India under COVID-19 Lockdown- "A critical Economic Analysis"

Abstract

The COVID-19 pandemic is the defining global health crisis of our time and the greatest global humanitarian challenge the world has faced since World War II. The virus has spread widely, and the number of cases is rising daily as governments work to slow its spread. India has moved quickly, implementing a proactive, nationwide, 21-day lockdown and extension of 19 days with the goal of flattening the curve and using the time to plan and resource responses adequately. Along with an unprecedented human toll, COVID-19 has triggered a deep economic crisis. The global economic impact could be broader than any that we have seen since the Great Depression.

The shutdown of planes, trains, and bus services had caused people to rush into airports, railway stations and bus stands, again making a mockery of social distancing. It had another consequence. Inter-state migrants were seen walking hundreds of kilometers with women and kids in tow to their homes because there was no transport and no work.

On 27 March, 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%. 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.

Finance Minister Nirmala Sitharaman announced Rs 1.76 lakh crore relief package on March 26 afternoon, a good 42 hours after the 21-day lockdown was announced. It would largely benefit the unorganised sector workers, especially daily wage workers, and urban and rural poor. The relief would include cash transfers and PDS (Public Distribution System) supply.

Given the precariousness and insecurity of migrant workers across states, it is important to ensure the coverage of this section under a free public distribution programme, which provides them with cereals, pulses, and cooking oil, among other essential items. Those migrant workers who do not have a ration card should be facilitated by the government to get temporary ration cards at the location of their residence.

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Background/Significance of the Study

To an economy passing through demand depression and high unemployment, the lockdown would add supply-side stress, accelerating the slowdown further and jeopardizing the economic wellbeing of millions.It does not require an economist to tell that a complete social and economic lockdown of India for 21 days would severely impact the supply side of the economy, that is, production and distribution of goods and services, except for the essential items that are exempt.

In an economy already reeling under a demand depression, rising unemployment, and lowering of industrial output and profits, all of which happening together for several quarters now, a supply-side constraint would deliver a big blow, jeopardizing growth prospects and social and economic wellbeing of a large number of people.

Objectives of Study

The objective of research paper to analysis the impact of lockdown on several core sectors, including auto, real estate, and manufacturing. Because, India continues to face global headwinds due to policy uncertainties, falling growth and trade volumes, and technological changes across the world.

Basic Theme of Research Paper

The shutdown of planes, trains, and bus services had caused people to rush into airports, railway stations and bus stands, again making a mockery of social distancing. It had another consequence. Inter-state migrants were seen walking hundreds of kilometers with women and kids in tow to their homes because there was no transport and no work.

There was no food or money to buy food for many daily wagers. In Delhi, for example, thousands of daily wagers crowd shelter homes set up by the Delhi government to provide them food, again making a mockery of social distancing. Business today estimated that about 300 million informal workers could be vulnerable and seeking help.

"Now, after the lockdown is lifted, there will quite possibly be an increase in sales which will be met through existing inventories. This does not, however, add to the GDP (as these goods and services had already been produced and accounted for). It may take a few more months for the final production and sales to resume.

The pace and scale of opening up from lockdown for India may depend on the availability of the crucial testing capabilities that will be required to get a better handle on the spread of the virus, granular data and technology to track and trace infections, and the build-up of healthcare facilities to treat patients (such as hospital beds by district).

Statement of Problem

Countries that are experiencing COVID-19 have adopted different approaches to slow the spread of the virus. Some have tested extensively, carried out contact tracing, limited travel and large gatherings, encouraged physical distancing, and quarantined citizens. Others have implemented full lockdowns in cities with high infection rates and partial lockdowns in other regions, with strict protocols in place to prevent infections.

There could be on-site testing at factories and staggered shifts for workers. While the principles may be the same for construction sites and BPO companies, the specifics would differ. A geographic lens could be overlaid to determine how quickly the lockdown could be lifted when new protection protocols are in place.

GDP and Economic Analysis of India

"In the interim, between now and full production resuming, a large number of people would have been unemployed and not earned any income. As a result, in the second round, demand-side will become a serious constraint."

Three of the four growth engines— private consumption, private investment, and exports—have slowed down significantly. Government expenditure growth has been doing the heavy lifting over the past few quarters as private demand has taken a breather. Several cyclical and structural factors, such as low rural wages and tightening lending conditions, have weakened growth.

Geopolitical tensions leading to oil price fluctuations may add to economic woes. Leading economic indicators suggest the economic slowdown may be tapering with green shoots visible in a few quarters of the economy.

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".[4] 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 Data Labs 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"

The quarterly GDP growth has consistently fallen since Q4 of FY18. If there is a deviation in Q4 of FY19, as shown in the graph below, it is because the National Statistical Office (NSO) revised its data on February 28, 2020, drastically cutting down growth rates in the first three quarters of FY19 (from 8% to 7.1% for Q1; from 7% to 6.2% in Q2 and 6.6% to 5.6% in Q3).The blow to people and businesses could have been considerably softened but for lack of foresight, planning and strategies. That would have saved a mad scramble by the government too.

On 27 March, 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%. 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. This will be the lowest growth for India in 30 years The World Bank report said that the pandemic has "magnified pre-existing risks to India’s economic outlook”. Confederation (CII) has estimated that India's GDP for FY21 will be between 0.9% and 1.5%.

- **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.[93] Hindustan Unilever, ITC and Dabur India have shut manufacturing facilities expect for factories producing essentials.

- **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. Amazon has followed the same strategy in Italy and France. On 25 March, Walmart-owned Flipkart temporarily suspended some of its services on its e-commerce platform and will only be selling and distributing essentials.

BigBasket and Grofers also run restricted services, facing disruptions in services due to the lockdown. Delhi Police began issuing delivery agents curfew passes to make it easier for them to keep the supply chain open. E-commerce companies also look for legal clarity related to what are "essentials".

- **Defense**

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.

- **Stock markets**

On 23 March 2020**,** stock markets in India post worst losses in history. 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 lock-down 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. 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.

- **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.

- **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, wherever such contractual, the casual and outsourced staff of Ministries/Departments and other organization of Government of India is required to stay at home in view of lockdown order regarding COVID-19 prevention they shall be treated as "on duty" during such period of absence and necessary pay/wages would be paid accordingly. A few days later worries grew as to how wages could continue being paid and if the directive was legal or not.

- **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 there 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.

Revival Strategy- Government Initiatives

Finance Minister Nirmala Sitharaman announced Rs 1.76 lakh crore relief package on March 26 afternoon, a good 42 hours after the 21-day lockdown was announced. It would largely benefit the unorganised sector workers, especially daily wage workers, and urban and rural poor. The relief would include cash transfers and PDS (Public Distribution System) supply.

Several measures have already been announced to provide liquidity, limit the immediate NPL impact, and ease personal distress for needy households in India. These amount to around 0.8

percent of GDP. Additional measures could be considered to the tune of 10 lakh crore Indian rupees, or more than 5 percent of GDP in fiscal year 2021. All the estimated requirements may not necessarily be reflected in the fiscal deficit of the current year—for example, some support may be structured as contingent liabilities that only get reflected when they devolve. However, a package of this order of magnitude may be essential in supporting those dealing with the possible steep declines in aggregate demand and in protecting the financial system from the possible solvency and liquidity risks arising from stressed companies if scenario 2 or scenario 3 plays out.

Household demand could then be boosted beyond the support provided to needy households that the Indian government has already announced. Consideration could be given to an income-support program in which the government both pays for a share of the payroll for the 60 million informal contractual and permanent workers linked to companies and provides direct income support for the 135 million informal workers who are not on any form of company payroll. India’s foundational digital-identity infrastructure,

Aadhaar, enables effective mechanisms for direct support, including through the Pradhan Mantri Jan-Dhan Yojana (PMJDY) and Pradhan Mantri Kisan Samman Nidhi (PM-KISAN) programs and to landless Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) beneficiaries. Concessions for home buyers, such as tax rebates for a time-bound period, could stimulate the housing market and unlock the job multiplier.

For bankruptcy protection and liquidity support, MSMEs could receive liquidity lines from their banks, refinanced by the Reserve Bank of India and a loan program for first-time borrowers could be administered through SIDBI.[3] Substantial credit backstops from the government could be instituted for likely new NPLs Timely payments to MSMEs by large companies and governments could be encouraged by promoting bill discounting on existing platforms.

For large corporations, banks could be allowed to restructure the debt on their balance sheets, and procedural requirements for raising capital could be made less onerous. The Indian government could consider infusing capital through a temporary Troubled Asset Relief (TARP)-type program (such as through preferred equity) in a few distressed sectors (such as travel, logistics, auto, textiles, construction, and power), with appropriate conditions to safeguard workers and MSMEs in their value chains.

Banks and nonbanks may also require similar measures to help strengthen their capital, along with measures to step up their liquidity and the liquidity in corporate-bond and government-securities markets.

For one, people rushed into provision stores, making a mockery of 'social distancing' which is the primary goal of it. Secondly, a day after the lockdown, online suppliers of grocery, medicine and food, like Amazon, Flipkart, Bigbasket, SuprDaily and many others, suspended their services across the country, citing "confusion" or "restrictions imposed by local authorities" on their movements. Others, like Grofers and FreshToHome, complained of official obstructions.

Red, yellow, and green zones could be earmarked based on unambiguous criteria, with clear rules for economic activity, entry, and exit. The classification of areas could be updated frequently as the situation evolves. The definition of a “zone” would need to be granular (such as by ward, colony, and building cluster) to allow as much economic activity as is safely possible while targeting infection as accurately as possible. Since there is a very real possibility of the virus lingering on through the year, this micro targeting approach could help decelerate its spread while keeping livelihoods going.

The alternative approach of opening up select industry chains would be less feasible, given that sectors are tightly intertwined. A textile-export factory, for instance, would require chemicals for processing, paper and plastic for packaging, spare parts for its sewing machines, and consumables such as thread. Segregating industrial establishments by size would also be difficult, since smaller suppliers are often bound to the larger manufacturers.

Suggestions for Improving Economic Condition

- ❖ Actions would need to be implemented locally, with different approaches for districts based on their characteristics (such as rural versus urban, industrial versus service oriented, strong versus weak healthcare infrastructure, and heavily infected versus not infected yet). India could consider using the last week of the current lockdown to gear up for local execution, equipping more than 700 of the most appropriate government officers with insights gained from across the world and from ongoing efforts in cities such as Mumbai and states such as Kerala, which are currently fighting the pandemic.

- ❖ To manage the macroeconomic consequences of a large stabilization package, the government would also need to consider clearly communicating to the markets and population that these measures are deep but temporary. Given that India’s fiscal resources are constrained, the Reserve Bank of India may need to finance a portion of such incremental government spending.

  The spending could be tracked as a COVID-19 portion of the budget to boost transparency. The inflationary effects may be low, as lockdowns severely constrict demand and the fiscal support provided would be a substitute for expenditure rather than additional stimulus. Price increases could, however, occur in some sectors, such as food, so appropriate steps would be needed to maintain harvests and keep the food supply chain operating smoothly.

- Overall, devising a credible, system wide, stabilization package would benefit from being executed in a timely fashion so it can influence the pace of recovery and help avoid severe damage to livelihoods, the economy, the financial sector, and society. Many global economies are also facing these issues and having to put in place their own stabilization packages, with similar intent.Following the first wave of stabilization measures, attention could shift to implementing the structural reforms needed to increase investment and productivity, create jobs quickly, and improve fiscal health. This could mean introducing further reforms in infrastructure and construction and accelerating investments in health, affordable housing, and other urban infrastructure.

- States could accelerate spending, and institutions such as NIIF[4] could deploy domestic and long-term foreign capital faster. Such reforms could also enable Make in India sectors to become globally competitive and boost exports (such as electronics, textiles, electric vehicles, and food processing), strengthen the financial sector, deepen household financial savings and capital markets, and accelerate asset monetization and privatization to raise resources.

- A complete nationwide shutdown is a practical impossibility, and hence there are certain exemptions. The agriculture, food processing, transportation, and healthcare sectors are the critical ones where extreme restrictions will necessarily force a return to the erstwhile local economy. As a nation still anchored in its small towns and villages, this crisis might even make us realise that the best weapon to fight unbridled neo-liberal capitalist globalisation is localisation of the kind that builds on the local economy, and its resurgence and upkeep. It could also be the way forward to strengthen and nourish the forgotten economy of solidarity and interdependence in our villages and towns.

- M K Gandhi, who favoured self-reliance in our villages and among neighbours, would acknowledge and agree with such an approach. Kerala's adoption of such localised and self-reliance measures—with a well-entrenched panchayati raj system comprising 52% women among its elected representatives and supplemented by 42 lakh women from poor and non-poor backgrounds through the organisational network of Kudumbashree—has been helping the state effectively tackle one crisis after another, from floods to health emergencies.

- Additionally, restrictions on the type of work permitted under MNREGA should be removed, but food production and processing should be given priority. Work in farming and animal husbandry by small and marginal farmers, who constitute more than 85% of farmers in India, should be permitted under MNREGA. This will also create a sense of solidarity in the local rural economy. A similar public employment programme for urban areas should also be initiated immediately with similar advance payment of wages.

- The much-needed public work in towns and cities, such as waste management, roadside cleaning, housekeeping in hospitals, and deep cleaning of COVID-19 healthcare clinics and quarantine areas, should be given priority. The ceiling of 100 days of work per household under MNREGA should be lifted and be allowed to find its own equilibrium in this time of crisis.

- India is a large economy consisting of small units of production and that calls for special attention to vulnerable enterprises that contribute, by official reckoning, to more than one-third of exports and, perhaps, close to half the national income. About 98.6% of these enterprises employ less than 10 workers, of which 95% employ less than five workers. Preventing the collapse of these enterprises in the informal sector is equally crucial to save the Indian economy. They are also the ones who will keep the local economy functioning in the face of this countrywide lockdown. They need hand-holding and special assistance.

Summary and Conclusion

Extraordinary times call for extraordinary measures. It is high time that the central government, using the current situation as an opportunity, instituted some administrative guidelines for protecting the citizens in times of crisis.

Given the precariousness and insecurity of migrant workers across states, it is important to ensure the coverage of this section under a free public distribution programme, which provides them with cereals, pulses, and cooking oil, among other essential items. Those migrant workers who do not have a ration card should be facilitated by the government to get temporary ration cards at the location of their residence. The sight of migrant workers fleeing back to their home states is heartbreaking. With the announcement of a complete countrywide lockdown, they have been stranded across railway and bus stations in the country, and sometimes, literally on the roadside.

The central government should immediately roll out a minimum cash transfer of Rs 5,000 per month to ration cardholders registered under the NFSA. If need be, the state government can add to this amount. This could be done through bank accounts registered under the Jan Dhan Scheme or e-wallet accounts, such as Paytm.

Elders and the differently-abled in poorer households are most likely to face neglect in times of extreme crisis. Those currently receiving the national social assistance pension should be immediately provided with a pension amount of not less than Rs 1,500 per month. The immediate grant of a two-month pension should be treated as the minimum baseline payment necessary to protect the life and dignity of these people, who have toiled their whole life as informal workers under insecure employment arrangements.

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