

# COVID-19: COVID-19: HOW THE DEADLY VIRUS HINTS AT A LOOMING FINANCIAL CRISIS

Relevant for: Indian Economy | Topic: Issues relating to Planning & Economic Reforms

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Four in Hyderabad have downed the shutters; Delhi and Mumbai are on the verge of closing down temporarily. "Within days, the situation has turned alarming. The contagion is spreading like wildfire," he says. In India, over 250 people have so far tested positive for the SARS-coronavirus-2, which has infected almost 2.5 lakh people globally, about 10,000 fatally.

The country is trying to contain the outbreak. Schools and universities, malls and cinemas are shutdown. No international flights will be allowed to land for a week in India. Today, everyone is staying in, following Prime Minister [Narendra Modi](#)'s call. It is a health emergency as well as a financial crisis — and no one knows how grave this will be and how long this will last.

Even the preliminary estimates are deeply worrying. The International Labour Organization estimates that Covid-19 will destroy up to 25 million jobs. According to the United Nations Conference on Trade and Development (UNCTAD), it will likely cost the global economy between \$1 trillion and \$2 trillion in 2020. Even when the pandemic had affected only 30 people in India in early March, [UNCTAD](#) said the trade impact for the country could be about \$348 million.



It is too early to fathom Covid-19's longterm implications, says restaurateur Singh. "We are in uncharted waters. In a country where people live cheek by jowl in poverty, we can only pray and hope that the virus is contained," he says. For now, he has to take care of some urgent concerns. One is the high fixed cost that is characteristic of the industry.

For every Rs 100 that Singh earns, he says, roughly Rs 30 goes as staff wages, `30 as

establishment cost, including rentals, and another Rs 30 is the variable cost of food and beverages consumed while around Rs 10 is the profit margin. Now his restaurants are shut and no revenue is coming in, but he has over 1,500 employees and loans to be paid every month. He says meeting payment obligations looks like an impossible task. “There is little buffer to cushion the Covid-19 blow,” he says. He has asked his staff to go on leave without pay. “This isn’t about one or two weeks. It’s a long haul. With great sadness, I have to admit that I have no buffer to carry the load.”

Meanwhile, in Delhi, at Mayur Vihar labour chowk, over 100 daily-wage workers are sitting huddled since 9 am. One of them is Rashid Ali, 49. He has been coming here, looking for work, for over 14 years now. The last two years have been bad. At best, he would get work for 10-12 days in a month. Now, the virus has taken away that too. “There is no work. Nobody is coming to hire us these days,” he says. Waiting in a crowd, he is concerned about getting infected by the virus. But his greater worry is how to take care of his family — his wife and their three young children. “I don’t know how I will feed them. I have no money,” he says.

Covid-19 is pushing an already battered Indian economy into the ICU — and Singh and Ali represent the two ends of the damage the pandemic is inflicting on businesses and workforce. The horror story is unfolding across sectors. Airlines have led the grim news. GoAir is laying off staff and asking many to go on leave without pay even as it dramatically scales down operations. Aviation consultancy firm CAPA forecasts that many airlines will be pushed into bankruptcy even as the government is readying a bailout plan.



**“We were seeing stress in financial health across the board. Covid-19 has amplified it. If this continues, defaults will happen across the spectrum”**

**Sunil Sinha, IICL**  
director (public finance),  
India Ratings

Restaurants have been reeling. The National Restaurant Association of India (NRAI) has recommended that its 500,000-plus restaurants down their shutters till March 31. As a result, many are asking employees to go on leave without pay.

Live events industry has seen many big shows and conferences cancelled, with losses estimated at around `3,000 crore by the Event and Entertainment Management Association. App-based cab operators have seen demand crash by 50%, according to media reports, with fares touching rock bottom. From hotels to coworking spaces, car showrooms to retail stores, we are staring at an economic rout.

Rashesh Shah, chairman, Edelweiss Group, says: “Covid-19 is a complete unknown unknown. It has come at a very bad time — on the back of three years of economic crunch.” It has also

come at the fag end of a financial year. “The last quarter is very crucial for all businesses in India,” he says. A lot of investments and client and payment transactions typically happen in the last quarter.

There are, though, known knowns — real stories of people who are facing an unprecedented economic crisis. Sabu Job, 51, has worked hard over the last two decades to grow his business in south Delhi. With 60 employees, he caters food for parties at home. Over the last 18 days, 23 of his orders have been cancelled. Thankfully, he says, he has no loan burden. But he is staring at a monthly business loss of `1-3 lakh. “People are very afraid of the [coronavirus](#). They don’t want to eat food from outside anymore.”

Ravi Bhatia (name changed on request), who works as a manager at an upmarket restaurant in South Mumbai, says, “The corona onslaught has only begun and, already, our bosses have asked us to go on leave without pay. I don’t know what’s in store for us.”

He has to pay EMIs on home and car loans. For India, the nightmare couldn’t have come at a worse time. The economy is in the middle of a slowdown. Even pre-pandemic macro numbers were worrying, with the National Statistical Office (NSO) expecting India’s GDP growth to be 5% in 2019-20, the lowest in 11 years. Amid shrivelled demand, weak exports, investment drought and credit crisis, job market is at its worst and unemployment at a 45-year high, suggested a leaked NSO report for 2018-19.

Bolt from the Blue Now, Covid-19 has led to an economic lockdown. In India’s case, three factors aggravate the pain. The first has to do with India’s workforce pyramid, with 93% of over 400 million workers largely employed in unorganised and informal sectors. According to the Periodic Labour Force Survey data (2017-18), 93 million workers are engaged in casual work, comprising about a quarter of the total workforce. As Covid-19 wreaks havoc, the casual workers would be the worst affected.

“About 75% of workers are either self-employed (rickshaw pullers, carpenters and plumbers, for instance) or casual workers who are not covered under any provision or get any paid leave,” says Ishan Anand, assistant professor, Jindal Global Law School. Even in the remaining 25%, half are regular workers and the rest informal workers. With the economy grinding to a halt, a very large segment of the workforce will be economically crushed and extremely vulnerable.

“Many of them live life on the edge, earning and surviving on a daily basis,” he says. Researcher and statistician Rajesh K Shukla says vulnerabilities owing to Covid-19 are higher in urban areas as 25-30% of urban households comprise of daily wagers, mostly migrant workers. The second factor is the nature of India’s corporate landscape. At 75 million, MSMEs are the engines of growth and employment, contributing \$1,183 billion to India’s GDP and creating 180 million jobs. But their world stands on shaky foundation. Just 7 million are registered. About 97% are small, employing less than 10 workers, with the biggest chunk having 1-3 workers (for instance, hawkers and roadside vendors).

A majority has no access to formal finance. Sub-optimal and cash-driven, a majority of Indian MSMEs are what this year’s Economic Survey calls dwarfs — weak enterprises that will never grow. Since demonetisation, these fragile MSMEs have been hit by one shock after another, including GST rollout and NBFC credit crisis. Samir Sathe, executive vice-president, Wadhvani Foundation, has a ringside view to how MSMEs are faring. Sathe works with over 200 MSMEs (\$3-25 million annual revenue) to build capacity and scale. As Covid-19’s impact unravels, he sees two kinds of emotions playing out.

“One is shock. Many cannot fathom what’s happening. And then we see a few scurrying to figure

out how to protect themselves and their businesses,” he says. While white-collared office workers can work from home, thanks to technology and internet, most SMEs have factory workers for whom work from home is impossible. Further, they are facing disruptions at both ends — raw material supply and shrivelling demand. “When establishments shut down, the first casualty are temp workers. Soon you will see them renegotiate job contracts of employees, too,” says Sathe.

Loan repayment will be a challenge for most workers. “Mortality will be high: my guesstimate is that just a fourth of these MSMEs will be able to survive and reinvent,” he says. Murari Kumar, who runs cabs in Noida, is in shock. He doesn’t know how to react to how his business has been hit, out of the blue. A driver, he mustered courage and capital in 2014 to start a cab business, Jay Travels. He has 10 cabs and as many drivers, ferrying the staff of an IT services MNC in Noida.

The cars are also on Ola and Uber platforms. “Overnight, my business has vanished. I have salaries and EMIs to pay,” he says. On average, his fixed monthly outgo is ₹3.74 lakh. Demand on cabhailing apps is almost nil now and mandatory work from home for employees means he has no work with the IT firm either. Kumar says he can continue for a month like this. After that, only God can help, he says. “Is mein loss hi loss hai (Losses are piling up). I don’t know which business I should start now to earn money and pay loans,” he says.

Ravish Naresh, cofounder of Khatabook. com that has 10 million small enterprises like kirana stores as its customers, is already seeing 50% dip in transactions happening through QR inside shops. “Right now, the sharp dip is noticeable in big cities, but I expect the contagion to spread to smaller cities in the next few weeks,” he says. The third factor that exacerbates the effect of the pandemic is the level of indebtedness in Indian households, which is at a historic high.

While household savings as a share of GDP has declined from 23.6% in FY12 to 18.2% in FY19, household debt as a share of GDP has risen from 8.7% in FY12 to 11% in FY18. Retail credit as a share of GDP, too, has been climbing from 14.3% in FY13 (₹14.2 trillion) to 18.5% in FY19 (₹35.2 trillion), according to CRISIL. Led by millennials and powered by zero-cost EMIs, credit-averse Indians have learnt to borrow to live the high life.

A convergence of factors — deepening digital footprint from UPI to GST, rise of fintech startups, NBFCs that are eager to lend and credit bureaus like CIBIL — has helped build this credit boom. Now, as Covid-19 batters the economy leading to layoffs and paycuts, Indians have little cushion, says Madan Sabnavis, senior economist, CARE Ratings.

It is also important to note that in its first wave of attack, Covid-19 has hit the services sector — which chips in over 50% to India’s GDP — the most. So at both individual and enterprise level, India today has very little buffer to withstand shocks. “We were seeing stress in financial health across the board. Covid-19 has amplified it. If this continues, you will see defaults,” says Sunil Sinha, director (public finance), India Ratings.

He adds that rural and urban wage data have not improved much over the past six-seven years across the spectrum and paints a grim picture. This is what worries Nirmal Jain, chairman, IIFL Finance, an NBFC. “If there is a prolonged lockdown, then the capacity to pay will be delayed. The government has to work hard to spur demand once the crisis abates.

It has to give some dispensation on asset quality or moratorium on restructuring loans,” he says. In these times of gloom and doom, some like Sameer Vakil, cofounder of GlobalLinker, hope they can play a small role in easing the pain. GlobalLinker is a digital networking platform for SMEs and has over 300,000 members in 150 countries. Early this week, they rolled out a Covid-

19 SME Forum with Wadhvani Advantage, which will handhold SMEs in difficult times, offering counselling from experts while also giving them a platform to share woes and explore solutions. Vakil says he finds encouragement from a heartwarming success story in Odisha.

As part of Mission Shakti, headed by bureaucrat Sujata Karthikeyan, the state government has been working with 70 lakh women who are part of 600,000 self-help groups (SHG) to improve their incomes and livelihood. “The SHGs were the ones who spotted demand for masks amid the virus scare,” says Karthikeyan. Within weeks, 2,500 women in 165 SHGs have begun making 86,500 pieces of masks daily and have already sold 100,000 of them. Every step forward matters in these hard times.

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**IN A DIFFICULT PLACE**  
Covid-19 has hit India when the economy is slowing down

<b>Slow Growth</b> NSO expects India's GDP growth to be 5% in 2019-20, the slowest in 11 years	<b>Righted Job Market</b> Unemployment at a historic high and a low new jobs and many layoffs	<b>Cases Abound</b> Since 2016, demonetisation, GST glitches, and credit crisis have taken toll	<b>Weak Demand</b> Job drought and muted wages have dented consumer sentiments & demand
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**THE VIRAL IMPACT**  
An economic lockdown will be devastating

<b>Daily Grid</b> 75% of India's workforce is either self-employed or casual workers. They would be the worst affected	<b>Layoff Season</b> Firms will have to bid to bid, firms are announcing salary cuts and layoffs	<b>MSME Bust</b> Most MSMEs are small with little cushion. Already hurting from mole ban and GST, only a fraction may survive	<b>Credit Crisis</b> Delinquency and NPAs could rise as individuals & enterprises struggle to make payments
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