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Covid-19, Economic Implications and Measures undertaken by India – Initial Phase

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Abstract: *In the wake of the pandemic global COVID-19 and the eventual crash of the stock system, companies are confronting some truly uncertain chance of contagion. With the prolonged country-wide lockdown, the magnitude of the economic impact will depend upon the duration and severity of the health crisis, the duration of the lockdown and the manner in which the situation unfolds once the lockdown is lifted. Thus, this article is intended to study the repercussions of Coronavirus and Indian Economy along with the strategies to overcome this tough situation.*

Key Words: *COVID-19; Coronavirus; Contagion; Pandemic; Economics; India; Economy; Sectors.*

1. INTRODUCTION:

On 31 December 2019, the WHO China Country Office was informed of cases of pneumonia of unknown etiology detected in Wuhan City, Hubei Province of China. As of 3 January 2020, a total of 44 patients with pneumonia of unknown etiology have been reported to WHO by the national authorities in China. Of the 44 cases reported, 11 are severely ill, while the remaining 33 patients are in stable condition (WHO, 2020). More than 31,000 Coronavirus cases in India with more than 1,000 fatalities were confirmed on 29 April 2020. In the context of India, with a high population rate of density worldwide, the government at Union and State level have taken the necessary measures to prevent the spread of the pandemic, considering its severe intensity. It becomes much more so because there is no medical cure for this lethal illness till the vaccine comes in.

Taking into consideration its severe intensity, seen in the context of India having the highest rate of density population in the world, the Governments, both at Union and State levels, commenced necessary actions on war footing to prevent the spread of this pandemic. It was even more so when it is known that this deadly disease has no medicinal cure till present time. (Gupta, 2020)

The effect of Corona virus is badly felt and noticed in the world's most developed countries like USA, Britain, and Germany etc. Obviously, India was bound to be affected not only because of its domestic slowdown but also because of international recession. Learning the lessons from the developed countries like Spain and Italy, India put all its machinery and material into motion to curb and/or prevent the disease. What started as one day Janata Curfew on 22 March 2020 by the Prime Minister of India and lockdowns by some of the state governments, the entire country was declared to be under lockdown from the midnight of 24 March 2020, and the same continues to be so till now or at least till 03 May 2020, unless extended. Resultantly, everything and every activity, barring the activities relating to and concerning with the essential supplies came to a complete grinding halt. Though the improvement in the environment due to such a lockdown was a silver lining, however the toll on economy due to this lockdown is too early to be estimated. (Gupta, 2020)

The manufacturing, an important part of any economy, suffers from total lack of clarity. Lockdown has put great stress on the supply chains of essential commodities, and therefore, many of the Indian companies have focused on the production and supply of essential items only, thereby stopping all other production activities, hence bringing down the production graph. Likewise, the other sectors like agriculture being the primary sector and the tertiary sector are also not free from its impact. There is hardly any manpower available for the agricultural purposes in different states. Lockdowns have manifestly made the farmers difficult to take their produce for sale to the markets. Informal sector of India, the backbone of its economy, will be hardest hit in view of economic activities coming to a total standstill. These lockdowns and restrictions on commercial activities and public gatherings are necessarily likely to strongly impact domestic growth. As estimated by Centre for Monitoring Indian Economy (CMIE) on 07 April 2020, the overall unemployment rate may have surged to 23 per cent, with urban unemployment standing at nearly 31 per cent. International Labour Organization (ILO) has estimated about 40 crores workers of unorganized sectors to be unemployed. (Gupta, 2020)

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2. Background:

India has 368,557 active COVID-19 cases as of June 18, with 12,274 deaths attributed to the disease. Prime Minister Modi announced on March 24 that the entire country will go under lockdown, now extended for the third time to May 31. Prior to this announcement, numerous containment measures had already been imposed, varying in intensity across the country, including travel restrictions (complete restriction of incoming international commercial passenger aircraft and some restrictions on domestic travel including cancellation of domestic passenger air traffic); closing educational establishments, gyms, museums, and theatres; bans on mass gatherings; and encouraging firms to promote remote work. (The Economics Times, 2020)

3. Reopening of the economy:

On April 15th, the Government announced several relaxation measures for non-hotspot areas, implemented from April 20th, with a view to promoting economic activities. On April 29, the government permitted inter-state movement of stranded people, including migrant workers, managed by the nodal authorities who are designated by the states. Some graded relaxations in economic activities have been allowed in geographic areas designated as orange and red zones on May 4 and domestic air travel restarted on May 25th. On May 12, 2020, the PM announced a relief package of around 10 percent of GDP, including previously announced monetary and fiscal measures. On 30 May, the central government laid down "Unlock 1" rules to pave the way towards the phase out of most of the activities throughout the country, and only for one month until 30 June to restrict the lockdown to containment areas. However, states have been encouraged if they feel it is appropriate to prohibit such practices.

4. Acute Economic Impact of COVID-19 at National Level:

As a result of nationwide lockdown and widespread of coronavirus disease, all activities came to halt gradually and at the end completely, excluding the activities related to the essential services such as food, medicines etc. While the environmental change due to such a shutdown was felt like a silver lining amongst the dark clouds, however, it was too early to quantify the impact on economy due to this shutdown. While presenting the Finance Bill for the year 2020-21, the Union Government on 01 February 2020 had reasonably estimated India's nominal GDP growth rate (*i.e.*, real growth + inflation) of 10 percent, however, the same now seems far from reality and certainty. The stagnation in demand, the shutdown of manufacturing operations, the decline in the global crude oil price, the ban on international trade, the collapse in prices of commodities such as coal, metals and fertilizers, restrictions on the aviation industry as well as on tourism, among others, are expected to exert downward pressure on inflation, thereby adversely affecting the economic map. It is believed that India's aggressive lockdown could bring the country's growth down to 2.5 percent from 4.5 percent it had earlier estimated. However, as per a statement released by Chief India Economist of Goldman Sachs on 09 April 2020, the economic growth of India has been estimated at a low figure of 1.6% only.
The Indian financial markets collapsed general volatility and lack of competition along with little investment expected in the near future. Due to this outbreak, a United Nations study estimated that India is one of the world's worst affected economies with a trade impact of more than $350 million. During the same time, Asian Development Bank estimated the loss to Indian economy due to this outbreak up to USD 29.9 billion. (The Economics Times, 2020)

5. Key Policy Responses as of June 11, 2020:

Fiscal

Minister for Finance Sitharaman, announced on 26 March an incentive package worth roughly 0.8% of GDP. The core components of the program are: in-kind (food; cooking gas) and cash payments to families with lower income; compensation protection for hospital employees and job assistance for low-paid individuals (in some situations even employed citizens and in others relaxing welfare requirements in the event of a lack of employment). In addition to a previous pledge by Prime Minister Modi. The initiatives will add 150 billion Rupees, including COVID-19 testing facilities, safety equipment's, insulation beds, ICU beds and fans (about 0.1% of GDP), in conjunction with their health infrastructure. Numerous state governments have also announced measures to support the health and wellbeing of lower-income households, primarily in the form of direct payments (free food rations and currency transfers)—the size of these measures varies by state, but by combined estimates amounts to around 0.2% of India's GDP to date.

During May 13-17, the Finance Minister announced new measures targeting businesses (about 2.7 percent of GDP), expanding support for poor households, especially migrants and farmers (about 1.5 percent of GDP), targeted support for the agricultural sector (about 0.7 percent of GDP), and some expansion of existing programs providing work opportunities to low-wage laborers (about 0.2 percent of GDP). Key elements of the business-support package are various financial sector measures for micro, small, and medium-sized enterprises, and non-bank financial companies; liquidity injection for electricity distribution companies; and a reduction in up-front tax deductions for workers. Additional support to migrants and farmers will mainly be in the form of providing concessional credit to farmers, as well as a credit facility for street vendors and an expansion of food provision for non-ration card holders (mainly

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migrants). The main measure for the agricultural sector is support for infrastructure development. (The Economics Times, 2020)

6. Monetary and Macro-Financial:

On 27 March, the Reserve Bank of India (RBI) decreased repo and reverse repo levels by 75 and 90 basis points (bps) to 4.4 and 4.0%, respectively, and declared liquidity steps to the tune of 3.7 trillion rupees (1.8% of GDP) through three measures including Targeted Long Term Repo Operations (TLTROs), a Cash Reserve Ratio (CRR) reduction of 100 bps, and an rise in marginal standing facilities. The CRR had been exempt for all retail loans earlier in February to ease funding costs. (The Economic Times, 2020a)

On April 1, the RBI set up a facility to help meet the government's short-term funding needs and relaxed export repatriation restrictions. On 3 April, the RBI revised trading hours for different markets with a view to maximizing loan capital and maintaining the health of workers. Earlier, RBI has taken regulatory steps to encourage credit flows to the retail and MSME industries and provided regulatory abstention on the asset classification of credit to MSMEs and real estate developers. The management of the CRR for all new retail loans has been removed and for the financial year 2020/21 the priority sector classification for NBFC bank loans has been extended. The RBI reduced the inverse repository by 25 bps to 3.75 percent during April 17-20, as announced:
(a) A TLTRO-2.0 for an initial amount of around 0.2 percent of GDP, Extending to some 0.4% GDP (investment funds in bond prices, commercial paper, and non-convertible debentures of NBFC) the initial TLTRO program.
(b) Unique refinancing services for local institutions, housing finance firms and SMEs amounting to around 0.2% of GDP;
(c) A temporary reduction of the Liquidity Coverage Ratio (LCR) from 100 to 80 percent and restriction on banks from making dividend payouts to conserve capital; (d) The default period of the loan moratorium is a 10 percent requirement and the extension of the resolution period on major accounts by 90 days for the three-month loan classifications. (Business Today, 2020)

On May 13, the government announced measures targeting businesses:
(i) A collateral-free lending program with 100 percent guarantee,
(ii) Subordinated debt to the underestimated MSME with partial guarantee, and
(iii) A partial credit guarantee scheme for public sector banks for borrowing from non-bank financial companies, companies of housing finance and institutions of microfinance.

The government also announced

(i) Funds for equity infusion in MSMEs, and
(ii) A special purpose vehicle (SPV) for the acquisition of short-term loans of qualifying non-bank financial firms and housing finance corporations, entirely guaranteed by the government and operated by a public sector bank. RBI's policy initiatives after 8 February reflect a liquidity infusion of about 4 per cent of GDP. (The Economic Times, 2020c)

7. Exchange Rate and Balance of Payment:

Corona virus had its impact in the industry in general, which has seen, not only cutting the salaries but also laying off its employees. The hotels all over the country are vacant and the airlines have stopped their operations due to government orders. Also, entertainment industry, music concerts industry estimated a loss of more than 3000 crores in Rs. The manufacturing, an important part of any economy, suffers from total lack of clarity. Lockdown has placed a great deal of emphasis on the supply chains of essential commodities and, as a result, many Indian companies have focused only on the production and supply of essential goods, thereby stopping all other production activities and thus lowering the production graph. Likewise, the other sectors like agriculture being the primary sector and the tertiary sector are also not free from its impact. In various places, there is hardly any manpower available for agricultural purposes. Lockdowns have manifestly made the farmers difficult to take their produce for sale to the markets. Informal sector of India, the backbone of its economy, will be hardest hit in view of economic activities coming to a total standstill. The lockdowns and constraints on commercial and public events are likely to have a major effect on domestic production. As calculated on 07 April 2020 by the Center for Monitoring Indian Economic (CMIE), the overall unemployment rate may have risen to 23 per cent, with urban unemployment at almost 31 per cent. International Labor Organization (ILO) has estimated about 40 crores workers of unorganized sectors to be unemployed. (The Economic Times, 2020)

The UNCTAD has suggested that India's trade effects could reach around USD 348 million as a result of an outbreak of the COVID-19. The total export contribution for India is projected at USD 129 million for the pharmaceutical, garment and clothing industries, USD 64 million for the automobile industry, USD 34 million for electrical machinery, USD 12 million for leather goods, USD 13 million for metals and metal goods and USD 27 million for wood products and furniture. UNCTAD estimates that global value chain exports could decline by $50 trillion over the year if China's medium-sized exports declined by 2%. What is also worrisome is the effect of all the circumstantial conditions on the Rupee value which is at its lower value of more than Rs. 76 per USD, exerting extra burden and pressure on the cost of import of commodities and services in India, and on the accumulated foreign reserves (PTI, 2020). In order to reduce the effect on the economy caused by the outbreak of COVID-19, the Union Finance & Corporate Affairs Minister declared on 24 March 2020 a variety of significant relief steps taken by the Government of India, in particular on legislative and regulatory enforcement problems relating to a range of sectors. (Market, 2020)

8. Relief for Poor:

The Government of India initiated Rs 1.7 crore assistance system for those hardest affected by the Covid-19 lockout on 27 March 2020, along with insurance protection for frontline medical staff. Approximately 800 million people are expected to receive free cereals and cooking gas in addition to cash through direct transfers for three months. These steps cover:

i. The Ujjwala beneficiaries earn free gas (LPG) for the next three months.
ii. Collateral-free funding for 63 self-help organizations has increased to Rs20 crore.
iii. Government shall pay a contribution from the EPF, both employer and employee. All these institutions with less than 100 staff, 90 per cent of which is earning less than Rs15,000 per month, for a period of three months.
iv. 3 crore vulnerable aged, vulnerable widows and poor individuals with disabilities are granted ex-gratia Rs. 1,000.
v. Every MNREGA worker to get hike of Rs. 2,000.
vi. Health employees are covered by medical benefits for Rs 50 lakhs.

On 9 April 2020, the Indian Government approved, by March 2024, a proposal to develop health infrastructure to develop COVID-19 hospitals, to purchase personal protective equipment and to establish labs and supply the necessary medical supplies, pharmaceuticals and consumable supplies. In the early weeks of February, most of the forecasts for the global production loss due to COVID-19 were confined to China for the outbreak and brought under control by March / June. It was understood, however, that the economic effect will be important, even in a restricted case, because China is now a far greater player in the global supply chains – both in terms of economic scale and its position – than during the 2003 SARS epidemic. (Market, 2020)

Due to extended lunar New Year holidays as well as government-imposed factory shutdowns and travel restrictions in several regions, in February, Chinese production and service activities fell markedly. In the latter part of February, a rapid increase in infections and deaths around the world began to surface, as the spread of the virus in China began to plateau. Lockdowns have been implemented in most nations on a note to flatten the curve of COVID-19. Travel bans have caused disruption to airlines, the travel industry, and the hotel sector have been hit hard by advancing disease outbreak. Crude oil prices were on a downward trend across energy and capital markets with crude futures of Western Texas Intermediate (WTI) dropping below USD 20 per barrel on 30i March 2020. Equity markets suffered major losses, while gold, fixed income assets-mainly government debt, and the US dollar gained ground due to safe haven demand, but later significantly corrected profit and cash flow. With the pandemic still lingering, forecasts of the downward impact on global development are constantly being updated. The consensus, however, is that there will be a recession in 2020. On 27 April 2020, RBI decided to open a special liquidity facility for mutual funds of Rs. 50,000 crores which banks can use primarily for the purpose of meeting mutual fund liquidity criteria by expanding loans to acquisitions, shares, bonds, and certificates of deposit (CDs) and/or corporate investment grade collateral. In view of the demands of the general public regarding opening of certain activities as also considering the condition of COVID-19 in particular areas and in order to improve the deteriorating condition of the economy, the Central Government and/or State Governments have announced certain relaxations from time to time in order to restart the economic operations, particularly relating to healthcare, agriculture and allied, as also small Mohalla shops dealing with books and electric fans, services by electricians, plumbers or water purifiers etc. (Market, 2020)

9. Health Equity during COVID-19:

There is an increased demand for testing and treatment as coronavirus cases around the Republic of India multiplies. In addition to the logistical challenges of creating an adequate supply of reliable tests, the financial aspects of accessing care are also coming into focus, in addition to wider equity concerns in conjunction with lost jobs, closed schools and other control factors. Many people with flu-like symptoms may visit the emergency department (ED) of any dedicated hospital for treatment. But the financial outcomes of such a visit can be daunting. As an example, a news article described how a Delhi's couple patient's ED visit for corona on June 14, the hospital raised a bill of ₹ 4.60 lakh , while these costs clearly present an uninsured barrier, the likelihood of substantial cost-sharing, in combination with the warning of off-network billing, can also deter insurance companies from seeking assistance. (Health Growth Partner, 2020)

In order to avoid the potential public health risk that could result, many have called for an increase in the affordability of symptoms testing and treatment. Some policy makers have already acted and raised quotes for upcoming policy measures. The American Health Insurance Plans (AHIP) business trade group has stated its desire to discuss this issue in much detail. Individual companies like Cigna have announced their own testing costs. Waiver cost-sharing will make a difference in the consumer and small business markets, where vulnerability to out-of-pocket expenses is significant. The average estimate is approximately $1,100 for the medical insurance coverage by using commercial claim data for people with HCCI (Health Care Cost Institute). This fee covers both technical and service costs, all of which have increased over time and differ by metro region. In general, customers with insurance are paid a fixed rate, also known as an approved price, because they are covered by in-network providers. When anyone is treated by an out-of-network ED provider, which happens 16.5% of the time at in-network hospitals, there is a risk for much greater out-of-pocket costs. On average, individuals with benefits from a big, self-insured company will be able to spend around $200 out-of-pocket for an ED in-network appointment. In the retail market, though, the out-of-pocket cost is expected to be even greater. Overall, 87 per cent of individual market plans require the deductible to be met before any cost-sharing is possible. In the fully insured small group market, the share is somewhat lower, yet almost 70% of the plans have a benefit design in which the deductible must be satisfied before cost-sharing takes place.
Recognizing this, various public and private players are searching at solutions to eliminate funding obstacles, but, like other issues in our health care sector, the solution is fractured and incomplete. This experience should inform our thinking about the design of insurance benefits in a way that values both individual and public health system. Too little skin in the game can lead to a moral hazard, but too much creates a danger to the health of the public. This is not a game in the sense of a global pandemic. (Health Growth Partner, 2020)

10. CONCLUSION:

For the Indian economy, it can be predicted that the income in 2020-21 and 2021-22 would be less than what it was in 2019-20 (World Bank forecast). There is tremendous, perhaps unparalleled, economic suffering ahead of us. Policy and governance would have a significant role to play in alleviating this. Poor policy will slow, and even disrupt, economic recovery, on the other hand, good policy can ensure that the suffering of the mass will thus be minimized. The main point is that India needed a demand-side action. But the Indian economy is both vast and diverse. This diversity will have to be taken into account in the policy response. Only then can correct steps be implemented where they are required. Politics, particularly in times of crisis, is often a matter of spreading scarce capital among competing needs. In a democracy, politics has a great influence on this process. Earlier this week, the World Bank released its report on the Global Economic Outlook. The GDP of India is projected to decline by 3.2% in 2020–21. The rebound in 2021-22 would be mild to 3.1%. This means the 2021-22 GDP is going to be smaller than it was in 2019-20. Truth be sure, India is not the only nation facing this plight. The East Asian region seems to be the only exception. Incomes are likely to decline. The facilities would be disrupted. The impact of the contraction, however, will differ between sectors, states, and even social groups. This awareness is necessary for successful policy action in due course. Therefore, with an equivalent amount of production losses, work losses in housing will be even greater than in the finance sector.

Rescuing the construction industry will save a lot of workers, many from the poor. The financial assistance would increase the vulnerable and the industries based on their production. The usage of what is regarded as job elasticity of economic production is a valuable method to assess job reductions through contracting. It correlates to the increase in employment per unit of economic production shift. The definition represents the belief that employment can be created with the same amount of development across sectors. This also means that job losses in the contraction phase will vary across sectors. Since the financial crash of 2008, there was a lot of concern over employment cuts. India did not have data on high-frequency employment. The United Progressive Alliance (UPA) government has asked the Labor Office to start tracking quarterly employment-unemployment rates.

Today, the PLFS collects employment data for each quarter of the year. However, the government has not released quarterly data on a regular basis. The findings of 2018-19 were released at the beginning of the month. This would therefore be a smart thing that high frequency usage data will be gathered and released. Until more and more statistics on the condition of the economy are collected, policy reaction would stay uninformed. If the surveys are showing bad news, so be it. We are officially going into a phase of recession. This Corona Virus pandemic may wreck the Indian economy. The level of GDP may further fall, more so when India is not immune to the global recession. In fact, indeed, as India's economy has already been in a state of affliction and a deep slowdown over several quarter. Long before COVID-19, India is believed to be more vulnerable, India's Prime Minister has already spoken about the development of an Economic Task Force for policy steps in resolving COVID 19 global challenges and the Indian economy's stabilization. Yet the clear strategy to help the economy and its development will have to be sustained. As the disruption from the virus progresses globally as well as within India, it is for us to forget, at least for the time being, all talking only about economic recovery, and instead join hands whole heartedly to tackle the devastating outbreak of pandemic COVID-19.

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