaper supply chains are also allowed to function.

Salaries

The Prime Minister on 19 March urged businesses and high income segments of society to take care of the economic needs of all those who provide them services. During the live telecast he also appealed to families to not cut the pay of domestic help. Following the lockdown, the government circulated advisories and directives ordering companies to keep paying employees among other things. The Ministry of Finance issued an Office Memorandum on 23 March 2020:
[...]
they shall be treated as "on duty" during such period of absence and necessary pay/wages would be paid accordingly.

These instructions shall apply until April 30, 2020.

— Addt Sect, Dept of Expenditure, Ministry of Finance

A few days later worries grew as to how wages could continue being paid and if the directive was legal or not. There were also concerns raised by migrant workers regarding implementation of the orders as many daily-wagers have no records of being sacked or salaries being paid or deducted; the concerns also expand to uncertainty in the government's ability to enforce minimum wages under a lockdown when it couldn't even do so during normal times.

Migrant workers and labour force

Due to the lockdown, there suddenly was no work for many daily workers (the urban poor and migrant labourers). At the same time the lockdown restrictions put a stop on the movement of buses and trains. Large numbers of migrant workers ended up walking back to their villages, some journeys hundreds of kilometers long. Commentators commented on how the whole purpose of social distancing was defeated.

Soon after a central government directive in late March, state governments set up 21,000 camps to house over 660,000 migrants and stop the exodus. Delhi government is providing free food to 400,000 people every day. Over 500 hunger relief centres have been set by the Delhi government.

By 5 April, 75,00,000 people were being provided food across the country in government and NGO food camps. To cater to the needs of the migrants and prevent them from leaving the camps, the government of Kerala changed the food being provided by adding north Indian dishes to the menu, providing carrom boards and recharge facilities for phones, as well as provide other medical essentials such as masks, sanitizers and medicines.

Lockdown extension

On 8 April 2020, the managing director of Bajaj Auto, Rajiv Bajaj, wrote in an opinion piece in the Economic Times that the "lockdown makes India weak rather than stronger in combating the epidemic," and that the current "arbitrary" lockdown was totally unsustainable and a "recalibration" is needed.

Rajiv Bajaj writes that "India may have to sell itself out of the coronavirus crisis".

Following the extension of the lockdown on 14 April, members of the opposition said that there was no mention of a financial package or any steps whatsoever to revive the economy. Modi however did talk about a recalibrated opening of the economy.

Telangana was the first state to extend the lockdown to 7 May, beyond the national lockdown date of 3 May.

Suspension of MPLADS

The Modi government, in view of the coronavirus pandemic, suspended Members of Parliament Local Area Development Scheme (MPLADS) for two years. This action has been called problematic in many ways,
including causing a centralisation of power, being anti-federal in nature, and having an affect on local level development and MP influence at micro levels of the society to handle distress.\footnote{Sharma, Aman (16 April 2020). "India evolves world's largest smart model of lockdown: Officials". The Economic Times. Retrieved 16 April 2020.} There have been calls for halting the ₹20,000 crore (US$2.8 billion) redevelopment of the central vista project in Delhi instead.\footnote{Bina Agarwal, an Indian development economist, has suggested that the government "create green worker pools, not green zones" as part of lockdown re-calibration efforts.}

Economic recovery suggestions

On 23 April Confederation of Indian Industry (CII), in a paper titled "A plan for economic recovery", outlined three measures that the government should take such as cash transfers to JAM account holders, a credit protection scheme for Micro, Small and Medium Enterprises (MSMEs) and creation of a special purpose vehicle (SPV/SPE) to limit "Government exposure while providing adequate liquidity to industry".\footnote{The Financial Express. 17 April 2020. Retrieved 17 April 2020.}

On 24 April Bina Agarwal, an Indian development economist, has suggested that the government "create green worker pools, not green zones" as part of lockdown re-calibration efforts.

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