

Economic Impact of Corona in India

Challenges and Recommendations

The Global Pandemic Hit

The last few financial quarters haven't been favourable to the global economy. The global economy has seen an overall dip in output and lack of demand from the consumers. This has only been fuelled by an additional problem of oil price surges. During this time, when the average unemployment rate has been increasing, an unknown viral outbreak has hit the global market known as the novel corona or more familiarly the COVID 19. The Coronavirus, now a global pandemic started in Wuhan, China and confirmed 82,000 live cases. The pandemic has left businesses around the world counting costs. This has also resulted in massive shocks to the stocks and markets, that can affect many investments in pensions or individual savings accounts (ISAs).

Several noted economists and government advisors have stated that the spread of the coronavirus will massively affect the global growth story and government action may not be enough to stop this massive decline. While the markets have been taking the storm since the outbreak, large and small industrial units across the world are predicting major job losses and spikes in unemployment rates. The US Bureau of Labour Statistics witnessed a historic rise of approximately 3 million people from January to March this year in people filing for unemployment. Experts like Goldman Sachs managing director assess that the US unemployment rate might increase from the current 0.3 percent to 27 percent, if the corona virus pandemic continues till July and the global economy will follow suite. Data additionally revealed by the Chinese National Bureau of Statistics reflected that supply chains in China have been struck, lowering industrial outputs further.

Prioritizing health and the long terms effects of covid-19, many governments have taken stricter measures like lockdowns leading to ripple effects across several sectors. Sectors like travel and airlines are affected the most followed by hospitality and exports. Several major airline carriers have halted all ground operations with everyday operational losses resulting in a 6-year low earnings on revenue per available seat kilometre. As a response to this on-going financial crisis central banks in the United Kingdom, USA and even the Reserve Bank of India (RBI) have cut interest rates almost simultaneously to ease the economic spiralling.

As major economies of the world are struggling to battle Corona, the economic downfall in India is predicted to be steeper. This brief analysis the overall and sector specific effects on economy and provides recommendations for possible measure.

Economic Impact on India: Macro Picture

The financial effect of COVID 19 has created a ripple effect from America to the European Union and now over South Asia. India's distressed financial condition has been further impacted by the global halt of trade and exports. Tremendous economic damages are predicted for India as the global shock comes in a time when India

has recorded lowest industrial outputs in the last 45 years and the economy on a downward trajectory since the start of FY 2018-19. Additionally, India's growth rate declined from 8 per cent in Q4 FY18 to 4.5 per cent in Q2 FY20. In the third quarter of the present fiscal year, the Indian economy grew at a 6-year low rate of 4.7%.

The DIPP records show that investment and consumption demand has been declining since the last quarter with low demands in the rural economy. This pandemic has presented India with a fresh and tougher set of challenges from the demand and supply side, where predictions concern derailment of the entire Indian growth story in midst of this outbreak.

Halting of International Trade

India's over dependence on China has come as the biggest jolt in the form of crumbling trade networks across several commodities, most notably Gems and jewellery, which is set to decline 12 % on year. It has been calculated that the fisheries sector will incur a loss of more than Rs 1,300 crore due to a shortfall in exports between January and March. Apart from this India exports 36% of its diamonds to China. At the same time four major trade summits between Feb and April 20 have been cancelled between India and China that will further impact Rs 8,000- 10,000 Cr in terms of new opportunity cost.

As most of port operations are closed across India and globally, the stressed shipments cost is piling up. For example, Rs 7,600 crore leather exports have been scrapped, Rs 2,000 crore worth carpet order is stuck in transit and it is estimated that the handicraft sector is expected to face a pounding Rs 8,000 crore affecting our artisans and indigenous art industries. The United Nations Conference on Trade and Development (UNCTAD) has estimated that the impact of Coronavirus on the Indian trade and manufacturing will be around US\$ 348 million,. India will be the top 15 countries whose trade and exports will undergo serious financial downfall during the Corona crisis.

Sectoral Impact of Corona in India

1. Impact of Corona on Agriculture

The rains in the first three weeks of March followed by the nationwide crackdown on the Covid-19 could delay the harvest of wheat in North Indian states. The harvest season for Rabi crops—largely wheat, sown between October and early December — starts in the first week of April. It is expected that due to inclement weather the delay could be for at least a fortnight. But the fear is because of Covid-19, farmers in most parts of these states may not find ample labour. Indian agriculture sector, which suffered recently due to an uneven monsoon, will face another hit due to disruptions from the coronavirus. As Rabi harvest season approaches, farmers will face serious problems about their standing crops. Farmers growing wheat, mustard and pulses have already faced damage due to untimely and heavy rainfall recently. This led to farmers fixing their crops but amid Coronavirus lockdown most of the labourers from eastern UP and Bihar have moved back to their homes.

Lockdown of cities and restrictions on transportation to minimise Covid-19 infection will cripple the seed industry, affecting kharif output and impact farmers' income if they are unable to obtain seed for sowing when the monsoon commences.

Farmers who grow perishables, especially fruits and vegetables, are already facing the heat of the situation with prices plummeting, reduction in bulk demand from hotels and restaurants, and uncertainty over exports.

With the mango season just starting, the fruit is in great demand in the Gulf, European countries and America. Indians staying in foreign countries wait for the mango season. Out of the total production of mangoes in India, nearly 40 per cent is sent to foreign countries. Farmers invest a lot in mangoes. If mangoes are not exported, farmers will suffer huge losses. With current limitations of export, policy makers need to be prepared on how to shield possible losses.

India's \$14 billion (or Rs 1 trillion) poultry market has begun a culling exercise as consumers have started keeping off chicken products for fear of catching coronavirus. Weak demand from the poultry sector has resulted in a sharp decline in feed prices too, with both soybean and maize prices falling by nearly 25 per cent in the past two months. The poultry market consumes around half of soybean and maize production in India. Industry estimates peg the loss to the market at Rs 1,000 crore.

- Rural *haats* in Odisha, West Bengal, and Chhattisgarh, and *mandis* in Madhya Pradesh and Maharashtra are being closed down, making it difficult for smallholder farmers in these areas to sell their produce.
- Poultry producers in Jharkhand are bearing the brunt of the decreasing demand for broiler chickens, with rates falling as low as INR 20 per kg, from the regular rate of INR 90 per kg.
- There has been a dip in milk production, since the start of the COVID 19 lockdown. Several dairies across the country have been reporting a sharp dip in milk sales as institutional buyers in the form of hotels, restaurants, tea shops, sweet marts remained closed.

Effect on Storage and Warehousing

Indian agricultural warehousing will be tested in the coming months even as the expected slowdown in the economy and concerns related to liquidity will hit the farming and trading community at a time when India is about to harvest a bumper rabi crop. The duration of storage of commodities in warehouses will take a longer time than usual, and scarcity of agricultural warehousing space will be seen at a time when the kharif crops hit the market, i.e., by November/December.

Therefore, the agriculture sector will face a collateral impact of the shutdown due to the precautionary measures being taken across the world to prevent the spread of Covid-19.

2. Impact of Corona on Employment

The Covid-19 epidemic comes at a difficult demographic time for India and would only exacerbate a looming jobs crisis. India needs to create nearly 10 million jobs every year to absorb people moving into the working-age population, besides those that are already unemployed.

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 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 will lead 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.

The supply-side impact of shutting down of factories has 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 have been impacted big time.

Overall, about 136 million non-agricultural jobs are at immediate risk, estimates based on National Sample Survey (NSS) and Periodic Labour Force Surveys (PLFS). These are people who don't have a written contract and include casual labourers, those who work in non-registered nano businesses, registered small companies, and even the self-employed.

While the daily-wage earners are bearing the brunt in the first phase of retrenchments, companies across industries could pink-slip employees on short-term contracts next.

Recommendations for the Administrative Machinery

As an immediate response strategy, the Central Government recently announced a set of economic measures for the economically weaker sections so that they can absorb the shock caused by COVID 19. This measure has been supplemented by various state governments who have also announced relief measures in form of ration, shelter and cash transfers. In order to effectively implement these measures, the implementing machinery needs to assure zero leakage in this process. Some of the important measure that should be taken by the implementing agencies are listed below in form of short recommendations:

A. Manage delay of payments under MGNREGA

One of the most highlighted measures announced by the GoI as part of the economic measures was to increase the MGNREGA wages from Rs 183 to 202 per day. Several evaluation reports and repositories of data sets have shown that delay of wages under MGNREGA has been a long legacy issue. Under MGNREGA there might be several households who might be dependent on MGNREGA income and hence timely deposit of payment is essential. In a time where the machinery is already overburdened in control and relief measures, accurate data entry and timely release of MGNREGA payments is a must. State machinery must ensure that an error free DBT process, such that cash transfers happen immediately.

B. Large scale procurement from Agricultural farmers

Amid the dip in milk production in Maharashtra since the start of the COVID 19 crisis, several dairies have recurred losses and have been unable to pay the farmers their due. In a very iconic step the Maharashtra government has decided to procure large tonnes of milk from each of these stressed dairies in order to relieve them from mounting credit and ensure cash flow. Other state governments who have been affected by the same issue due to lockdown of borders like Rajasthan, Uttar Pradesh are encouraged to a similar best practice where State agricultural and dairy boards can directly procure goods at standard prices, which would effectively lead to better warehouse management too.

C. Improved Fiscal Measures to combat economic stress

Though Gol in its economic package has outlined a list of several measures to provide relief in form of short-term unconditional cash transfers but hasn't described larger tax regulations and fiscal strategies that some of the other major economies are following. Berlin has set up a €500bn bailout fund to recapitalise big and small companies with more than 250 employees that get into difficulties due to the pandemic. Such a measure will safeguard the interests of several small and medium industrial units who have been recording single digit growth and almost negative production since the start of January 20. Many state governments can extend tax and loan deferrals for registered units upto the next three months as a risk sharing strategy.

D. Safeguarding the informal sector workers

As we have been observing, the COVID 19 crisis has brought a massive socio-economic shock for the workforce involved in an informal setting like the construction sector, daily-wagers, rag pickers etc. Safeguarding the social security of these workers is the prime interest of the respective state and central government. While the govt. is working it's full capacity ensuring ration and shelter for these workers, loss of livelihood is foreseen as the next major challenge. As a measure it is encouraged that the State machinery and other key decision makers, establish a special job exchange board to absorb workers who might lose their job in this pandemic in some form of livelihood measures like how Spain and Italy has done, by passing legislations for compulsory recruitment in skilled and unskilled based work in the government and private sector. UBI for a targeted population might be one of the ways to start this process.

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