

CORONA EPIDEMIC – IMPACTS, OPPORTUNITIES AND METHODS TO SURMOUNT

2020 the year which flabbergasted the world. COVID 19 that originated in China has been the cause of this tumult the world over. It's a pandemic that has engulfed almost the whole world now and shows no signs of abating or peaking even as we write this. The whole economy activity has come to a virtual standstill as almost all countries have been forced to seal their borders, businesses to put their shutters down and citizens to stay caged at homes. The major economies have been the worst impacted as leadership and the governments have been caught almost unawares by the enormity and the speed with which this pandemic has hit the populace in Europe and in USA. India has managed well thus far as we have been proactive in sealing our borders and enforcing a nationwide lockdown. But still India being heavily populated with density of 464 P/KM² is perilously placed to be affected by this epidemic significantly.

According to the *former RBI Governor Dr. Raghuram Rajan, COVID -19 crisis can be the biggest economic challenge for India post-Independence but there is no reason to despair also as with right resolve and priorities, and drawing on India's many natural strength, it can surely overcome this challenge and in fact use this as an opportunity to claim its rightful place in the Global Economic Order.*

Where India is standing in this ongoing pandemic ?

As mentioned above India has managed well so far and the Covid cases have been confined to a few thousand cases only as compared to huge cases in places like Italy, Spain and USA where Lacs have been found positive. As we learned quickly from the mistakes of other Nations, Our Govt took proactive steps like sealing the borders and disallowing people to fly in from affected countries like China, Italy and other Euro nations. Nationwide lockdown of 21 days was also put into place to break the chain of virus spread. Lockdown is a first bit very significant step, which buys government time to improve its preparedness to:

1. Identify infected people,
2. Track people they socialised with,
3. Quarantine them,
4. Treat them in isolation,
5. Spread Awareness in public.
6. Prepare Healthcare workers
7. Procure requisite quantities of Safety equipments like PPE, Masks etc as also medical emergency equipments like Ventilators.

These actions are to be done at mass level for which lots of time and human efforts are required but with no options available speed is

to be increased by manifold else outcome of Indian medical crisis and economic crisis, both will fall on face.

Where India stands Economically?

The global subprime crisis in 2008-09 was a massive demand shock, but our workers could still go to work, manufacturing was on, businesses were running, our financial system was largely sound, our government finances were healthy and most importantly people were not medically challenged by his virus like they are today. Now we have a healthcare crisis that is also turning out to be a grave economic crisis. In GFC of 2008 the damage was quantifiable and thus could be remedied once the quantum was known but now world is still grappling with the damage count and yet none is wiser as to how much or till when this crisis could get over. In India too the economic activity has come to a standstill as Govt does its best to ensure that no one dies of hunger as also to put its best foot forward healthcare wise.

The Immediate Worries

- The challenge of taking care of standing crop,
- Potential shortage of non-cereal foods.
- Daily-wage earners will suddenly fall into poverty.
- Self-employed and service providers will have no income.
- Job Loss and salary deductions.

- Meltdown in financial sector due to virtual halt in economic activity.

Shocks to the Economy

India been taken by surprise by the virus will now definitely expose underlying economic weaknesses. Considering the magnitude of this crisis, straight negative impact on public health is obtrusive but shocks on the demand and supply, employment, business operations, cross border businesses will be inevitably bad.

Supply Chain: To safeguard from spreading of virus at community level social distancing was required, this necessary action led to shut down of production facilities resulting in disrupted national supply chains.

Demand: Demand has suddenly collapsed in discretionary spending as people are locked up at home. Places like Restaurants, Malls, Airports, sporting arenas have been shut and that has meant almost no activity in sectors like Hotels, Tourism, entertainment and Restaurants.

Cross Border Business: All Global trade activities have been adversely hit due to some necessary sealing of borders. Restrictions have been imposed to most items to be imported and exported as only essential items like medicines , healthcare essentials are being allowed on a special basis.

Most importantly Decisions taken by China including suspending the production of API has disrupted the production of generic drugs in India, which in turn disrupts the export potential of certain drugs.

Employment: A sharp decline in employment is expected to be seen consequent to voluminous losses to business. As per survey done by Mercer India there will be 7% reduction in existing headcounts and 64% decline in new hiring.

Behavioral Changes: Consumer behavior is expected to be changed drastically pursuant to multiple factors viz. reduction in buying power, avoidance of physical contact, shifting to remote working, increase in inclination toward digital, education, health and entertainment, avoidance of social gatherings like marriages and corporate events. This will lead to increased opportunities for cloud data and cyber security companies.

Changes have Impacts also, so what are they ?

Structural changes will lead to variable impacts in short as well as in long term on different industries.

Positive Impact:

- **E-Commerce: Due** to avoidance of social contact people will shop more online.
- **Logistics** (Last mile delivery): People will prefer things come to them.
- **Personal Hygiene: Increased awareness and** Basic precaution to avoid being contaminated,
- **Pharmaceuticals:** More demand for medicines,
- **Interior Designers:** Requirement of developing work from home setup infrastructure which promotes social distancing,
- **Agro related Industry:** Price sensitivity could lead to better returns
- **Local tourism:** Avoidance of cross border will shift to local tourist spots to spend vacations,
- **E-sports:** Physical sports will not vanish but we can't ignore the already growing trend of e-sports.
- **Packaging:** Requirement of better packing or even alternate packaging solutions to ensure non-contamination in transit.
- **Cloud data and cyber security:** As the businesses are getting run by executives sitting at home, there is higher probability of shifting of mind set and "Work From Home" can be the new normal way of working, may be not for always but definitely for a long period. Considering happening of this event there will be increased opportunities
- **Information Technology:** Increased need of digital platforms to transact, work, shop, advisory and education,

for cloud data, increased usage of Data and cyber security companies.

Negative Impacts

On the other side international Tourism and forex business, Aviation, Hospitality, fast food chains, Sports events, multiplexes, Real estate and Infrastructure, Micro finance Businesses, shopping malls are expected to be affected in short to medium term though degree of impact may vary across sectors.

Indirect Impacts

Boost to Digital Platforms : History gives the best foundation to any forecasting. Around 2002 SARS (Severe acute respiratory syndrome) appeared in China and primary measure taken by people and government was social distancing, which led to adoption of online shopping accelerating growth of “Alibaba – e-commerce site” and emergence of e-education trend. This gave massive boom to digital platforms in China. Now, in 18 years we have already shifted towards digital platforms but definitely there will be a voluminous shift to digital platforms for running operations by Entrepreneurs, Governments, Hospitals and other spheres of life. Thus in long term we can see more technology being infused in many vital aspects of life to reduce Human intervention.

Impact of Volatile Oil prices: Oil was, is and will be a crucial economic factor for India. Thanks to price wars crude oil prices have been falling in the international markets. India stands to benefit if it moves swiftly and smartly to lock in supplies for future at current prices. It can use this global benefit to fund part of its costs that would occur due to economic shutdown on account of Covid 19.

Interest Rates : As the Central Bank has reduced Repo rates to 4.40%, the Enterprises may see a marginal improvement in Margins and end user could see a jump in disposable income.

Impact on SME Companies: The liquidity crunch will again test the formulae of survival of the fittest especially for SMEs. It seems tougher for them to re-calibrate with the earlier cycle which might result in higher Insolvency cases and higher hostile Acquisitions. Capital Fund raising will still be a challenge but reduced Interest rates could be savior for them.

New Business Avenues: It will be the primary and basic requirement and a very smart move by entrepreneurs to focus on cost reduction. There are many ways to do that but one of such ways will result in business opportunities for other service providers. What is that ? The entrepreneurs will move from Fixed cost to variable cost, i.e. instead of investing and spending on developing own facilities they will

do outsourcing, which leads to opening of new avenues for businesses.

What is required to be done now?

Of course we cannot keep the country lockdown entirely until we defeat corona. Prolonged period of lockdown will devastate the Indian Economy. Starting of business operations is must, but so is safeguard from contamination, for which we can restart certain activities in areas which are not affected by the virus. Business owners shall be advised, guided and monitored to re-start with appropriate precautions to stop spreading of virus.

People are for now running on their savings but that will not last for long. So the government needs to step up and make sure the poor and non-salaried lower middle class who are prevented from working for longer periods can survive, which the Govt has done to certain extent for the poorest of poors. But, it needs to do more and for more segments of the society.

Our limited fiscal resources are certainly a worry. However, spending on the needy at this time is a high priority use of resources, the right thing to do as a humane nation, as well as a contributor to the fight against the virus. This does not mean that we can ignore our budgetary constraints, especially given that our revenues will also be severely affected this year. So we have to prioritize, cutting back or delaying less important

Policy options

Policies in support of households, businesses, and the financial sector involve a mix of liquidity and solvency measures.

	LIQUIDITY	SOLVENCY
HOUSEHOLDS	Suspension of mortgage payments, student loans	Cash transfers
	Tax and social security contribution deferrals	Unemployment insurance Meal vouchers for students who are away from school
BUSINESSES	Extension of loan maturities	Equity injections
	Tax and social security contribution deferrals	Subsidies for maintaining employment
	Purchase of commercial paper and bonds	Direct subsidies based on past sales (tax based)
	Direct credit provisions by central bank	
	Credit guarantees	
FINANCIAL SECTOR	Liquidity provision for financial intermediaries	Equity injections
	Actions to preserve market liquidity	Government guarantees

expenditures, while refocusing on immediate needs. At the same time, to reassure investors, the government could express its commitment to return to fiscal rectitude, backing up its intent by accepting the setting up of an independent fiscal council and setting a medium term debt target.



Many small and medium enterprises (SME), already weakened over the last few years, may not have the resources to survive. *SIDBI can make the terms of its credit guarantee of bank loans to SMEs even more favorable*, but banks are unlikely to want to take on much more credit risk at this point. The government could accept responsibility for the first loss in incremental bank loans made to an SME, up to the quantum of income taxes paid by the SME in the past year. This recognizes the likely future contribution of the SME to the government exchequer, and rewards it with easier access to funds today. Of course, this helps the SME only if the lending bank is prohibited from directing the SME to use the guaranteed loan to repay the bank's past loans.

Banks, insurance companies, and bond mutual funds should be *encouraged to buy new investment grade bond issuances*, and their way eased by the RBI agreeing to lend against their high quality bond portfolios through repo transactions.

The RBI has flooded the banking system with liquidity, but perhaps it needs to go beyond, for instance lending against high quality collateral to well-managed NBFCs. However, more liquidity will not help absorb loan losses. NPAs will mount, including in retail loans as unemployment rises. The RBI should consider imposing a moratorium on financial institution

dividend payments so that they build capital reserves as done by UK and USA regulators.

(Note : As suggested by Former RBI Governor Mr. Raghuram Rajan)

Several tradeoffs will need to be managed. If transfers or subsidized loans are given to a large corporation, they should be conditional on preserving jobs and limiting CEO compensation, dividends, and stock repurchases.

Guarantee the functioning of essential sectors. Resources for COVID-19 testing and treatment must be boosted. Regular health care, food production and distribution, essential infrastructure, and utilities must be maintained. It may even involve intrusive actions by the government to provide key supplies through recourse to wartime powers with prioritization of public contracts for critical inputs and final goods, conversion of industries, or selective nationalizations. France's early seizing of medical masks and the activation of the Defense Production Act in the United States to ensure the production of medical equipment illustrate this. Rationing, price controls, and rules against hoarding may also be warranted in situations of extreme shortages.

(Source: <https://blogs.imf.org/2020/04/01/economic-policies-for-the-covid-19-war/>)

Conclusion

Although the estimated impacts can vary more or less but probability towards sustainability of Indian Economy post lockdown is more, provided dealt efficiently. Entrepreneurs, Investors and consumers need to deliberate on future strategies strictly in line with Capital Adequacy. Saying anything with certainty will be tough but dealing with impacts of Corona will not be a walk in park but as always adversity has opened doors for many opportunities for the nimble footed and farsighted.

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