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Economic Re-Engineering: Covid-19

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ABSTRACT: The COVID-19 pandemic has driven humankind and the worldwide economy into an emergency unheard of since The Great Recession in 2008. Because of its high contamination rate and effect on the public health system, governments have started to impose lockdowns across the country, thereby influencing production, supply chain, travel, trade, and how individuals work. Moody's demoted India's Gross domestic product development rate for 2020 from 5.5% to 2.5%. Though, the Indian Government had announced a stimulus package of Rs 20 lakh crore, but the question arises is it enough. Is it workable for India to offer help to the almost 6.4 crore production units, of which just around one crore are enlisted under the GST and, having kept these alive, offer them an actual existence more overwhelming than endurance on a ventilator? What steps ought to be taken by the government to reengineer the economy and guaranteeing general wellbeing simultaneously? Therefore, this study tries to explore answers to these questions. The study focuses on the implications of lockdown on the Indian Economy, the various challenges faced by the Government of India in getting the country to work again. The study also suggests measures to empower the economy to revive economically advocating the wellbeing and security of residents.

Keywords: Covid-19, Economic re-engineering, Indian Economy, Lockdown, Pandemic, Stock price.

Abbreviations: ECL, Expected Credit Loss; NBFC, Non-banking Finance Companies; RBI, Reserve Bank of India.

I. INTRODUCTION

The Indian economy is confronting serious downturn due to the nationwide lockdown imposed by the government on 25 March, confining activities of 1.3 billion individuals ie biggest across the globe. With COVID-19 spreading quickly in India, policymakers are stressed over how to battle the infection and limit its effect on the economy. There are no simple answers. Notwithstanding containing the spread of the infection and bolster the individuals who are affected, policymakers are facing tough challenges in getting things back to normal and also preparing for the implications that may emerge once the emergency is finished (and it will in the end be).

In such a scenario, it becomes imperative for the economy to operate alongside COVID-19 by recognizing the short-and medium term results of COVID-19 for business conditions, and working out procedures to get ready for them and recoup.

The initial move towards recognizing the short-and medium term results is to identify the unknowns that can impact these results.

1. How long will the pandemic last? Will we be able to develop any vaccine?
2. How long these lockdowns will extend?
3. How immense will the knock on impacts be?
4. How good the policymakers be at keeping the lights on?

India reported 67,259 cases of the coronavirus COVID-19 as of May 11, 2020, with 20,969 recoveries and 2,212 fatalities. The nation has been revealing new cases of the infection consistently since March 2, 2020. In such a situation it is hard to foresee to what extent the pandemic will keep going and to what extent the shutdowns continue [5, 8].

II. IMPLICATIONS OF LOCKDOWN ON THE INDIAN ECONOMY

As per the recent report by Asian Development Bank [1], it is estimated that about 2.3 percent of Gross Domestic Product will be taken by the lockout. Moreover, the expense of India's 21-day lockout could be $120bn as per KPMG Report [11]. Aside from Air India, all the carriers have grounded their local and global flights, the loss of which is estimated to be $600 million [7].

Not just a fourth of $2.8 trillion Indian economy is practical under full lockdown. We 're depended upon to lose more than $4.5 billion dollars per day during the lockout (Business Today).

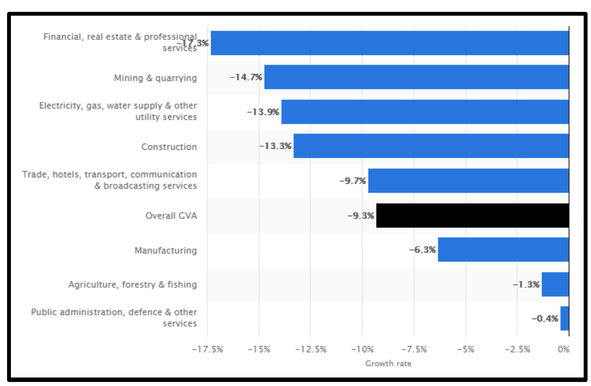


Fig. 1. Estimated Sector Wise Impact of COVID-19 on India between April and June 2020.

As exhibit in Fig.1, Financial sector is amongst the top hit sectors in India. On March 23, the Indian Stock Exchange suffered its most strikingly awful one-day setback ever, with speculators trapped in a free market for all while coronavirus upset institutions and shut down a few states. The NSE Nifty 50 index dropped 12.98 per cent to a shutting low of nearly four years, while the S&P BSE Sensex dropped 13.15 per cent to 25,981.24. The rupee touched a lifetime low of 76.16 in comparison to US $ [7, 9].

Banking stocks have slacked the market in the bounce back off COVID-19 lows. Between December 31, 2019 and March 23, 2020, the Bank Nifty had nearly gone halved. Be that as it may, from that point forward, Bank Nifty is up simply 11.5%, while Nifty 50 is up 21%. In the previous one month, as well, the Bank Nifty Index has declined 5.3%t contrasted with 2% gain in the Nifty 50 [13].

The underperformance isn't just obvious as banking stocks have been at the cutting edge of market gains previously, however has additionally cost banks their clout in the benchmark indices. The consolidated weightage of all financial stocks has slipped from a pinnacle of 42% percent to underneath 35% at present [6].

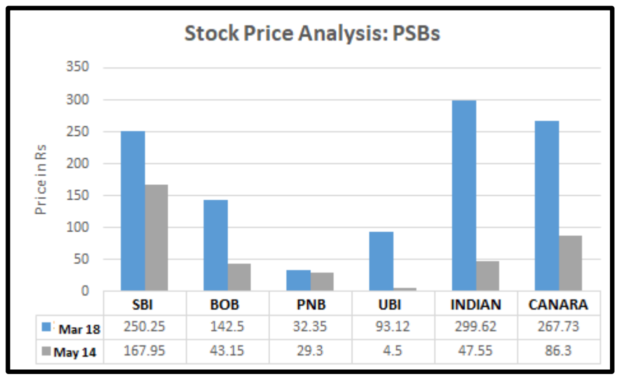
While the 3-month moratorium declared by the Reserve Bank of India (RBI) for March- May repayment dues provides some reprieve regarding lower net NPAs, the size of moratorium book appears to be upsetting as examiners see more slippages originating from the moratorium pool. Numerous moneylenders, who have proclaimed their Q4 results up until now (ICICI Bank, Axis Bank, RBL Bank, and so forth), announced at the least 25% of their loan book, in esteem terms, under moratorium [13].

Outstandingly, in the past numerous quarters, a great deal of banks has changed their loan book blend in with a higher portion of retail section, which is currently presented to the danger of defaults, because of job losses and lower disposable incomes. In spite of the fact that most banks, which have reported their Q4 numbers, have supported provisioning towards Covid-19, it appears to be lacking (under 1% of loan book) given the expansion in asset quality feelings of trepidation in the midst of financial interruption. Numerous examiners and specialists accept that the potential danger of default is exasperating with the circumstance [10].

The moratorium time frame will end soon and organizations and individual borrowers should continue reimbursements from June. With no business occurring, workforce accessibility staying an issue and wild compensation cuts, it is suspicious what number of borrowers will have reimbursement limit. In general, bank stocks are relied upon to stay under tremendous pressure.

As Public Sector Banks represent 70% of the market share of overall Banking industry in India, the onus of supporting Indian economy and encouraging its monetary improvement falls on them. Despite the fact that Public Sector Banks are predominant players in the financial part, they slack impressively in execution measurements when contrasted with private banks [7, 20]. Their share prices have extensively tumbled down (Fig. 2).

In addition to banks, Non-banking Finance Companies (NBFCs) which also forms an essential part of the Indian lending ecosystem, also battling with the effect of COVID-19 on their liquidity position and asset quality. There might be enormous scope business disturbances that can conceivably offer ascent to liquidity issues for specific entities. This may likewise impacts the credit quality along the supply chain. The crumbling in credit quality of loan portfolios because of the flare-up will significantly affect the Expected Credit Loss (ECL) estimation. Markets moving down, when known as the most favored stocks, a large portion of the NBFCs have lost near roughly 30% to 40% esteem over the most recent one month. The income stream of all NBFCs will be tremendously affected as there would be a critical drop in exchanges, loan reimbursements, and so on at all levels countrywide. This implies less assortment by the NBFCs affecting their everyday activities and benefit. Affected business due to COVID-19 may set aside effort to reimburse their credits and would additionally require monetary help to endure the hardship once the emergency is finished. The accumulated debt servicing, including interest, is estimated at Rs 40,000-60,000 crore for the June quarter 's key 11 retail NBFCs, whereas Cash Reserves are fixed at Rs 45,000 crore, as per the report of Acuité Ratings and Research [15-17].



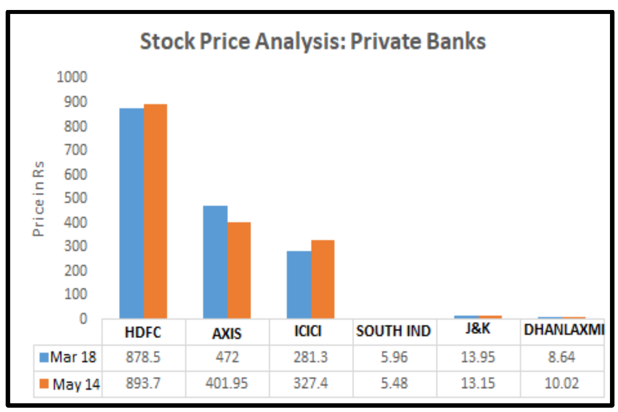


Fig. 2. Stock Price Analysis of Public and Private Sector Banks. Source: Stock Prices taken from equitymaster.com

As indicated by the Insurance Regulatory Development Authority of India, in April, new business premium declined 32.6% to 6,728 crore as against 9,928 crore for a similar time of a year ago. In March, new business premium assortment had declined 32% to 25,409 crore when contrasted with 37,459 crore in March 2019. Premium from new business represents 42% of the Life insurance market. This displays the serious monetary misfortunes to the Insurance companies due to COVID-19. Insurance companies are getting affected regarding their liabilities and assets reflected in their balance sheet [15]. This, therefore, compromises their business coherence just as future development. The pandemic is an acid test for Financial Institutions and all the more so Insurance companies as a pressure that they have tried and investigated in their financial risk analysis, operational risk evaluation and business progression planning. As an effect, Insurance companies can hope to be overwhelmed with general requests and claims over various lines, regardless of whether that be for health & wellbeing, life or non-life spread.

Apart for this, Informal sector workers and individuals from lower salary bunches have been hit especially hard as their wages vanish. The International Labour Organization appraises that 400 million individuals in India are in danger of sinking further into destitution. India recorded a joblessness pace of more than 26% as of April 19, 2020 [18]. This was an enormous spike from April 12 and an immediate effect of the lockdown following the coronavirus (COVID-19) pandemic (Fig. 3).

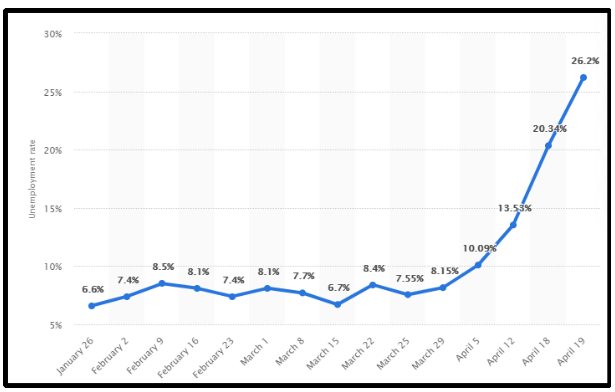


Fig. 3. COVID-19 Impact on Unemployment Rate in India from January to April 2020.

III. KEY CHALLENGES FACING GOVERNMENT IN GETTING INDIA TO WORK AGAIN

The entire nation is facing lockdown till 18th May which may further be extended. According to the new guidelines of the Indian Ministry of Health and Family Welfare, the nation has been partitioned into red, orange and green zones. Red zones are assigned as the hotspots and won't perceive any relaxations in contrast with the territories considered less inclined for the spread of the infection. The greatest incongruity is that the 130 regions named red-zone areas are probably the most urbanized and industrialized parts of the nation. They represent somewhere in the range of 41% of national economic activities, 38% of industrial yield, 40% of nonfarm business, and the greater part of India's devouring class families. Inside this arrangement of red-zone areas, 27 districts that have moderately higher contamination rates and are progressively urbanized record for approximately 33% of the economic activities. Discovering strategies for keeping these red-zone districts operational and safe would be basic in keeping economic activities supportable [9]. Apart from this, there are several other challenges the government has to look after while formulating strategies:

– **Liquidity crunch:** Organizations have begun confronting enormous working capital/income issues because of lockdown and they will proceed even post that on account of diminished interest. MSME and new businesses are the most exceedingly awful hits. The government needs to guarantee that in this interregnum, a banking/credit emergency doesn't happen, liquidity at family unit and corporate level is kept up, there is insignificant interruption in capital arrangement and investments.

– **Financial Freeze:** Taking a gander at the present circumstance, it is additionally expected that the economy may endure with the circumstance of financial freeze. With the securities exchange contacting new lows each day, it will be hard for private banks to raise capital and the stressed monetary circumstance will make it hard for the government to recapitalise the public sector banks. Capital lack notwithstanding rising NPAs will prompt requests for 'restraint' from the RBI. There may likewise be further facilitating of capital prerequisites by tweaking the hazard.

– **Supply chain:** Once lockdown is lifted one of the most pivotal things to ensure we are on a way of exponential development is to guarantee our 'physical supply chain' works flawlessly with no hindrance. As a nation, we would need to characterize clear guiding principle on movement of goods from one place to another. Organizations, States and industry bodies would need to cooperate in getting things done.

– **Absence of labour:** Another approaching issue post-lockdown will be absence of labour. The vast majority of the labourers are vagrant and will most likely be unable to come back to work soon. Organizations will wind up working at low limit. This will expect organizations to take up considerable measures for specialist wellbeing and in giving advantages like lodging close to the work environment and so on. Organizations will likewise require to thoroughly consider of-the-case and build up procedures to utilize accessible workforce proficiently. For instance, numerous shifts (as an all accessible workforce can't cooperate due Covid-19 rules), giving different advantages to labourers, using accessible limit of units and so on.

– **Forestalling another Covid-19 episode:** This will be basic for any nation or business. Another flood of covid-19 will be difficult to recoup from. We should begin getting ready definite Covid-19 rules and make it a required consistence for organizations post-lockdown. Organizations should invest additional push to ensure their industrial facilities are Covid-19 agreeable. This progression will likewise manufacture trust in the workforce and will guarantee better production.

– **Increasing Health supplies productions:** Increasing the creation of wellbeing supplies that are expected to treat coronavirus patients is basic, as the quantity of recognized cases begins to hop—New York City is a model. Perhaps the most extravagant city in probably the most extravagant country on the planet is now thinking that it's hard to treat a little more than 20,000 patients. It isn't altogether clear if the Indian government is doing what's necessary on the facade of assembling the wellbeing supplies the nation may require throughout the following hardly any weeks. What's more, this is in a circumstance where India isn't too blessed with specialists and other clinical experts as are more extravagant economies.

IV. WHAT IS THE LIKELY RECOVERY PATH?

The test now for pioneers is attempting to get economic activity ready for action while additionally guaranteeing that the general wellbeing endeavours so far won't be futile and that coming back to a typical life won't chance a second, conceivably increasingly lethal influx of contaminations. Basically, it's tied in with finding some kind of harmony - the correct equalization - and it must be done well the first run through. Continuing the economic activities in a nation is definitely not a straightforward choice to take in the midst of the coronavirus pandemic, nor is it a simple errand. It is an extreme call that needs to consider the general wellbeing worries as well as similarly significant the financial soundness of a country [4].

To empower the economy to revive economically advocating the wellbeing and security of residents, India needs to think about a few kinds of measures:

– To revive reasonably, public health system readiness should be improved over an enormous number of locale, especially the redzone ones. Moving from a rundown of permissible activities to a not-allowed or "negative" list. Short, sharp correspondence around what isn't allowed would be more obvious and execute than would a rundown of passable activities. It would likewise help maintain a strategic distance from the danger of whole parts or enterprises being denied on the off chance that they were not referenced in the allowed list. For dealing with the endemic and the resultant general wellbeing emergency, the government may utilize technological solutions in addition to augmenting financial resources and increasing the insurance coverage.

– Supporting the corporate segment to limit unfriendly monetary effect and encourage snappy recuperation through quick measures, (for example, credit backing to MSMEs) or medium-to-long measures, (for example, infrastructure building and undertaking arrangements) that help reposition India on the planet's worldwide value chain. The government has reported Rs 20,000 crore relief package which is required to give extraordinary alleviation.

– Ensuring salary and business, especially for the more powerless segments of the general public Numerous organizations have needed to send labourers home, Organizations ought to be approached to secure employments and pay rates to labourers for the period, Govt should share trouble through actualizing direct money transfer programs upheld by satisfactory checking and assessment systems, and utilizing existing digital payments infrastructure.

– Public sector financial institutions should be additionally promoted and pushed by the RBI to loan out low-ticket credits underneath INR 1 Crore through working capital to guarantee that liquidity returns into the system. Banking sector should be pushed to give rate cuts instigated by RBI to the borrowers. RBI may bolster banks by giving unwinding in asset classification standards. Also, few missed instalments not to be delegated NPAs and should loosen up capital norms for banks. Individual tax reductions and tax holidays upto one year can be embraced to restore utilization, which will help spike economic growth.

– Fortifying coordination and correspondence among different arms of the administration-central government divisions, states, neighbourhood organization, and controllers-and with partners from industry and business is significant.

– Looking forward and making arrangements for possibilities since the future stays unsure. India should be prepared for a wide range of projections. It would be savvy at all levels of government to create alternate courses of action dependent on situations of potential COVID-19 effects. India should be creative in the coming a long time to have a V shaped recovery. It ought to get thoughts from different nations.

V. CONCLUSION

India's economy should work close by COVID-19 for a delayed period. An all-around executed, granular, dynamic, and privately determined lockdown-and restart-management capacity while overseeing wellbeing dangers is required. There is much in question for India-in the two lives and occupations-in getting this right. To maintain a strategic distance from a subsequent wave or top in the viral spread, a steady opening of the lockdown in a staged way will be key. This should be possible through opening of schools, colleges, instructive establishments and other organizations with 30-40% employees working at a time, while social gatherings should be restricted. Also, the option of work from home needs to be practiced more wherever possible. The general population should get ready for the best and get ready for the most noticeably terrible situations, remembering that a V shaped curve isn't ensured. The next six months at least could be atrocious, but after that things will be changing. It will be everyone's duty - government, organizations, educational establishments and residents - to consolidate to carry out the government's set procedures.

VI. FUTURE SCOPE

The next step of this study is to evaluate various possible strategies and options that could help in reengineering the economy and associated problems. The use cases from different countries around the globe also to be considered.

Conflict of Interest. There is no conflict of interest in this work.

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