SUPPORTING ECONOMIC TRANSFORMATION

Economic impacts of and policy responses to the coronavirus pandemic: early evidence from India

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Key messages

- India has closed all borders and imposed a 21-day nationwide lockdown from 25 March to tackle the pandemic.
- GDP growth has been revised to 2.5% for 2020 from 5.3%, with tourism (10% of GDP) and chemical industries (2.1% of GDP) adversely affected.
- The minister of finance has announced an INR 1.7 trillion ($22 billion) relief package and the prime minister has announced a fund of INR 150 billion ($2 billion) to improve health infrastructure.
- The Reserve Bank of India has cut the repo rate by 75 bps to 4.4% and the reverse repo rate by 90 bps to 4%.

Introduction

As of 9 April, India recorded 5,916 COVID-19 cases with 178 casualties. India spends only about 1.3% of its GDP on public health and only 3.7% of its total budget on health. The country's economic growth was slowing before the COVID-19 outbreak. Its growth had slowed to 4.7% last year – the slowest rate in six years. At roughly 8%, unemployment is at 45-year high. These trends were a continuation of the downward economic spiral set into motion by demonetisation. On 24 March, the prime minister ordered a nationwide lockdown for 21 days, limiting movement of the entire 1.3 billion Indian population.

Economic and social impacts

Moody's has cut India's 2020 GDP growth forecast to 2.5% from 5.3%. ADB has also revised its projection for India's economic growth, to 4% from 6.5%. On the inflation front, the CPI for February 2020 stood at 6.58%. This owes in part to food price inflation amid continued disruption in agriculture supply chains and in harvesting.

One of India's biggest growth risks is its relationship with China, According to UNCTAD estimates, India is among the 15 most affected economies of the COVID-19 epidemic, as a result of China's manufacturing slowdown. The trade impact is estimated at $348 million (The chemical industry worth $163 billion accounts for 2.1% of GDP and is struggling).

India's Purchasing Managers' Index fell to 51.8 in March from 54.5 in February. The most troubling signs have come from the new export orders and future activity indices, which respectively indicate tumbling global demand and softening domestic confidence. This is concerning given India's already near-zero year-on-year industrial output growth.

India's tourism industry accounts for 10% of its GDP and is likely to see significant impacts from the pandemic. According to the Federation of Associations in Indian Tourism & Hospitality, around 70% of the sector's workforce could be unemployed as a result of the downturn. Additionally, around 136 million non-agricultural jobs are at immediate risk, based on National Sample Survey and Periodic Labour Force Survey estimates.

National Securities Depository Limited data suggest investors withdrew a record INR 1,182 billion ($16 billion) from the Indian capital market in March. Portfolio and institutional investors withdrew INR 619 billion ($8.3 billion) in equities and INR 603 billion ($8.1 billion) in debt. On 23 March, the Sensex had lost 36.89% in one month. On that day, the rupee fell to 76.15 against the US dollar, making it one of the worst performing currencies in 2020.

Fiscal impacts

The government expects to raise about INR 50,000 crores ($6.75 billion) against a downwardly revised target of INR 65,000 crore for FY2019 (ending in March). This is because of a fall in consumer demand as reflected in lower auto sales, airline passenger traffic, hotel bookings and retail sales. Tour operators estimate January–March quarter earnings in the tourism sector could fall by more than 60% on a year ago.

Before the pandemic struck, the central government had committed FY2020 budget to a moderate path of fiscal consolidation, reducing the fiscal deficit to the equivalent of 3.5% of GDP in FY2020, 3.3% in FY2021 and 3.1% in FY2022. Ambitious disinvestment targets may be difficult to achieve in current circumstances. For most of India's states the fiscal deficit will exceed 3%, as higher expenditures in the health and sanitation sectors are likely to coincide with falling tax revenues.

Monetary and financial policy

On 27 March, the Reserve Bank of India (RBI) reduced the repo rate and the reverse repo rate by 75 bps to 4.4% and 90 bps to 4%, respectively. The marginal standing facility rate was also cut to 4.65% from 5.40%. These measures will encourage continued lending by the commercial banks; any excess capital the banks have could be put to use immediately. To further boost liquidity in the domestic financial system, the RBI enacted a number of additional measures, including injecting additional liquidity of INR 3.74 trillion ($50 billion), targeted long-term repo operations and a reduction in the cash reserve ratio by 100 bps to 3%.

A number of measures have been introduced to mitigate the transmission of financial stress to the real economy and to ensure business continuity. All lending institutions are now permitted to relax repayment of all term loan instalments and to allow a deferment of interest on working capital facilities for three months. These institutions have also been allowed to recalculate drawing power by reducing margins and/or reassessing the working capital cycle for borrowers. Banks are also permitted to deal in offshore non-deliverable rupee derivative markets, thus reducing arbitrage between onshore and offshore markets and stabilising the rupee in the wake of capital outflows.

Fiscal policy

On 26 March, the minister of finance announced an INR 1.7 trillion ($22 billion) relief package, to provide a safety net to the poor and disadvantaged. Minimum balance criteria for bank accounts and ATM withdrawal fees have been cancelled for three months. On 3 April, an additional INR 17.287 trillion ($220 billion) was released to states, to enhance their financial resources during the crisis. INR 110.92 billion ($1.48 billion) from this amount has been allocated to the State Disaster Response Fund, which is the primary disaster fund for India's states. Deadlines for all tax-related procedures including income tax returns and Goods and Services Tax (GST) have been extended to 30 June. All pending income tax refunds up to INR 0.5 million ($6,584) are to be released immediately. In addition, all pending GST and custom refunds are to be released to benefit 1 lakh businesses. Corporate donations to COVID-19 relief are to be considered as a part of a mandated 2%-of-profit corporate social responsibility (CSR) contribution; contributions above 2% can be used to offset CSR contributions in future years. All contributions to the COVID-19 PM-CARES relief fund are 100% tax deductible.

Social protection

Several income support measures have been introduced. Direct Cash Transfers will target 800 million farmers under Kisan Samman Nidhi, receiving an INR 2,000 ($26) instalment in April. Income earned under the Mahatma Gandhi National Rural Employment Guarantee Act is to be raised by INR 2,000 ($26) monthly for all daily wage labourers. Additionally, all Women Jan Dhan account holders will receive INR 500 ($6.7) monthly. The Below Poverty Line families covered under the Ujwala scheme are to be provided with free gas cylinders until June 2020. Additionally, the Ministry of Labour will utilise its cess fund of INR 520 billion ($7 billion) to provide income relief to construction workers.

Collateral loans to women are to be doubled to INR 2 million ($26,000) under the National Rural Livelihood Mission Scheme. The PM Gareeb Kalyan Scheme will cover the Employees' Provident Fund (EPF) until June 2020 – a retirement scheme typically funded by employees and employers. Although this applies to establishments of up to 100 people (of which more than 90% earn less than INR 15,000 ($200) monthly), employees can withdraw a non-refundable advance of up to 75% of available credit or three months' salary from their EPF. The prime minister has announced INR 150 billion ($2 billion) to be used for health infrastructure, testing kits, medical training and increasing hospital bed capacity.

Donor support

The World Bank has approved a fast track project worth $1 billion: the India COVID-19 Emergency Response and Health Systems Preparedness Project was approved on 2 April 2020. This project aims to support India in preventing, detecting and responding to the COVID-19 pandemic. India is seeking $6 billion in loans from ADB and the Asian Infrastructure Investment Bank. On 18 March, ADB had released a $6.5 billion package to support the Asia-Pacific region.

Key industry leaders have pledged support; this has included $134 million from the Azim Premji Foundation and $204 million from Tata trusts and Tata group. Wipro Limited and Wipro Engineering Services have also pledged $16.6 million. Mukesh Ambani, Chair and Managing Director of Reliance Industries, has contributed around $67 million to several government relief funds and has set up a 100-bed COVID-19 unit in Mumbai, free meals in multiple cities and daily mask production of 100,000.

Public sector enterprises in oil, energy, steel and banking have donated around $430 million. The Kolkata Knight Riders franchise and the NGO Meer Foundation owned by Bollywood celebrity Shahrukh Khan has donated an undisclosed amount to government relief funds and has partnered with other NGOs and government departments to provide 50,000 PPEs, food, groceries and basic daily requirements for families and health professionals.

Information in this note is correct as of 9 April 2020. The authors are ODI Fellows in Albania and Ghana; this note is written in a personal capacity. Comments welcome to i.baby.fs@odi.org.uk and communicate.sweta07@gmail.com