

Synopsis:

Impact of COVID-19 on Indian Industry: Challenges and Opportunities

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Abstract:

The outbreak of the Covid-19 pandemic is an unprecedented shock to the Indian economy. The Government of India has announced a variety of measures to tackle the situation, from food security and extra funds for healthcare, to sector related incentives and tax deadline extensions. With the prolonged country-wide lockdown, global economic downturn and associated disruption of demand and supply chains, the economy is likely to face a protracted period of slowdown. This study revealed the potential impact of the shock on various sectors like manufacturing, financial services, banking, infrastructure, real estate, and services and put forward a set of policy recommendations for specific sectors.

Key Words: Indian Economy, Economic Downturn, Corona Pandemic, Supply Chain,

Introduction:

The Indian economy has been experiencing significant slowdown over the past few quarters. In the third quarter of the current fiscal, the economy grew at a six-year low rate of 4.7%. There was a strong hope of recovery in the last quarter of the current fiscal. However, the new coronavirus epidemic has made the recovery extremely difficult in the near to medium term. The outbreak has presented fresh challenges for the Indian economy now, causing severe disruptive impact on both demand and supply side elements which has the potential to derail India's growth story. India reported its first confirmed case on January 30. However, there are only some signs of community transmission – the percentage of affected people is still low, with most cases related to travel. That said, the domestic situation remains fluid and warrants constant monitoring. The impact on the Indian economy could be significant if the virus continues to penetrate the country which will have a longer lasting effect. While the impact on economic prospects due to activity being affecting in countries like China, S Korea, Japan, Italy, etc. would be through trade, investment and services routes, it could be more damaging if there is any shutdown in India. The objective of the Survey is to understand the opinion from the business fraternity regarding the downside risks to the Indian economy on the backdrop of outbreak and spreading of this virus.

Literature review:

The answer would depend largely on the extent of spread within India. So far, India is among the Asian economies that are not deeply impacted. With the number of Covid-19 cases nearing 2 lakh and the death toll topping 7,800, the impact of the virus on global sentiment, economic and otherwise, has been immense. While new afflictions have been declining in China – the epicentre of the outbreak – since the end of February, it is spreading fast outside. New cases outside China now surpasses those in China, with Italy, Iran and South Korea being the worst affected. With more than 160 countries reporting confirmed cases of Covid-19, its implications on the global economy is more threatening than envisaged a month ago.

India's Growth Projections Revised Down

Most multilateral agencies and credit rating agencies have therefore revised their 2020 and 2021 growth projections for India keeping in view the negative impact of coronavirus-induced travel restrictions, supply chain disruptions, subdued consumption and investment levels on the growth of both global and the Indian economy.

Fitch Ratings - Fitch has also cut its forecast for India's economic growth to 4.9% for 2019-20 from 5.1% projected earlier.

Moodys - Moody's Investors Service has revised down its growth forecast for India to 5.3% for 2020 from its earlier estimate of 5.4% made in February.

S&P Global Ratings – S&P has lowered India's economic growth forecast to 5.2% for 2020 as against 5.7% projected earlier.

Barclays – Barclays has lowered India's economic growth forecast to 5.6% for 2020 as against 6.5% projected earlier.

(Sunil et al., 2020) The trade impact of the coronavirus epidemic for India is estimated to be about 348 million dollars and the country figures among the top 15 economies most affected as slowdown of manufacturing in China disrupts world trade, according to a UN report. Whereas according to Asian Development Bank (ADB) the Covid-19 outbreak could cost the Indian economy between \$387 million and \$29.9 billion in personal consumption losses (<https://www.livemint.com/>). A survey by FICCI (2020) found that most industry respondents did not foresee positive demand account during the entire fiscal year. Demand side impact on tourism, hospitality and aviation is among the worst affected sectors that are facing the maximum burnt of the present crisis. Consumption is also getting impacted due to job losses and decline in income levels of people particularly the daily wage earners due to slowing activity in several sectors including retail, construction, entertainment, etc. Some sectors like automobiles, pharmaceuticals, electronics, chemicals products etc. are facing an imminent raw material and component shortage.

CII identifies some policy / regulatory measures, which would help ease doing business in the wake of the outbreak of the COVID-19 pandemic and minimise the adverse effects on the health of the industry and economy.

1. Enhance Validity of licenses / approvals / NoCs
2. Easy & quick disbursement of pending dues
3. Provide speedy clearances
4. Relaxation / dispensation of labour law compliances
5. Contribution to PF & ESI funds
6. Facilitate ease of doing business for MSMEs
7. Facilitate trading across borders
8. Ease licensing requirement for production of Sanitizer

(CARE ratings, 2020) The objective of the Survey is to understand the opinion from the business fraternity regarding the downside risks to the Indian economy on the backdrop of outbreak and spreading of this virus. Pick up in retail inflation by June 2020. (Dev and Sengupta, 2020) We are in the middle of a global pandemic, which is inflicting two kinds of shocks on countries: a health shock and an economic shock. Right now, most of the policy focus is on the health shock, but soon it will become clear that the economy is also facing a serious problem. In this, India is not unique. All countries in the world will have to deal with the economic mess that the health shock will leave behind. But the mess may be particularly bad in India because the economy was in a weakened state when the shock hit us. And while the health shock will be temporary, the economic crisis it is triggering will affect us for a much longer period.

Objectives:

The major objectives of this study are:

1. To understand impact of Covid-19 on overall Indian Economy
2. To understand impact of Covid-19 on different sectors
3. To find out the challenges for different sectors in Indian economy

Research Methodology:

In this study I have taken survey reports & study reports by various agencies like CRISIL, FICCI, PwC, ASSOCHAM, CII, McKinsey & Company and CARE Ratings for detail study. I have chosen the reports mostly published in March and April months to understand the impact of COVID-19 on Indian economy and various sectors. Also, I have studied few research papers and News articles which publish in these two months.

Results and Findings:

It is revealed that when the global economy is on a slowdown mode no emerging economy can grow at its normal pace. The Indian economy was grappling with its own issues and COVID-19 made the matters worse. India's GDP has been on a consistent decline after peaking out at 7.9 in Q4 of FY 2018 to 4.5 in Q2 of FY 2020. The industry was facing demand problems, due to which business houses were reluctant to undertake capex plans, unemployment was at its peak and exports which were consistently down for several months. India has the problem could be more acute and longer lasting, the economy was in parlous state due to Covid-19 struck.

Due to the measures adopted to prevent the spread of the Coronavirus Disease 2019 (Covid-19), especially social distancing and lockdown, non-essential expenditures are being postponed. This is causing aggregate demand to collapse across the India. In addition to the demand reduction, there will also be widespread supply chain disruptions, as some people stay home, others go back to their villages, imports are disrupted, and foreign travel is stopped. This will negatively affect production in almost all industries. Gradually the shock will spread to manufacturing, mining, agriculture, public administration, construction – all sectors of the economy. This will adversely affect investment, employment, income, and consumption, pulling down the aggregate growth rate of the economy.

Like India, several international economies are becoming cognizant of the risk they face by being overly dependent on one market. Making the current situation a learning opportunity, this is the time India can work on capturing potentially 40% of their competitor's market share by looking at indigenous production of goods, furthering the country's Make in India campaign.

Recommendations:

Here are a few suggestions that the policymakers can consider as they gear up to deal with the economic crisis.

1. The first measure must be to protect the workers in the informal sector, who will be badly affected, and yet have little savings to tide them over the shock. This will not be easy to do, but there are two mechanisms that could be utilised: MNREGA (Mahatma Gandhi National Rural Employment Guarantee Act) and Jan Dhan accounts.
2. For organised sector as discussed above, the objective should be to make the banks somewhat less risk averse in their overall lending, while preserving their authority to distinguish between viable and non-viable firms.
3. To increase liquidity and increase consumer confidence, the Government of India should provide a pay roll tax holiday for a quarter to help support demand in these stressful times.

4. MSMEs should be provided concessional working capital loan, equivalent to one to three month's (based upon the extent of disruption) average turnover of last year. To support them, when the supply chains have been impacted globally, MSMEs should also be provided concessional finance at a rate of 5% for three months through SIDBI. The interest payment for such financing can be adjusted over the next three years as part of GST.
5. CSR spending by corporate organisations should be directed towards a response fund dedicated for the management of the pandemic.
6. A disaster management framework focused on managing disease outbreak will become essential in the large and densely populated country.

Conclusion:

In India, this has not yet started in a systematic manner and needs to be prioritised alongside steps to deal with the health crisis. By rationalizing tax rates or providing tax relief curb the impact of COVID-19 on the Indian economy might know after implementation of measures. About necessary measures to combat the economic impact from the rapidly spreading coronavirus, the Government policymakers would need to implement a substantial targeted fiscal, broader monetary stimulus, and policy rate cuts to help normalize the economic situation. As the COVID-19 crisis continues to expand, manufacturers will likely face challenges on numerous fronts. Manufacturers will also need to look beyond their own economic viability. They will need to coordinate closely with the public sector to forge plans that are essential to both public safety and the solvency of their workforce, while keeping the lights on in their operations. challenging climate. Some will be austere, but austerity measures should be tempered to preserve long-term objectives.

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