Economic Impact

of Coronavirus on Indian Economy

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Economic Impact of Coronavirus

Coronavirus has now spread across various parts of the world and so has the fear and concerns around its damaging impact on human lives and economic health of countries. The new virus which appeared in the Wuhan city of Hubei province of China in early January, has already affected 171,112 people across 145 countries and territories and has caused 6526 deaths in a period of only two months.[1] In the epicentre China, more than 80,000 people have been diagnosed with the disease COVID-19 caused by coronavirus and 3,189 people have succumbed to the disease.

Outside China, the disease has spread to other Asian countries including India, Europe, Middle East and USA. The reported number of infected cases from coronavirus in India has gone up to 114. With each passing day, new cases are getting reported in other parts of the world. Keeping in view the rapid pace at which COVID-19 is spreading and its severity, the World Health Organization (WHO) declared it a global pandemic on March 11, 2020.

Besides loss of human lives, the outbreak of COVID-19 is affecting the world order in several ways. Both demand and supply side elements are getting affected by the outbreak of COVID-19. With fear and panic gripping people at large, lowering their overall confidence level along with government advisories directing people to avoid crowded places and restricting travel, consumption of goods and services especially discretionary items is taking a hit. Tourism and Entertainment are the sectors that are facing the maximum brunt of the present crisis. Greater uncertainty about the future course and repercussion of COVID-19 is also increasing volatility in the financial markets worldwide, leading to huge market crashes and wealth erosion, which in turn is impacting consumption levels adversely. Stock Markets globally has reportedly lost about US$ 5 trillion of wealth during the first week of March alone, as measured by the MSCI all-country index.[2]

On the supply side, shutdown of factories and the resulting delay in supply of goods from China is causing major disruption in the global value chain. The global manufacturing players that source complete products or parts of products from China have been affected the most. Sectors with global supply chain linkages such as automobiles, electronics and chemical products are facing an imminent raw material and component shortage. This has a negative bearing on overall business sentiment and growth of international trade. Both exports and imports of manufactured products are expected to decline. The magnitude of the disruption can be gauged from the data on China's manufacturing sector's performance.

Slowdown in China's Manufacturing Sector

The latest Purchasing Managers' Index (PMI) data shows that there has been a sharp contraction in the manufacturing sector of China in February, which touched 35.7 – the lowest since November 2008 – as against 50 in January.[3] The PMIs of large, medium and small enterprises were 36.3, 35.5 and 34.1, respectively, down 14.1, 14.6 and 14.5 points from the previous month. Within the manufacturing PMI, China's export order sub-index has also dropped to 28.7 in February from 48.7 in January, while imports sub-index fell to 31.9 from 49.0. The non-manufacturing PMI — an indicator of prevailing sentiment in

[1] https://www.worldometers.info/coronavirus/
[2] https://www.nationalheraldindia.com/opinion/coronavirus-may-knock-13-per-cent-off-global-gdp-growth
[3] https://www.nationalheraldindia.com/opinion/coronavirus-may-knock-13-per-cent-off-global-gdp-growth; https://www.financialexpress.com/economy/chinas-loss-indias-gain-indian-exporters-can-tap-these-segments-as-china-reels-under-coronavirus/1885334/

the services and construction sectors — also dropped to 29.6 in February from 54.1 in January, the lowest since November 2011.

Source: National Bureau of Statistics of China

Factories in the most affected parts of China are reportedly working only around 50-75% of their capacity and only the larger factories are working at around 85% capacity. Most workers have not been able to join back work due to travel restrictions and shutdown of factories. This is reflected in the country's employment index that fell by 15.7 points to 31.8 in February, indicating that the employment level of manufacturing enterprises has decreased during the month. Some estimates suggest that the GDP growth of China may go down to as low as 4 -4.5% in March[4], the lowest since the 2008 global financial crisis, while OECD has projected its 2020 growth at just under 5%.

Assessment of Economic Impact on Global Economy

China is the second largest economy in the world with about 17% contribution to world GDP and a major global supplier of products and components to world's leading manufacturing companies. Nearly 20% of global trade in manufacturing intermediate products originates in China, according to UNCTAD.[5] Hence, slowdown in China's economy will surely have an adverse impact on the growth of global economy both directly as well as indirectly through supply chain disruption and subsequent decline in production.

Leading financial institutions and policy think tanks have attempted to estimate the likely economic impact of coronavirus on global economic growth. Many of the analysis have attempted to draw analogy with similar health outbreaks from past like the SARS in 2003 which had resulted in a decline of 0.5% to 1% in China's growth that year and the global economy had suffered a cost of about US$ 40 billion (or 0.1% of global GDP). However, most organisations like the OECD are of the opinion that since the global economy today has become significantly more interconnected as compared to 2003 and since China has assumed a greater role in global output, trade, tourism and commodity markets, the economic impact of China's slowdown on other economies will be more this time.

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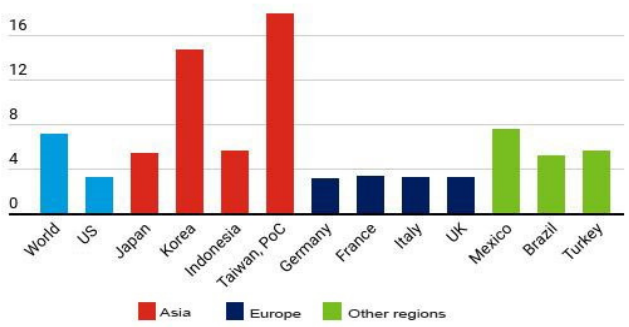
[4] https://www.thehindubusinessline.com/news/world/coronavirus-impact-chinas-growth-rate-may-to-fall-to-4-per-cent-in-march/article30969853.ece

[5] https://unctad.org/en/PublicationsLibrary/ditcinf2020d1.pdf

Key link in global value chains
China is a major supplier of intermediate goods to the rest of the world.

(imports of intermediate goods from China in manufacturing, percent of value added)



Source: IMF staff calculations using 2014 World Input-Output Database.
Note: Taiwan, PoC = Taiwan, Province of China.

INTERNATIONAL MONETARY FUND

Also, the coronavirus could gorge a deeper impact now as the global economy is already going through a slow phase currently including China which is growing at 6%, its lowest growth since 1990.[6] A crisis of this magnitude can therefore translate into a bigger slump for the world economy at this juncture. Apprehensions regarding the present slowdown turning out into recession also cannot be ruled out at this point of time.

UNCTAD Projects Global Growth at 2.5% in 2020

In its Trade and Development Report update, the United Nations Conference for Trade and Development (UNCTAD) has in fact warned that the global economic growth could fall below 2.5% - a level that is often taken as the recessionary threshold for the world economy. A similar projection has also been made by OECD which expects the global economy to grow at 2.4% in 2020. The UNCTAD report also mentions that, a one percentage point drop in growth (from the earlier projected level) can lead to a global income decline of about one trillion dollar, however in case the growth slides to 1.7%, the cost of the virus will be close to 2 trillion dollars.

The UNCTAD has mentioned in its report that the duration and depth of the crisis will depend on three variables: how far and fast the virus spreads, how long it takes to find a vaccine, and how effectively the policy makers mitigate the damage to the physical and economic health and well-being. Also, in case the crisis persists, the recovery will require more sustained and coordinated liquidity injections by Central Banks, more active fiscal policies (where space is available) and efforts to strengthen free trade and foreign investment.

5-15% reduction in Global FDI flows

In the March Investment Trends Monitor report, UNCTAD has predicted that the outbreak and spread of Coronavirus (Covid-19) will negatively affect global foreign direct investment (FDI) flows. Under a

[6] https://www.americanprogress.org/issues/economy/news/2020/03/06/481394/economic-impact-coronavirus-united-states-possible-economic-policy-responses/

range of scenarios of the spread of the epidemic assumed by the UN agency (from short-term stabilization to continuation throughout the year), FDI could be less by 5% to 15% as compared to the previous forecasts made which projected marginal growth in the FDI trend for 2020-2021. The countries that have been most severely affected by the epidemic will see relatively more adverse impact on their FDI flows than other countries.

China's FDI decreased by 8.6% in Jan-Feb

The Ministry of Commerce in China has revealed that FDI into the Chinese mainland has declined by 8.6% year-on-year in the first two months of 2020 due to combined impacts of the coronavirus outbreak and extended Lunar New Year holidays. FDI totalled 134.4 billion yuan (US$ 19.2 billion) for January and February. The year-on-year growth shows that while FDI inflows increased by 4% in January, it dropped by 25.6% in February.[7]

Economic Impact of Covid-19 on the Indian Economy

Indian economy has been going through a severe slowdown before the outbreak of coronavirus. In the third quarter of the current fiscal, the economy grew at a six-year low rate of 4.7%. Investment and consumption demand had been languishing and the government has been putting in all round efforts to bring the economy back to growth. There was a strong hope of recovery in the last quarter of the fiscal. However, the new coronavirus epidemic has made the recovery extremely difficult in the near to medium term. Like other affected economies in the world, India too is experiencing disruptions in many ways which have the potential to derail India's growth story.

Sectoral Impact and Losses

As mentioned earlier, some of the sectors in India that have been directly hit because of the precautionary measures taken by people and government to contain the spread of COVID-19 are Aviation, Tourism, Entertainment and Meat industry. While there has also been a spike in consumption of some of the products like masks and sanitisers as well.

Sectors directly hit due to outbreak of Coronavirus

Aviation – This is apparently one of the worst hit sectors which has been directly impacted by coronavirus outbreak. As the virus spread in different parts of the world, several countries including India imposed restrictions on travellers in an attempt to arrest the spread of coronavirus. In a latest development, India has decided to suspend all existing visas except diplomatic, official, UN/international organisations, employment and project-visa, till April 15, 2020. The new measures will come into effect from 1200 GMT (5:30 pm IST) on March 13. Moreover, Indian nationals have also been advised to avoid all non-essential travel abroad. Such restrictions are adversely affecting both incoming and outgoing leisure and business travel.

According to the data available with the Ministry of Civil Aviation, nearly 585 international flights have been cancelled to-and-from India between February 1 and March 6 because of the outbreak of coronavirus. The sixteen international airlines have cancelled 492 flights and four private Indian airlines have cancelled 93 flights during this period.[8] Airfares have also come under pressure due to

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[7] https://global.chinadaily.com.cn/a/202003/13/WS5e6b5937a31012821727f01d.html

[8] https://www.thehindubusinessline.com/economy/logistics/travel-industry-braces-for-a-8500-crore-hit/article31052202.ece

nearly 30% drop in bookings to virus affected destinations. As a result, airfares to such destinations have fallen by 20-30%.

Domestic traffic growth is also gradually being affected with domestic travellers postponing or cancelling their travel plans. Some companies have reported more than 30% drop in domestic travel this summer compared with last year. Airfare in the popular domestic routes have been reduced by 20-25% and airfares are expected to remain subdued for the summer season as well.

Airlines of all affected countries are facing a difficult time currently. According to the International Air Transport Association, airlines globally can lose in passenger revenues of up to US$ 113 billion, if the Corona Virus continues to spread further, while the losses in passenger revenues would be about US$ 63 billion, if the corona virus does not spread further and is contained at current levels.

Tourism[9] - With large scale cancellation of travel plans by both foreign and domestic tourists, there has been a drop in both inbound and outbound tourism of about 67% and 52%[10] respectively since January to February as compared to the same period last year. Of all the segments of the hospitality sector, the Meetings, Incentives, Conferences and Exhibitions — popularly known as MICE segment — has been hit the most.11 Some of the major international business events have also been cancelled including tech events such Mobile World Congress (MWC), Google I/O, and Facebook's F8 event, which has led to huge economic losses.[12]

The tourism industry expects the situation to further deteriorate in March and in the forthcoming summer season i.e. April-June. Usually, the number of Indian travellers to both domestic and international destinations peak during the months of March and April. However, this time around nearly 90% bookings of hotel and flights for the peak time have been cancelled. Cruise bookings for destinations such as Thailand, Singapore and Malaysia have also been cancelled by travellers in huge numbers. According to the Indian Association of Tour Operators (IATO), the hotel, aviation and travel sector together may incur loss of about Rs 8,500 crore due to travel restrictions imposed on foreign tourists by India for a month. This is also expected to have a negative impact on jobs in the industry.

Meat/Seafood – There has been a sharp decline in demand for non-vegetarian items such as meat and seafood amid fear among consumers about the possibility of coronavirus being spread by chicken meat. As per the estimates, sales in some of the areas have dropped by as much as 80% and measures taken by the industry to revive the demand has not helped so far. Consequently, there has been an equivalent drop in prices of meat. While wholesale price of chicken has decreased by 70%, income of farmers has reportedly come down from Rs 80 (US$1) to just Rs 35 (US$0.47) per bird. The Indian poultry industry as a whole is estimated to be incurring losses of around Rs 1100 crore every week (or about Rs 160 crore everyday), of which about Rs 200 crore is due to fall in prices of egg and Rs 900 crore on account of lower prices of birds and reduced sales.

Entertainment/Sports – In some parts of the country like Kerala, Jammu and Kashmir, Delhi, Karnataka and Mumbai, cinema theatres, shopping malls and gyms have been closed till March 31,

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[9] https://www.indiatoday.in/india/story/indian-travel-industry-suffers-losses-as-high-as-rs-200-crore-due-to-coronavirus-outbreak-1651733-2020-03-02
[10] https://www.thehindubusinessline.com/economy/tourism-industry-stares-at-300-m-loss/article31025324.ece#
[11] https://www.thehindubusinessline.com/economy/tourism-industry-stares-at-300-m-loss/article31025324.ece
[12] https://gadgets.ndtv.com/mobiles/news/mwc-cancellation-facebook-f8-google-event-caused-half-billion-direct-loss-2189821

2020 to stop the spread of the virus. While exact loss is difficult to calculate presently, but some estimates suggest that theatres in Delhi alone may have to incur a loss of Rs 2 - Rs 10 lakh[13] within a period of 10 days. The announcement has also adversely impacted the television and film industry. While shootings have been suspended and promotional events have been put on hold, it has also affected release of new movies. Several sport events have been either postponed or cancelled, and this brings huge losses for the sports industry. For instance, cancellation of IPL matches alone could mean a loss of Rs 10,000 crore for the industry.

Sectors affected due to Supply Chain Disruption

Supply chain disruption has also affected several of Indian industries over the past couple of months as raw material and component supply from China started declining due to shutdown of factories in the country after the outbreak of coronavirus. India imports about 18% of its total merchandise requirement from China. Imports from China totalled US$ 90.39 billion in 2018-19.[14] The sectors such as pharmaceuticals, electronics, consumer durables and automobiles have been hit the most due to their heavy dependence on China for inputs and other accessories. Apprehensions of short supply of raw materials and therefore likely shortage of final products have also led to rise in some of the input and product prices in India.

Pharmaceuticals[15] **–** India imports about 85% of its total requirement of active pharmaceutical ingredients (APIs) from China, according to the Trade Promotion Council of India. In 2018-19, around 67% of total imports of bulk drugs and drug intermediates were sourced from China. As per the records of Pharmexcil, out of the total 58 molecules that are imported from China, 12 are imported from the Hubei province which is the epicentre of coronavirus. With the situation still remaining critical in China particularly in Wuhan, supply disruptions from China is likely to continue for several weeks more.

Amidst uncertainty over future supply of bulk drugs and intermediaries from China, the possibility of a shortage in availability of medicines in India has led to increase in prices of some items like paracetamol which has seen a price hike of about 40%. The scenario has put negative pressure on some raw material items as well like the price of Penicillin G, a key raw material used in antibiotics has reportedly gone up by about 58%.

A committee has been formed by the Department of Pharmaceuticals to regularly review the availability of stocks of API. The drug regulatory authority has reported to the government that the stock of 57 APIs (amoxicillin, ofloxacin, vitamin tablets and capsules such as B12, B1, B6) could soon run out. In case the supply disruptions continue, it could affect pharma production levels adversely. The government has restricted exports of certain medicines to deal with the situation.[16]

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[13] https://economictimes.indiatimes.com/industry/media/entertainment/coronavirus-indian-entertainment-industry-stares-at-losses/articleshow/74615854.cms
[14] https://economictimes.indiatimes.com/small-biz/sme-sector/trade-in-the-time-of-coronavirus-sectors-overdependent-on-chinese-imports-face-a-grim-reality/articleshow/74312184.cms?from=mdr
[15] https://economictimes.indiatimes.com/small-biz/sme-sector/trade-in-the-time-of-coronavirus-sectors-overdependent-on-chinese-imports-face-a-grim-reality/articleshow/74312184.cms?from=mdr
[16] https://www.forbes.com/sites/krnkashyap/2020/03/04/indias-economy-feels-the-pain-of-the-coronavirus-outbreak-in-neighboring-china/#6b6bec54d7cc

As a short-term solution to the problem, experts have also suggested to consider increasing the capacity utilisation level of existing pharmaceutical manufacturing plants, which runs at a lower 30-40% capacity as against 75% of China.

Automobiles[17] - China accounts for 27% of India's automotive part imports and major global auto part makers such as Robert Bosch GmbH, Valeo AS and ZF Friedrichshafen AG have factories located in the Hubei province. Owing to the closure of the factories of these companies, there has reportedly been a delay in the production and delivery of vehicles like Bharat Stage Four (BS-IV) compliant models. These models can now be produced and sold until the end of March this year, according to a Forbes article.

Moreover, the situation has become more precarious after the decision of the Chinese government to suspend all shipments by sea until further notice. Since air shipments are not suitable for Auto Components and forging industries, the Indian OEMs are finding it difficult to plan production beyond the available inventory. According to a report released by the Fitch Solutions recently, vehicle production in India is likely to contract by 8.3% in 2020 following an estimated 13.2% decline in 2019. Covid-19 will also make the transition to Bharat Stage Six (BS VI) emission norms difficult which is schedule from 1st of April 2020

Uncertainty surrounding the coronavirus has also impacted the demand for vehicles as consumers have been postponing their vehicle purchase decisions. The Federation of Automobile Dealers Association (FADA) has expressed concern over the availability of BS-VI vehicles which has been impacted due to COVID-19 situation in China. This has made the transition difficult for the sector and hence the March outlook is negative.

Mobile Phones[18] - Most of the components for mobile manufacturing is sourced from China. With continued shutdown of factories in China, mobile manufacturing companies are also facing a fate similar to that of pharma and auto companies. Short supply of components led to a rise in prices of mobile parts, which in turn resulted in increase in the prices of mobiles. Companies have also been forced to postpone launch of new variants of mobile. India Cellular & Electronics Association estimates suggest that mobile phone manufacturers could see a production impact worth Rs. 6,000 crore during March and April due to the disruption in the supply chain.

Solar Panels – India imports nearly 80% of its solar cells requirement from China. Indian players are facing uncertainly regarding the supply of solar panels from China, though there are reports that production of solar panels have started in China. Any delay in supply of solar panels beyond the available inventory with the manufacturers will increase their risk of missing production deadlines and hence they may have to face fines and penalties.

Consumer Durables & Electronics – India imports 45% completely built units of consumer durables from China. In addition. In addition to finished products, India also import nearly 70% of the components for television, and other consumer durable products such as air conditioners, refrigerators, and washing machines. Due to supply disruption, sales of these items are likely to be

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[17] https://www.businesstoday.in/sectors/auto/another-blow-to-indias-auto-sector-this-time-due-to-coronavirus/story/397125.html
https://www.pharmaceutical-technology.com/features/coronavirus-affected-countries-india-measures-impact-pharma-economy/
[18] https://www.thehindubusinessline.com/economy/electronics-industry-fears-supply-disruptions-production-cuts-price-rise-due-to-coronavirus/article30807445.ece

hampered. Also, Chinese suppliers have reportedly increase the prices of some components by more than 2%, and prices of TV panels by more than 15%.[19] Hence, it is anticipated that prices of these consumer durable items will see a price increase in the range of 3-5%.

Transport/Construction/Chemicals/Machinery[20] – Other manufacturing sectors like transport, construction and chemical manufacturing are also feeling the pinch of input supply disruption from China. In 2018-19, products like iron, steel, and inorganic chemicals accounted for 26% of India's total imports. About 11% of India's iron and steel imports is sourced from China, while South Korea which is the largest source of imports for India in turn source 20% of its requirement from China. Hence this would impact India's imports of these items, mentions a report released by ICICI Securities. The report further highlights that the impact on import of inorganic chemicals will be moderate as India imports 15% of its inorganic chemicals from China. Other items which will be affected are electrical machinery, machinery and mechanical appliances, organic chemicals, plastics and optical and surgical instruments that together account for 28% of India's import basket.

Impact of Coronavirus on India's Trade

India not only imports a range of intermediate and finished products from China, but the country is a major market for many Indian products like sea food, petrochemicals, gems and jewellery etc. as well India exported products worth US$ 16.4 billion to China in 2018-19.[21] However, the outbreak of coronavirus has adversely impacted exports of major items to China. According to the president of the Kerala Fishermen United Front, the fisheries sector is likely to incur a loss of more than Rs 1,300 crore due to fall in exports. In 2018-19, India exported marine products worth Rs 5,673 crore to China in 2018-19. Similarly, India exports 36% of its diamonds to China. The cancellation of four major trade events between February and April is anticipated to cause an estimated loss of Rs 8,000-10,000 crore in terms of business opportunity for Jaipur alone.[22] India also exports 34% of its petrochemicals to China. Due to exports restrictions to China, petrochemical products are expected to see a price reduction. India's exports are also likely to be impacted as its major export destinations including countries in the European Union, the US and some Asian countries now having badly affected by the coronavirus. About half of Indian exports by value is supplied to Asian countries, and another around 18-19% each is supplied to European countries and to North America, respectively.[23]

India's trade impact due to coronavirus outbreak is estimated to be about US$ 348 million by UNCTAD. India appears among the top 15 countries which are most affected as a result of manufacturing slowdown in China that is disrupting world trade. The trade impact for India is less as compared to other economies such as EU, the US, Japan and South Korea. For India, the overall trade impact is estimated to be the most for the chemicals sector at 129 million dollars, textiles and apparel at 64 million dollars, automotive sector at 34 million dollars, electrical machinery at 12 million dollars, leather products at 13 million dollars, metals and metal products at 27 million dollars and wood

[19] https://www.forbes.com/sites/krnkashyap/2020/03/04/indias-economy-feels-the-pain-of-the-coronavirus-outbreak-in-neighboring-china/#6b6bec54d7cc
[20] https://www.businesstoday.in/latest/trends/coronavirus-impact-transport-construction-likely-to-be-worst-hit/story/398296.html; https://economictimes.indiatimes.com/news/economy/foreign-trade/coronavirus-construction-transport-chemical-manufacturing-likely-to-be-worst-affected-says-report/articleshow/74635122.cms?from=mdr
[21] https://wits.worldbank.org/countrysnapshot/en/IND/textview
[22] https://www.indiatoday.in/magazine/the-big-story/story/20200323-an-economic-coronary-1654645-2020-03-13
[23] http://www.worldstopexports.com/indias-top-import-partners/

products and furniture at 15 million dollars. As per UNCTAD estimates, exports across global value chains could decrease by US$ 50 billion during the year in case there is a 2% reduction in China's exports of intermediate inputs.

Impact of Coronavirus on Indian Financial Markets

The COVID-19 epidemic has also significantly impacted the financial markets of not only India but across the word. As the coronavirus started spreading out of China to other countries including the US and Europe, the markets worldwide started crumbling reflecting the sombre mood of the equity investors. The markets witnessed the biggest fall on March 12, when both the Asian and the US equity markets crashed after the World Health Organization declared the new coronavirus a pandemic which intensified the fear of a probable global economic recession. The markets also reacted to the decision of the US president to suspend all travel from Europe, excluding the UK, to the US for the next 30 days to stop the spread of the virus.

The Dow Jones Industrial Average, the S&P 500 and the Nasdaq Composite fell by about 5.9%, 4.9% 4.7%, respectively. This triggered a fall in the Asian and other equity markets. Market in Tokyo dropped more than 5%, while Hong Kong, Sydney, Seoul, Wellington, Taipei, Jakarta and Manila all fell by more than 4%.

Following the trend of the global equity markets, the domestic equity markets, both BSE Sensex and NSE Nifty crashed by more than 8% in a single day. The 30-share index BSE Sensex dropped over 2,919 points – its biggest one-day fall in absolute terms – and settled at 32,778. The 50-share index NSE Nifty also dropped by 868 points to close at 9,590. An estimated Rs 10 lakh crore of market cap has reportedly been wiped off due to this single day fall. Both indices have come down nearly 23% from their peak levels in January. According to a Business Today report, the investors have lost more than Rs 33 lakh crore over a one-month period since February 12, during which the BSE Sensex has lost 8787 points while NSE Nifty has lost 2445 points. Market experts expect the equity markets to remain volatile in the future as well.

India's Growth Projections by Leading Agencies

Keeping in view the negative impact of coronavirus on the Indian economy, growth projections for the country has been revised down by most multilateral agencies and credit rating firms.

***ADB*[24] -** ADB has estimated that global GDP could reduce by 0.1-0.4% due to COVID 19, and the global financial losses could reach between US$ 77 billion and US$ 347 billion. It has further stated that COVID-19 outbreak could cost the Indian economy alone between US$ 387 million and US$ 29.9 billion in personal consumption losses. The projections have been made by ADB under four different scenarios: best-case, moderate-case, worse-case and a hypothetical worst-case. Under the best-case scenario if the outbreak is contained and the precautionary measures are put on halt after two months from late January, the impact on India will be limited to about US$ US$ 387 million worth of decline in retail sales. Similarly, in a moderate case, the losses will be about US$ 640 million while in a worse case scenario when the precautionary measures continue for six months, personal consumption expenditure in India can decline by US$ 1.2 billion.

[24] https://www.livemint.com/news/india/coronavirus-outbreak-in-india-could-cost-the-economy-29-9-billion-adb-11583480504316.html

OECD[25] **-** As against the forecast made in November 2019, OECD has revised down India's growth forecast by 110 basis points to 5.1% for 2020-21 and by 80 bps to 5.6% for 2021-22. OECD has also warned that global growth in 2020 could come down by 50 bps as compared to what was projected in November last year, due to the adverse impact of the Covid-19 outbreak on business confidence, financial markets, travel sector and disruption to supply chains.

Fitch Ratings[26] - Fitch has also cut its forecast for India's economic growth to 4.9% for 2019-20 from 5.1% projected earlier, as it expects weak domestic demand and supply chain disruptions due to the coronavirus outbreak to affect the manufacturing activities adversely. The international rating agency is also of the view that disruption in the automotive and electronics supply chain from the ongoing Covid-19 outbreak in China would weigh on India's export manufacturing sector, and this will in turn have a negative effect on the broad services sector as well. For 2020-21, Fitch expects a slight recovery in growth to 5.4% which is also lower than its earlier forecast of 5.9%

Moodys[27] - Moody's Investors Service has also revised down its growth forecast for India to 5.3% for 2020 from its earlier estimate of 5.4% made in February, while for the G20 economies, the growth forecast has been reduced by 0.3 percentage point lower than the previous projections to 2.1%. Like other organisations, Moodys has also undertaken a revision in their projections on the basis of the negative impact of the outbreak of coronavirus on domestic global demand and economic activity. The global rating agency feels that though the virus may steadily be contained, the global economic activity will still be affected in the second quarter of the current year as well as a result of the outbreak. Travel restrictions, supply chain disruptions, subdued consumption and investment levels and low prices of oil and other commodities will continue to negatively impact global growth, according to Moody's.

Policy Prescription for Minimising Economic Impact

With the economic impact of coronavirus now evident in India as well as other affected countries, policy makers are attempting to deal with the situation by taking appropriate fiscal, monetary and financial market measures which could minimise the economic impact of the outbreak induced problems. In a blog post published by IMF chief economist Gita Gopinath, she has shared her suggestions for the policymakers.

- Gita Gopinath has suggested that monetary incentives should be provided to households and businesses that are hit by supply disruptions and a drop in demand. Monetary incentives could be given in the form of cash transfers, wage subsidies, and tax relief, with a view to help people meet their needs and manage businesses. She has provided examples of countries like Italy, Korea and China which have adopted such measures:
    - Italy has extended tax deadlines for companies in affected areas and broadened the wage supplementation fund to provide income support to laid-off workers.
    - Korea has introduced wage subsidies for small merchants and increased allowances for homecare and job seekers

[25] https://www.livemint.com/news/india/india-s-growth-could-be-the-next-casualty-of-the-coronavirus-outbreak-11583175486263.html
[26] https://www.financialexpress.com/economy/growth-pangs-fitch-cuts-indias-fy20-gdp-growth-forecast-check-revised-estimate/1886220/
[27] https://economictimes.indiatimes.com/news/economy/indicators/coronavirus-moodys-cuts-india-growth-forecast-to-5-3-for-2020-on-dampened-domestic-demand/articleshow/74551392.cms

- China has temporarily waived social security contributions for businesses.

- The IMF Chief economist has also suggested that ample liquidity should be provided to banks and nonbank finance companies by the Central Banks, to facilitate easy lending specially to small- and medium-sized enterprises. Temporary and targeted credit guarantees can also be offered by the Government for the near-term liquidity needs of the SMEs. Extension of loan maturities can also be extended in a temporary and time bound manner.
  - For example, Korea has expanded lending for business operations and loan guarantees for affected small- and medium-sized enterprises.

- Monetary stimulus such as policy rate cuts or asset purchases have been suggested as ways which can be adopted to lift business confidence and support financial markets. She has recommended implementation of broad-based fiscal stimulus to push up the aggregate demand.

Measures taken by World's Leading Economies

US

- US Federal Reserve has cut interest rates by half a percentage point in its first emergency rate move since the 2008 financial crisis and today it has reduced it to zero.
- The US House of Representatives approved a US$ 8.3 billion bill to combat the spread of the new coronavirus and develop vaccines for the highly contagious disease. The proposal has been sent to the Senate for final passage.

Japan

- Japan has declared a second package of measures worth about US$ 4 billion in spending to deal with the impact of the coronavirus outbreak. The stimulus will be used for supporting small and mid-sized firms. To help fund the package, the government will tap the budget reserve of the fiscal year.

Italy

- The Italian government has announced a stimulus package worth about US$ 28 billion to help economy to tide over the present crisis. The package will be used for helping workers facing temporary layoffs, boosting a guarantee fund for loans to small- and medium-sized companies, compensation for firms whose turnover has plunged more than 25% and some form of moratorium for business and personal mortgage repayments.
- Payments on mortgage has been suspended across Italy as part of measures to soften the economic blow of coronavirus on households.

UK

- The UK banks have started offering mortgage holidays for customers affected by coronavirus.

Germany

- The government has decided to ease the rules that govern compensation for workers forced to cut working hours because of the crisis. The relaxed criteria will apply from April and will be valid up to the end of the year.

- The government is also planning to draw up proposals on offering liquidity support for companies hardest hit by the impact of the outbreak.

Greece[28]

- The government has announced the first set of economic measures to counter the novel coronavirus effects. The package includes additional expenditure for the health system and the suspension of VAT and social security contributions for four months in order to support businesses and regions, where the state introduces freezing of economic activity for more than 10 days.

Policy Suggestions for India

While many things have been going wrong for the Indian economy over the past two months, there are a few opportunities that have also emerged out of this crisis which India should utilise appropriately to strengthen both its short term as well as long term position in the world.

Opportunities for India

- ***Decline in crude oil prices – a silver lining for the Indian economy***

The most immediate opportunity has come in the way of sliding crude oil prices for India. Oil prices dropped by about 50% since mid-January from around US$ 59 per barrel on February 20-21 to less than US$ 34 per barrel on March 11.[29] However, the downward trend in the crude oil prices has been triggered primarily as a fallout of coronavirus attack as it led to decline in China's demand for oil; China is the world's largest importer of oil and due to shutdown of factories in the country its demand for oil has remained low. Moreover, manufacturing activity in other countries have also been affected and as a result demand for oil as a whole has come down. Therefore, a reverse trend in oil prices is expected once the outbreak is contained. Saudi Arabia's price war against Russia though has also been a second factor that has led to a drop in oil prices which too may cease to exist as the two nations arrive at an agreement.

Lower crude prices however can help India reduce its import bill significantly as India imports nearly 85% of its oil requirements. This will provide government enough room to save money which can be used for pushing up government expenditure and arrest the slowdown in the economy. It also provides the government an opportunity to boost revenue by keeping the petrol prices at pre-crash level by way of increasing the excise duties on petrol and diesel; the excise duty on petrol has been raised by Rs 3 per litre recently. The government however will have to be mindful of the effect on inflation of this move.

- ***Opportunity for the Manufacturing Sector***

The coronavirus outbreak has exposed the heavy dependence of the global manufacturing companies including Indian firms on China for their requirement of intermediates and final products. As economies strongly realise this reality, there is likely to be an attempt to diversify the source of imports in both the short term to mitigate the current shortage of materials due to supply disruption from

[28] https://www.globaltimes.cn/content/1182100.shtml
[29] https://www.indiatoday.in/news-analysis/story/biggest-cut-in-oil-prices-since-1991-will-your-fuel-bill-crash-1654805-2020-03-12

China, and also in the long term to lower the overall dependency on China. This offers Indian manufacturers an opportunity to fill the gap created by China. Reports suggest that Indian manufacturers have been approached by producers in the EU and the US for products like textiles, homeware, ceramic tiles, engineering goods, furniture, etc. India should consider increasing its production capacity currently to meet the immediate global demand for products and make efforts to further strengthen the domestic industries under the 'Make in India' initiative and improve their competitiveness which will enable Indian companies to garner a larger share of the global market going forward. This is also the time when India should explore new export markets and look out new destinations to procure raw materials and lower its own dependence on Chinese imports.

Key Policy Suggestions

At this backdrop, suitable policies are needed to address the present crisis as well as utilise the emerging opportunities in the best manner:

Monetary Policy Suggestions

- Given that inflation is likely to come down mainly due to lowering of fuel prices, the RBI may consider a minimum 50 basis point cut in the repo rate in its April Meeting. (Many banks have already reduced rates - US Fed, Bank of England, PB of China, Central Banks of Malaysia, Australia & Canada)
- Certain adversely affected sectors should be targeted by RBI for further regulatory reprieve to reduce cost of funds: especially pharma, automobiles, consumer durables and other sectors. These could be time-bound measures with a time period of 3 -6 months.
- More funding for MSME should be considered by increasing assets of Mudra Bank and other banks focused on the MSME sector.
- Soft loans can be extended to businesses

Fiscal Policy Suggestions

- Substantial increases in public health spend is needed to ensure adequate supplies to deal with COVID-19: masks, gloves, medical kits for the health workers, medicine, health centres, more hospitals etc.
- Cash transfer programs for farmers and poor citizens should be introduced (these could be done through BPL ration cards in the beginning)
- Tax credits be provided to companies which have experienced sharp drop in revenues
- Defer tax payments without interest or penalties for certain businesses and individuals
- Subsidized short-term employment schemes can be introduced
- Increase public spend on infrastructure to enhance demand for major industries.
- Finally, further tax simplification especially of GST for MSME, exporters etc could be accelerated.
- The tourism sector could need some special attention - especially as global travel gets affected.

Other Suggestions

- This may also be a huge opportunity to enhance " Make in India" as imports are affected in many areas.
- Ensure supplies of basic food items through fair price shops
- Plan for closure of schools, colleges, government offices (while ensuring essential services) - enhance capacity for remote learning and diagnostics.

- Build oil reserves by taking advantage of oil price drop internationally; borrowing cheaply externally for this by ONGC and other major PSU's could also be considered.
- Together with industry, identify major sectors affected by links to global supply chains - especially auto, telecom and pharma and help build alternate options with support to relevant sectors.