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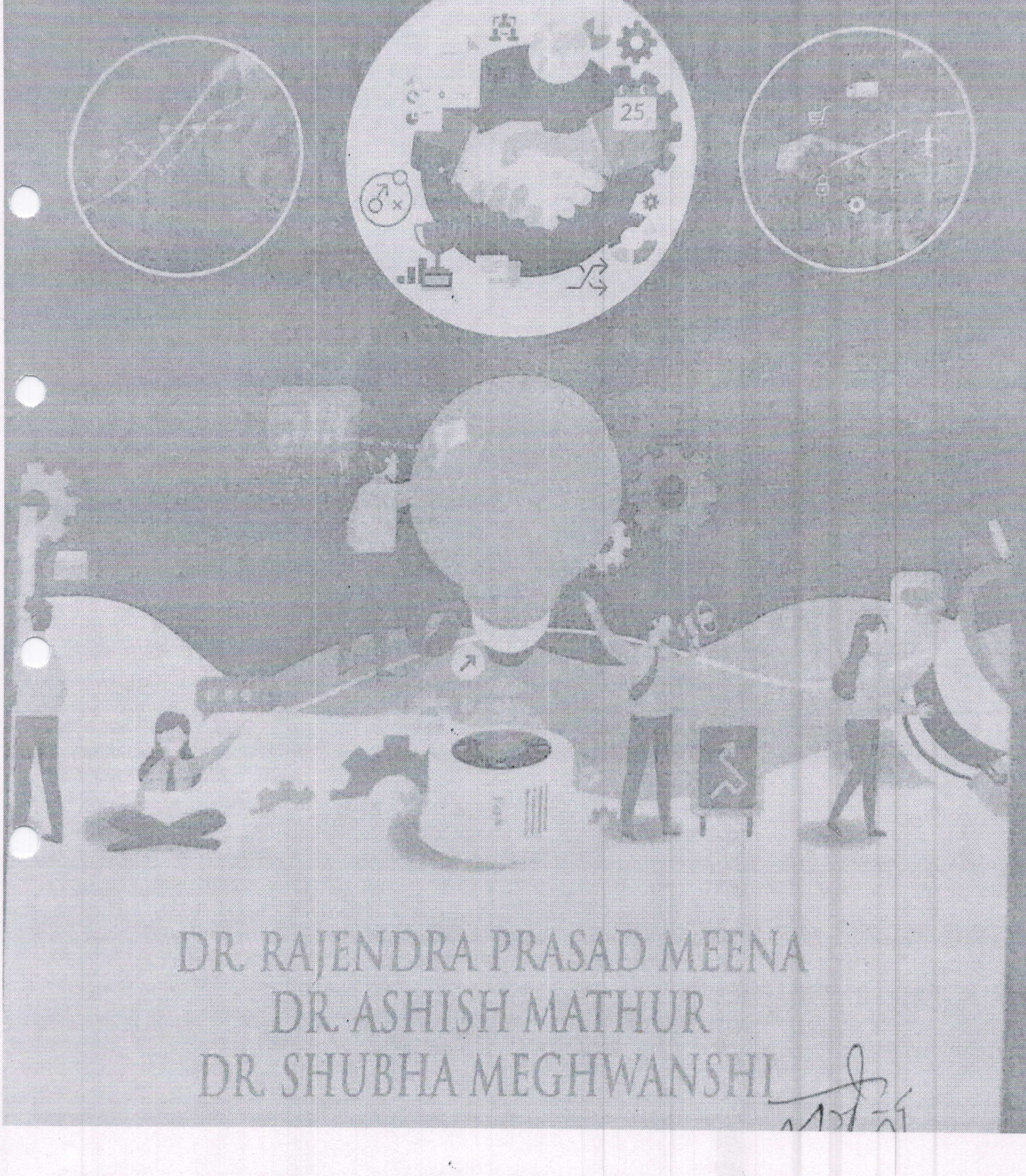
EMERGING TRENDS IN COMMERCE AND MANAGEMENT



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Emerging Trends in Commerce and Management

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First Published 2021

ISBN: - 978-81-952502-2-6

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Published by

RUDRA PUBLISHERS & DISTRIBUTORS

C-293A, Street No. 3, West Karawal Nagar, New Delhi - 110094

Mob. : 9312442975 E-mail : rudrapublishers@yahoo.com

Printed at Research Press India New Delhi.

3.4.6 – KAG

Footprints of Corona Virus on Indian Economy

Teena Mertiya
& Dr. K.A. Goyal

Abstract

This paper tries to analysis situation of Indian economic system in the wake of the ongoing global health crisis which has now turned into financial crisis. Examine magnitude of likely change in GDP growth rate for economy that was already in a tough economic shape before onset Covid-19. The paper further discusses the possible effect of the jolt on particular economic sectors, and offers projection based on data from previous years. Paper has been providing possible answers to following three situations: (i) How India is looking different from world? (ii) Is there any difference in losses across states and union territories? (iii) Is there is diversity in nature of impact on sub sectors likes of trade & tourism, hotels & restaurants, telecommunication & IT enabled services, education & medical, banking & finance, mining & quarrying, textiles, and real estate. Lastly, the paper proposes potential adjustments to policies implemented till date to redirect the Indian economy to the road of sustainable and inclusive growth.

Keywords: Indian economy, corona virus, GDP growth, policy changes.

Introduction

Novel corona virus, infectious diseases was at first spotted in China's Wuhan province in December 2019. Within a month period pathogen has been sighted in India with it's very first case reported in Kerala on 30 January. Since then graph kept rising with toll reaching 81,970 confirmed cases as of 15 May 2020 along with 27,920 recoveries and 2,649 casualties in the country. In order to contain further spread economy isfollowing measures like maintaining of social and physical distancing, closing down various public and private institutions, putting limits on migration. However, such actions are having grave consequences on economy. It can be corroborated from downwards forecasts for fiscal year by different credit rating agencies and other institutions. For instance IMF has revised India's growth rate to 1.9 percent from 5.8 percent1 and S&P to 1.8 per cent from 3.5 per cent2 estimated earlier.

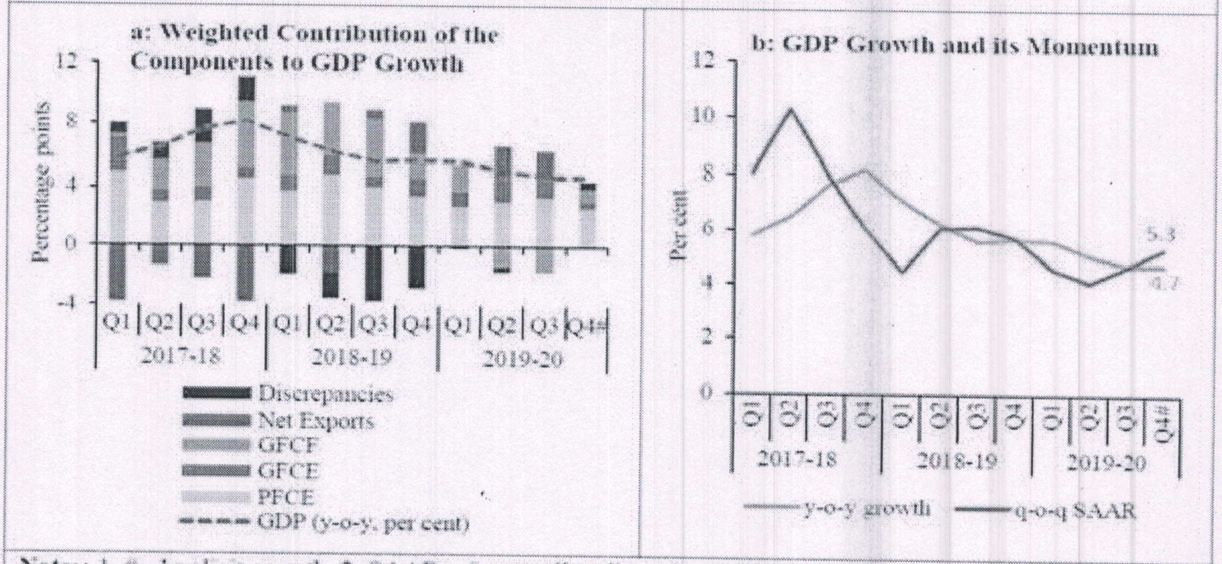
Ongoing lock down is creating devastating situation in financial arena which indeed is pushing growth rate down. Index of Manufacturing Purchasing Managers (PMI) has been contracted due to stoppage in production process at manufacturing and services. As a result thousands of migrant workers and daily wage are now out of work which has put their livelihood under threat3. At same point, demand has been continuously declining with people staying at home and delaying their non-essential consumption. Besides, Transport industry is getting troubled with travel restrictions in same way trade and exchange are also in dangling state due to temporary closure of international boundaries.

Presently economy is in middle of weird agony where it was already dealing with scant demand and now with majority of production activities are on halt in the wake of social and physical distancing, disturbed supply forces also. These will only going to exacerbate synchronous downturn (demand–supply gap) which has started back in year 2018-19 and real GDP growth continued to lose momentum thereafter (fig. 1).

It can be observed from fig. that prime contribution to GDP comes from private consumption, which of course in present scenario is on verge of decline. As far as Net export and Gross fixed capital formation is concerned there was not much value addition earlier as well and with restrictions on imports & exports, going to make it even worse. Government final consumption expenditure is also at moderate level, which was supposed to be the major. All the elements are dragging GDP rate to 4.7%. Now it becomes more important to think how economy is going to lift demand in these particular components which will ultimately going to contribute to growth rate.

Figure 1: Seasonally adjusted GDP growth and its constituents

Chart III.1: Seasonally Adjusted GDP Growth and its Constituents



Notes: 1. # - Implicit growth. 2. SAAR – Seasonally adjusted annualised rate.
Sources: National Statistical Office (NSO); and RBI staff estimates.

The paper is going to briefly highlight potential impact, of global health crisis which has slowly and gradually took shape of global financial crisis on growth performance of Indian economy. It is organised in the subsequent manner. Section 2 making comparisons of India with rest of world. Section 3 will be devoted to discussion about diversity in magnitude of pandemic impact across sectors. In section 4 there will be state wise discussion along with reviewing policy measure to combat situation. Lastly section 5 will be having conclusion.

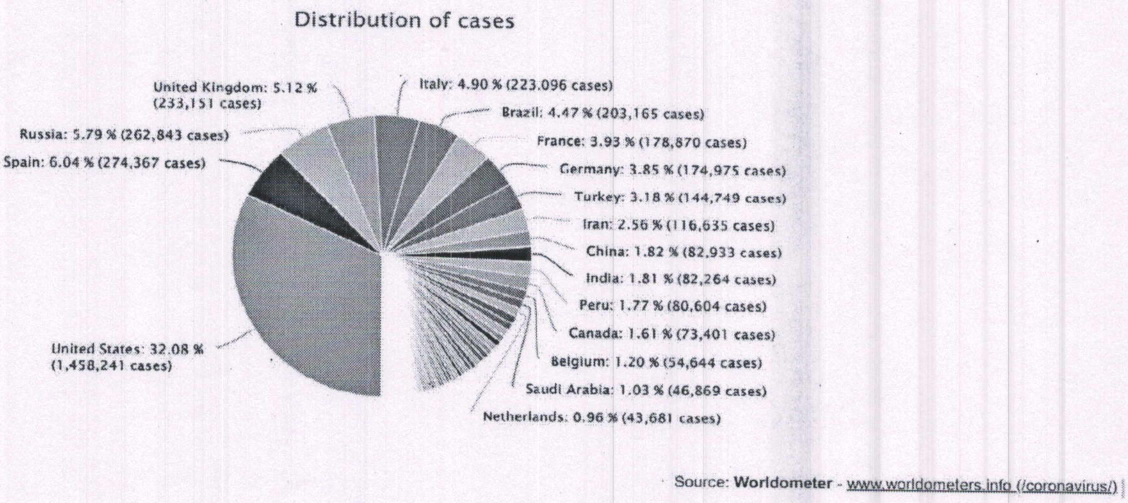
2. Comparison of India with world

In worldwide setting USA (15 May 2020) has maximum number (32.08%) of infected cases. Next to list are European nations viz. Spain (6.04%), Russia (5.72%), UK (5.12%), Italy (4.9%), Brazil (4.47%) but in India number of cases are comparatively lesser compared to other countries. Especially as the nation of 1.3 billion people, it becomes very tough to control virus from spreading.

But Delhi has so far contained it very well with effective policy making and execution mechanism. “We chase virus, before virus chase us’ has been the mantra in fight against pandemic for India. Government has so far practiced this in systematic pattern: screening at ports, imposing travel controls and in association with states, clamping down events and social gathering at pubs, cinema halls and fitness centres.4 Proved that developed is just a tag, even well balanced & advanced economies can fail in lack of proper strategy and follow up.

Figure ____________ 2

• Growth Factor of New Cases outside of China



COVID-19, not only leaving its impression on human capital but effecting global growth as well. Due to ensuing lockdowns and potential global output erosion. However, ultimate turnout will rely heavily on the pace at which the outbreak is managed and perhaps the restoration of economic activity. Moreover, essential monetary measures by the central banks and state fiscal policies will come out handy in ameliorating unpleasant impacts on economies. Keeping this in mind governtments across the world are releasing relief packages. (Table 1)

Table 1: Economic stimulus package

Country	Stimulus package as a share of GDP	GDP 2019
Japan	21.1 percent	$5,154.48 billion
United States	13 percent	$21,439.45 billion
Sweden	12 percent	$575 billion
Germany	10.7 percent	$3,863.34 billion
India	10 percent	$2,935.57 billion
France	9.3 percent	$2,707.07 billion
Spain	7.3 percent	$1,397.87 billion
Italy	5.7 percent	$1,988.64 billion

Source: self compilation from data realised by Ceyhun Elgin, Columbia University.

Japan leads the list by spending 21% of GDP on COVID-19 related economic stimulus measures, followed by the United States (13.3 %), Sweden (12%) and Germany (10.7%). The reactions from the Indian government, first on social and health wings, and are now on the financial front, spur package valued roughly 10% of India's GDP, is considered as one of the world's highest. With that India is set to have the fifth largest bailout package among major economies. "How it will pay-off?', "Will it be enough to keep wheel of economy moving?' are some of unavoidable doubts but these queries need to wait for the time world will come out of this exceptional outbreak condition. Notably, global economy has also been going through recessionary phase prior to outbreak

3 Magnitude of covid-19 effect among sectors.

At initial stages of pandemic people were having common presumption that transmission of virus would be restricted to China only but sadly it extended all across world. The economic hardship became severe when individuals were asked to stay home, and the impact was felt by varied sectors of the economy viz. travelling limits hampering the transport industry; sports tournament postponements hindering the sports division; restrictions on gatherings concerning entertainment industries.5 However, lockdown has given entirely new outlook to economy in which some sectors are getting worst-hit (trade & tourism, hotels & restaurants, mining & quarrying, textiles so on), while others are enjoying opportunity out of nothing (telecommunication & IT enabled services, education & medical, banking & finance) that might lead economy to all together new stages of development. Here under is briefing about some of them.

i) Hotel and Tourism industry

Covid-19's most prominent and immediate influence has been seen in hospitality and tourism sector. All its segments are in shut mode be it entertainment, travel, heritage, business meetings, promotions, conferences, exhibitions, cruise. Provided various travel restrictions levied by Government of Indian and governments across the world. As hotel occupancy rates has been significantly

Head

Finance & Economics

reduced there would be shortfall of about 13-29 per cent in revenue generation primarily to major cities like Kerala, Ahmadabad, Bangalore, Chennai, Delhi, Goa, Hyderabad, Jaipur, Mumbai, Pune and Kolkata.6 "Federation of Associations in Indian Tourism & Hospitality' has also stated that tourism industry would incur loss of worth Rs 10 lakh crore on account of the impact of deadly disease.7

ii) Textile industry

Provided large natural fibre base out of total cotton yarn, approx. 70-75 percent is ingested domestically, balance approx. 25-30 percent is exported to different parts of the world. The series of steps that the government has taken to counter the corona virus has put apparel manufacturers in corner. On one side the sector is failing to comply with its production plan as off-take agreements are almost grind to a halt, on the other side, there is immense pressure to settle their dues. With shopping malls and showrooms remain closed, merchants are not able to make physical sale. However, trying to take help of online platforms but nothing can be assumed with certainty as people are not looking for unnecessary expenditure. With so much happening around estimates from ICRA also indicates that local spinning entities might end up losing revenue of worth USD 2.5-3 billion as well as cotton yarn exports to tumble decade low by around 18-20 per cent to about 750 million kg in 2021.

iii) Trade and Exchange

Covid-19 crisis emanated massive contract revocations due to unrest in supply chain operations and demand. Resulted as drop in merchandise exports by more than 60 per cent in month of april, plummeted from $26.07 billion to $10.36 billion. With the exception of "Iron Ore' and "Drugs & Pharmaceuticals' which showed increase of 17.53% and 0.25% respectively, every other commodity showed decline. Likewise, imports reduced from $41.40 billion reported in 2019 by 58.65 per cent to $17.12 billion. As a result, countries' trade deficit tapered to $6.76 billion from $15.33 billion corresponding period last year. Which in fact is good news but how far we can take it from here, that's more vital. Same is the case with foreign exchange reserve which has soared by \$4.235 billion aggregated to \$485.313 billion till first week of may. Overall picture of trade and forex facts is positive but in backdrop it is not. As major export contribution comes from MSMEs sector which indeed is struggling with production activities that might batter economic growth in long run.

iv) Aviation industry

Indian civil aviation industry has been growing rapidly and is assumed to be the 3rd strongest in the world by 2024. Its domestic air travel rose by 3.74 percent in 2019 compared to 2018, currently contributing \$72 billion to GDP comprising both airlines and their supply chain.8 However,60 days prolonged blackout in course of social isolation, has drained capital for airline companies. Several airlines companies are even entering into bankruptcy mode, as cost of keeping aircraft on ground is insanely high with no addition to treasure. Which in turn hurting staff members, some of them are losing jobs, while other fellows have been asked to continue without emoluments.

v) IT enabled services

Ongoing contagion has compelled sizeable number of people to take a move towards "Digital India' and become techno savvy for fulfilment of different objectives. In order to avoid physical contacts or gatherings they started buying products (essential items) online, even numerous brick and mortar retailers have started taking online orders. Moreover, akin to demonetization, fintech companies are aiming at corona situation to set up milestone trend in the direction of cashless transactions with people avoiding shops, banks or ATMs. Notwithstanding, the count of UPI transactions has gone down from 1.33 billion to 1.25 billion between february and march as consumer spending downcasts.9 In addition, even traditional chalk & dusters are getting substituted by mobile, laptops, tablets. Numerous universities and academic institutions in shutdown have stated offering lectures online, in order to avoid disruption to studies. However, it has its own concern like many students do not even have gadgets or internet access at home, especially in rural areas.

4 Discussion: Vulnerable States and Policies to restructure them

Looking at the economic classification, we would notice that major players in GDP growth are currently battling to strike the right balance between liquid assets and investment funds, likes of Maharashtra, (30,000+ cases) wealthiest state of country is now jeopardizing by Covid-19. Other states in tally of shoddily affected provinces say Tamil Nadu (10108), Gujarat (9.900), Delhi (8895), Rajasthan (4727), Madhya Pradesh (4595), Uttar Pradesh (4057), West Bengal (2461), Andhra Pradesh (2307) as on 15 may 2020. This is a horrible sign for economic growth.Furthermore, if we make endeavour to find out of these states which one would be suffering maximum loss.Since Maharashtra, Gujarat and Tamil Nadu rely heavily on industries and services for their output these would be in most critical condition. Whereas those states which rely on agricultural produce namely Andhra Pradesh, Rajasthan, UP, and West Bengal would possibly be in better position. As primary sector is least affected by fallout it could safeguard their GSDP status.

Further, to tussle against COVID-19 we need a lot of resources for which, both monetary and fiscal instruments needs to complement each other. Fortunately Reserve bank of India has already taken extremely hard actions to minimise the debt servicing burden caused by collapse along with maintaining liquidity in economy such as dues rescheduling, easing working capital finance and dropping repo rates and cash reserve ratios.10 Similarly economic stimulus package of Rs. 20 lakh crores by the Govt. of India focuses on galvanizing flattened graph of economic activities. All these funds would be channelized through few ongoing as well as new schemes such as PM-KISAN Yojana, Pradhan Mantri Jan Dhan Yojana. Additionally States have been allowed to use SDRF together with assignment of Rs 40,000 Crore under MGNREGA to improve the status of migrant workers.Considering the significance of MSMEs Rs 3 lakh crore (highest share in fund) have been allotted for the collateral free credit facility to endow with new start off. Portfolio is exclusive, difficult to cover each and every element but one thing is certain that cash flow release to the destitute will indeed work effectively as a stabilizing agent to tremendously impaired scenario.

However, it might exert extra pressure on RBI to build up credit creations. In addition salvage package largely based on strengthening commercial credit to micro, small and medium-sized enterprises (MSMEs), that has left trivial realm for others.

5 Conclusion

With leaning count of corona cases Indian government has imposed stringent containment policies in the form clampdown to ensure social detachment. In doing so confronted with other issues for instance reduction in output, amplification of unemployment rate in both formal and informal sectors over and above sinking consumption demand. This would certainly widen up hitherto demand-supply gap. Nonetheless, authorities need to make available tailor made course of actions to particular industries for resuscitating scrambling economic growth.

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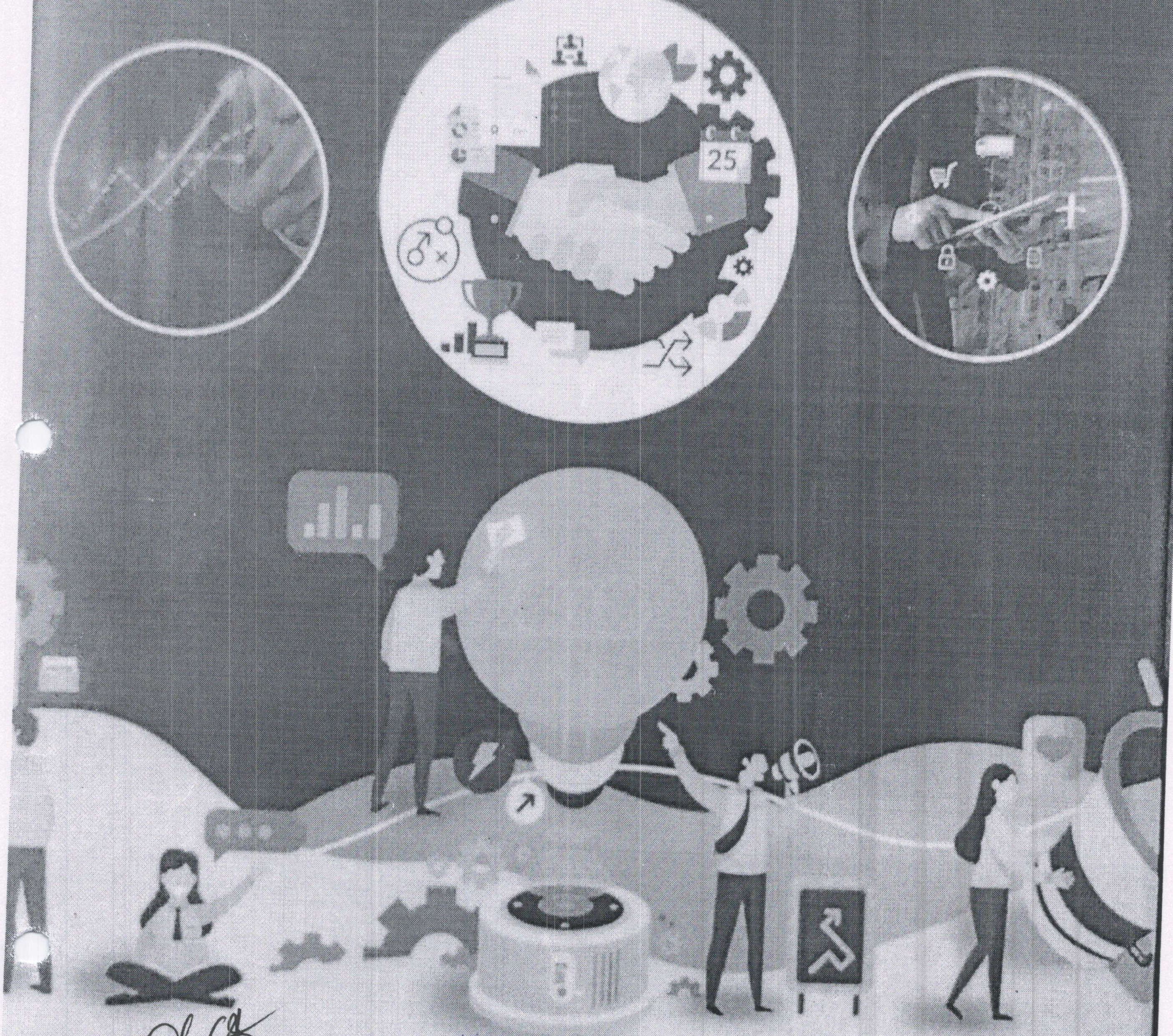

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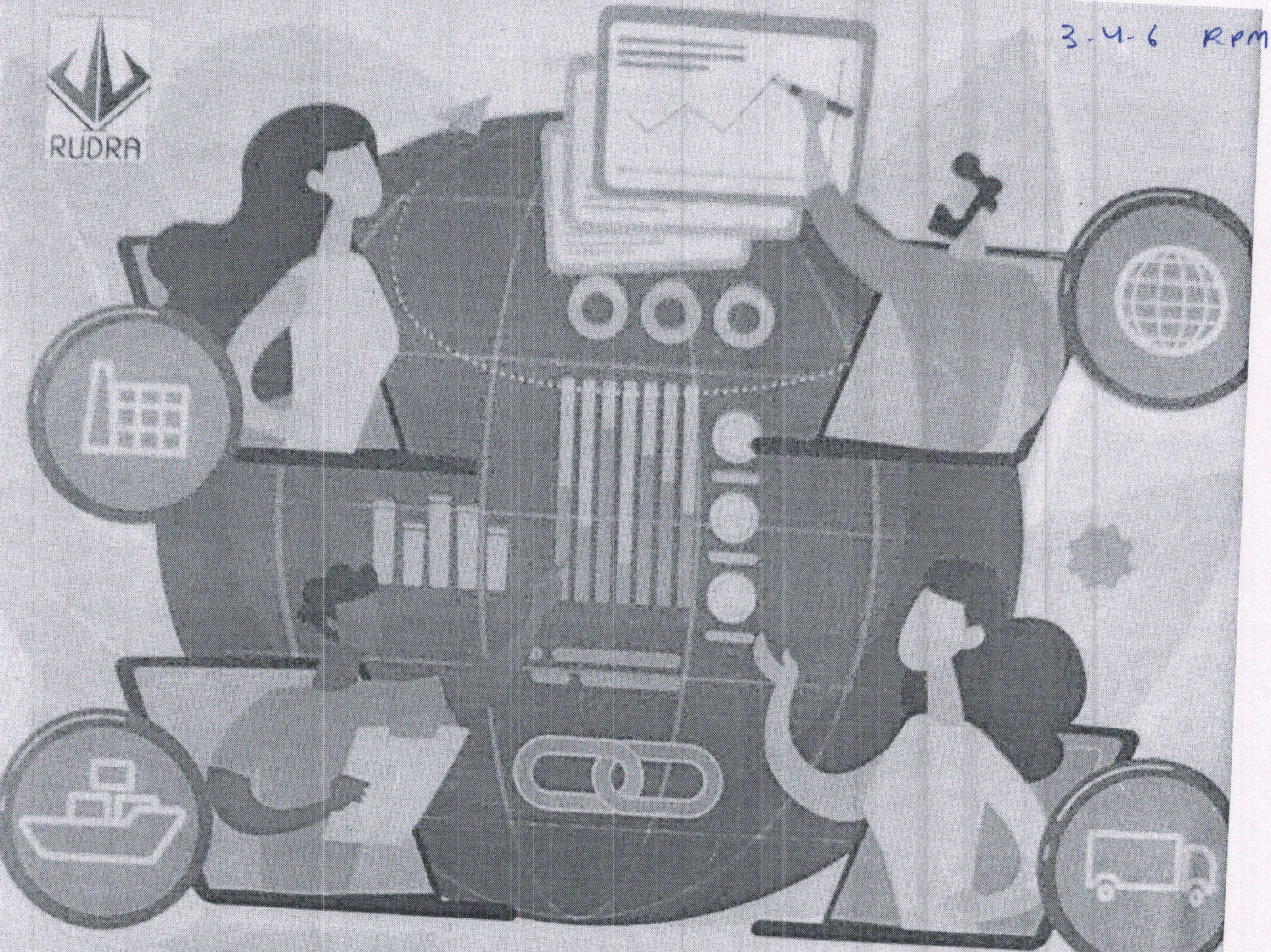

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First Published 2021

ISBN: - 978-93-88361-53-8

Published by

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C-293A, Street No. 3, West Karawal Nagar, New Delhi - 110094

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