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Economic and marketing challenges to maintain demand and supply balance in Indian economy post COVID-19 Lockdown

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Abstract
Since the economic activity of our country has almost come to a halt during COVID-19 Lockdown and market dynamics has changed due to many changing factors, it has become important for us to analyse the current situation and the upcoming economic and marketing challenges in the light of the current situation so as to strategically plan for sustainable economic growth. This paper will focus on the current economic activity and analyse the effect of the fiscal package on the Indian Economy and on the wellbeing of the people of India in the long run. It will also emphasize on the behavioural changes in society and its effect on the consumer behaviour. It will also talk about the marketing challenges both during and post COVID-19 lockdown.

Keywords: COVID-19, Post Lockdown, Lockdown, Pre Lockdown, Fiscal Stimulus, Elite, Aspirer, Affluent, Next Billion, Struggler, Unemployment, Consumption, Leveraged, Disposable Income, Migration, Inflation, Deflation, Liquidity, Microfinance, NPA, GDP, MSME, MFI, NBFC

1. Introduction

The economic impact of the 2019–20 coronavirus pandemic in India has been hugely disruptive. World Bank and credit rating agencies have downgraded India's growth for fiscal year 2021 with the lowest figures India has seen in three decades since India's economic liberalization in the 1990s. Former chief economic adviser Arvind Subramanian on Tuesday said India should plan for "substantially negative economic growth" this fiscal due to the coronavirus crisis and that the government should tap various sources to finance a Rs 10 trillion stimulus. In his words he said "Prudence demands that we should plan for negative, substantially negative, economic growth rate this financial year. The scale of hardship is enormous. On the magnitude of stimulus, something like 5% of GDP, which today is about Rs. 10 lakh crore, is what we need to find for this year," The International Monetary Fund projection for India for the Financial Year 2021-22 of 1.9% GDP growth is the highest among G-20 nations. Within a month unemployment rose from 6.7% on 15 March to 27.1% in early May 2020. During the lockdown, an estimated 14 crore (140 million) people lost employment. More than 45% of households across the nation have reported an income drop as compared to the previous year.

The Indian economy is expected to lose over Rs. 32,000 crore (US$4.5 billion) every day during the first 21-days of complete lockdown which was declared following the coronavirus outbreak. Under complete lockdown less than a quarter of India's $2.8 trillion economy is functional. Up to 53% of businesses in the country will be significantly affected. Supply chains have been put under stress with the lockdown restrictions in place; initially there was a lack of clarity in streamlining what is an "essential" and what is not. Those in the informal sectors and daily wage groups are the most at risk. A large number of farmers around the country who grow perishables are also facing uncertainty. Various businesses such as hotels and airlines are cutting salaries and laying off employees.

Major companies in India such as Larsen & Toubro, Bharat Forge, UltraTech Cement, Grasim Industries, Aditya Birla Group and Tata Motors have temporarily suspended or significantly reduced operations. Young startups have been impacted as funding has fallen. Fast-moving consumer goods companies in the country have significantly reduced operations and are focusing on essentials.

Some defense deals have been affected/delayed due to the pandemic such as the delivery of Dassault Rafale fighter jets. Stock markets in India posted their worst loses in history on 23 March 2020. However, on 25 March, one day after a complete 21-day lockdown was announced by the Prime Minister, SENSEX and NIFTY posted their biggest gains in 11 years, adding a value of Rs. 4.7 lakh crore (US$66 billion) crore to investor wealth.
The Government of India has announced a variety of measures to tackle the situation, from food security and extra funds for healthcare, to sector related incentives and tax deadline extensions. On 26 March a number of economic relief measures for the poor were announced totaling over Rs. 170,000 crore (US$24 billion). On 27 March the Reserve Bank of India also announced a number of measures which would make available Rs. 374,000 crore (US$52 billion) to the country's financial system. On 29 March the government allowed the movement of all essential as well as non-essential goods during the lockdown. On 3 April the central government released more funds to the states for tackling the coronavirus totaling to Rs. 28,379 crore (US$4.0 billion). The World Bank and Asian Development Bank have approved support to India to tackle the coronavirus pandemic.
On 14 April 2020, the Prime Minister of India extended the lockdown to 3 May. A new set of guidelines for the calibrated opening of the economy and relaxation of the lockdown were also set in place which would take effect from 20 April. On 17 April, the RBI Governor announced more measures to counter the economic impact of the pandemic including Rs 50,000 crore (US$7.0 billion) special finance to NABARD, SIDBI, and NHB. On 18 April, to protect Indian companies during the pandemic, the government changed India's foreign direct investment policy. The Department of Military Affairs has put on hold all capital acquisitions for the beginning of the financial year.
On 4 April, former RBI chief Raghuram Rajan said that the coronavirus pandemic in India may just be the "greatest emergency since Independence". On 28 April, former CEA Arvind Subramanian said that India would need a Rs. 720 lakh crore (US$10 trillion) stimulus to overcome the contraction caused due to the pandemic.
Economy doesn't just mean GDP only. There are other factors too that determine the health of an economy, such as inflation/deflation, balance of payments, trade surplus/deficit, employment opportunities or lack of it. So economic growth is the sum total of changes in all the attributes (GDP, financial inclusion, poverty scenario, balance of payments, balance of trade, etc.).
Even as it has found itself fairly insulated from the economic consequences of the nationwide lockdown, private sector steelmaker Jindal Steel and Power (JSPL) believes the lockdown should be lifted in phases to allow the economy to find its feet again. In an interview, V.R. Sharma, managing director, JSPL, said if the lockdown continues, India will eventually see an explosion of demand for products that the industry will not be able to meet.
Right now, in India, consumption is very low when people are buying only groceries and essentials. There's no sale of vehicles, flats or consumer durables. When we open (the economy) fully, there will be a shortage of supply and an explosion of demand. Today, trucks are parked empty and, tomorrow, when trucks start moving, they won't be able to meet the demand in time. We think we will face a recession because that is our state of mind today. After a month, the 130 crore people will start consuming again, and supply will not be able to match demand.
Domestic steel makers are likely to face muted demand and oversupply which would lead to suppressed steel prices post-lockdown, according to a report by India Ratings. Besides, they are also expected to face issues with availability of workforce and logistics movement. "Muted demand and oversupply is likely to create a loop leading to suppressed prices until either there is a substantial uplift in demand or a substantial volume goes out of the market," it said.
Demand from infrastructure, construction and real estate sectors is likely to be subdued in first half of FY21 with the lockdown in April-June FY21 and the monsoon season over July-September FY21, it said. Furthermore, the demand from automobile, white goods and capital goods sector is likely to reduce with consumers deferring discretionary spends in the near term. As such, government spending on infrastructure is likely to be the key driver for a gradual recovery over 2nd half of FY21.

Demand in the economy

- The cash flow in the economy determines consumption demand but accumulation of cash towards a particular segment of the economy adversely affects the consumption demand in the economy. Following factors will contribute to the reduction in demand:
- With Unemployment all time high at 27.1% almost 71% of daily wage earners have lost their jobs, 23% of large entrepreneurs reported job losses, number of salaried employees dropped by 21%
- Employment in March 2020 was at 40 crore individuals which fell to 28.2 crore individuals in April 2020 and to 26.8 crores approx. in early May 2020.
- The looming NPA risk has increased with the increasing debt burden not due to fresh loans but due to compounding interest during the moratorium period.
- With zero or nominal revenues Micro, Small, and Medium Enterprises will be forced to close down permanently further affecting revival of national employment numbers.
- Fixed operating expenses during the lockdown will hurt the Micro, Small, and Medium Enterprises as well as the Large Businesses which are in stand still condition making no or nominal revenues, thus forcing them to do pay cuts and layoffs affecting the consumption demand negatively.
- If we analyze the above scenarios we can conclude that the disposable income of individuals in the Indian economy will reduce thereby reducing the consumption made by them. The expected change in consumption categorized in various segments of the society may be as follows:
- The major segment that will be impacted is the daily wage earners (*who have migrated but 70% of them are expected to return by 6 months as lockdown ends*), and individuals with annual income of less than 5 lakhs. This segment of the society contributed largely to the essential item consumption particularly eatables to greater extent their share in total consumption was 44% in 2018. This consumption will see a fall and will disturb the demand and supply balance creating excess

supply of essential items in the economy further putting stress on businesses producing essential items.

- Service class individuals working in private sector are facing pay cuts and job loss or are expecting it in near future. Reduction in the disposable income of this segment may not necessarily affect essential item consumption but will adversely affect non-essential item consumption.
- Service class individuals working in central/state government are also facing minor reduction in their disposable income due to cuts announced by the government in their allowances. The fall in percentage of the disposable is too less as compared to the other segments of the society to impact their consumption demand, instead their consumption may rise as falling demand may lead to deflation thereby increasing their purchasing power.
- Micro, Small and Medium Enterprises with high leverage are expected to face acute financial distress due to the looming NPA risk as a result of increasing debt burden because of compounding interest during the moratorium period. With zero or nominal revenues and fixed operating expenses units will be forced to close down permanently. Studies have suggested closure of up to 40% of businesses in the worst scenario.
- According to a study conducted by Boston Consulting Group-Retailers Association of India: Going for Gold Report, Feb 2019, the households are divided into 5 types Elite and Above, Affluent, Aspirer, Next billion, and Struggler.
- Aspiring and affluent households which includes both service class and business class that earn between Rs 5 lakh and Rs. 20 lakh per annum have helped spur domestic consumption in India over the past decade, according to findings of a report by the Boston Consulting Group (BCG) These income groups, constitute 28% of all households, contributed to 43% of the Rs110 trillion in annual consumption in the country in 2018. Domestic consumption in India in the last decade increased 3.5 times from Rs. 31 trillion to Rs. 110 trillion. BCG estimates that this will touch Rs. 335 trillion by 2028 if COVID-19 would not have forced the world to a halt.
- Aspiring and affluent households contributes to non-essential item more as compared to essential item. This segment is facing pay cuts and layoffs thereby reducing their disposable income. Since this segment holds 43% of total consumption it will impact non-essential item including luxury item and semi luxury item consumption demand in a considerable amount.
- Elite class and above category of individuals with annual income of more than 20 lakh may be least impacted on consumption front. They may impact the consumption demand but since this segments share of consumption in domestic consumer market is very less (13% in 2018), so it will barely impact the essential item consumption, and may slightly impact the non-essential semi luxury but may considerably impact luxury item consumption.

Supply in the economy

In an economy already reeling under a demand depression, rising unemployment, and lowering of industrial output and profits, all of which happening together for several quarters now, a supply-side constraint would deliver a big blow, jeopardising growth prospects and social and economic wellbeing of a large number of people.

- Leveraged small and medium scale businesses are expected to face acute financial distress due to the looming NPA risk as a result of increasing debt burden. Studies have estimated closure of up to 40% of businesses in the worst scenario, which will influence the supply in the economy negatively raising the risk of inflation. This inflation is even worse as this as the supply falls below the reduced demand compared to pre-lockdown.
- Manpower will be a constraint, with MSMEs indicating that 30 to 70% of their pre-COVID workforce might have migrated back to their hometowns due uncertainties and loss of income due to lock-down. It will be a challenge to convince staff to return or acquire new staff, and the staff changeover is expected to impact negatively on productivity, quality and defect rates, adding further to supply concerns.
- Machinery and stocks of raw materials, work in progress and final product will have degraded due to lockdown. MSMEs will need to undertake outstanding maintenance and service and clean out wasted stocks, before they can resume operations, at a significant cost and with likely write offs to stocks currently trapped on-site further delaying the supply restart.

Suggestions

The government should identify 5-10 most crucial projects or schemes entailing significant expenditure, which are likely to have a decisive impact on reviving the economy. The government should commit itself to the fact that the additional revenue raised through taxing the wealthy will only and only be utilised for these 5-10 projects or schemes.

A direct cash transfer of Rs. 3,000 to Rs. 5,000 a month for the most economically disadvantaged 12 crore households over a period of at least six months.

The crisis offers an opportunity to expand MGNREGA and make public works programs such as building of rural roads, public health infrastructure, primary school buildings and the like the focus of the scheme.

If envisioned and implemented in a targeted fashion, the scheme continues to hold tremendous promise, and can achieve three prized objectives together: provision of income support through employment for the jobless, creation of public infrastructure, and investment in human capital. This will further increase consumption in the Next Billion (1.5-5 lakh annual income*)* and Struggler (Less than1.5 lakh annual income) category of households

At a time when the industry is not using electricity, minimum charges on electricity (as per contract demand) should be waived off. Raw materials sourced from distant places are not coming in due to the lockdown. Transport of the raw materials can be allowed.

Liquidity is the key to the revival of MSMEs. To offload the increased debt burden because of compounding interest during the moratorium period with zero or nominal revenues, RBI should reduce the interest rate to zero or nominal rate. The micro and household enterprises will suffer the most and therefore public support must be extended to microfinance institutions (*MFIs*) and Non-Banking Financial Companies (*NBFCs*) that provide loans to MSMEs.

Conclusion

The Indian Government will have to come up with a structured fiscal stimulus enabling balanced distribution of cash flow in the economy. The government should commit itself to the fact that the additional revenue raised through tax and through borrowings should be utilised to support the purchasing power of the different segments of the society so as to promote sustainable consumption. If the consumption in the economy is not revived then there may be a situation of deflation in the economy which will derail all efforts of the governments to resume supply to normal. Deflation, not inflation, is real risk with demand crashing pushing the economy into depression.

On the other hand the Government along with RBI should take measures for maintaining liquidity in the industry so as to avoid supply disruption to keep inflation under control.

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