



# OPTIMiSM

Jan-March 2020

# SIDBI Investors' Day



**SIDBI organized 2<sup>nd</sup> Investors' Day on January 16, 2020, at Bengaluru**

# The Editors' Desk

Greetings from the OPTIMiSM Team! We present you the Jan-March 2020 issue of OPTIMiSM.

In its endeavor to create robust MSME Ecosystem, the Bank has undertaken plethora of initiatives in the January- March quarter, ranging from Swavalamban Utsav (for promoting handicraft products of women micro entrepreneurs) & Investors' day with an aim to give fillip to the startup ecosystem. Through such wide-ranging interventions, the Bank is touching lives of entrepreneurs at the bottom of the pyramid as well as nurturing the innovative business ideas for its effective fructification.

Another such initiative is Swavalamban Express which is scheduled to start on May 1, 2020, from Lucknow and shall cover 7000 Km across 11 enterprising cities in 15 days. We hope that this entrepreneurial journey will be a journey to remember for aspiring entrepreneurs.

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# Eco-Dashboard

## Macro indicators - Annual

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
<b>GDP Growth -constant price (2011-12)</b>	6.4	7.4	8.2	7.1	6.7	6.1	5*
<b>Index of Industrial Production (IIP)</b>	3.4	4.0	3.4	4.6	4.3	3.6	0.5#
<b>IIP - Manufacturing</b>	3.6	3.8	2.8	4.4	4.6	3.5	0.3#
<b>Forex Reserves- RBI (USD Billion)</b>	304	341	360	370	424	411	481^
<b>Merchandise Export (in billion USD)</b>	314.41	310.34	262.3	275.85	302.84	331.02	265.26@
<b>Merchandise Import (in billion USD)</b>	450.2	448.03	381.01	384.36	459.67	507.44	398.53@
<b>Current Account Deficit (CAD)</b>	1.7	1.3	1.1	0.6	1.9	2.1	0.9<
<b>Consumer Price Index (CPI)</b>	9.4	5.8	4.9	4.5	3.6	3.4	4.5@
<b>Fiscal Deficit (% of GDP)</b>	4.5	4.1	3.9	3.5	3.5	3.4	3.8>

\$- No data released post previous data, \* 2<sup>nd</sup> Advance estimate 2019-20, # April-Jan 2019-20, ^Feb 28, 2020, @ April-Jan 2019-20, < July-Sept 2019-20, >Revised estimate

## Macro indicators - Monthly

	August	September	October	November	December	January	February
<b>Merchandise Export (in billion USD)</b>	26.1	26	26.4	25.98	27.36	25.97	27.65
<b>Merchandise Import (in billion USD)</b>	39.6	36.9	37.4	38.11	38.61	41.14	37.50
<b>CPI</b>	3.2	4	4.6	5.54	7.4	7.6	2.57
<b>IIP</b>	-1.1	-4.3	-3.8	1.8	-0.3	2	\$
<b>IIP-Manufacturing</b>	-1.2	-3.9	-2.1	2.7	-1.2	1.5	\$
<b>USD rates</b>	71.14	71.33	71.04	71.5	71.2	71.3	71.5

\$-No data released post previous data

## CriSidEx- MSE Sentiment Index



## Credit - Dashboard- Annual

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
<b>Non-food Credit O/s SCB* (lakh crore)</b>	55.29	60.02	65.46	70.94	76.88	86.33	89@
<b>Credit to Industry O/s -SCB (lakh crore)</b>	25.16	26.57	27.3	26.8	26.99	28.85	28.17@
<b>Credit to Services O/s -SCB (lakh crore)</b>	13.37	14.13	15.41	18.02	20.5	24.15	24.32@
<b>MSE Credit O/s -SCB (lakh crore)</b>	7.07	8.00	8.47	9.01	9.96	10.67	11@
<b>Weighted Average Lending Rate- SCB (outstanding loan)</b>	12.11%	11.76%	11.20%	10.80%	10.35%	10.35%	10.40%#
<b>MSME Weighted Average Lending Rate- SCB (outstanding loan)</b>			12.25%	11.88%	11.41%	11.42%	11.26%^

@ Jan 31, 2020, # Sept 2019, \* SCB- Scheduled Commercial Bank, ^ June 2019

Source- RBI, Ministry of Statistics and Programme Implementation, Office of Economic Advisor, Dept of Economic Affairs

# MSME Scheme Tracker

## Govt e-Marketplace (GeM)

Dedicated e-marketplace for Goods & Services procured by Govt Organizations/ Departments/ PSUs.

### Key Highlights as on March 13, 2020-

 44,157  
Buyer Organizations

 3,45,227  
Seller & Service Providers

 21,21,970  
Products

 23,349  
Services

 36,75,404  
Orders

 49,598 crore  
Transaction Value

 77,116  
MSE Sellers & Service Providers

 53.27%  
Order Value (MSE %)

## MSME SAMBANDH

Web portal launched to monitor implementation of Public Procurement Policy.

### Key Highlights for FY 2019-20 as on March 13, 2020-

 ₹113,849 crore  
Procurement through portal

 119  
CPSEs reported procurement

 ₹33,136 crore  
Procurement from MSEs

 1,29,089  
MSEs benefitted

 ₹555 crore  
Procurement from SC/ST owned MSEs

 ₹294 crore  
Procurement from Women MSEs

## PRADHAN MANTRI MUDRA YOJANA (PMMY)

Scheme to finance income generating small businesses, launched on April 08, 2015.

### Key Highlights for FY 2020 as on Dec 27, 2019-

 3.33 crore  
No. of accounts

 ₹1.69 lakh crore  
Amount Sanctioned

 ₹1.64 lakh crore  
Amount Disbursed

 138 FIs  
Submitting data on portal

Note- Provisional data

## MSME SAMADHAAN

Web portal to address delayed payment to MSEs

### Key Highlights as on March 13, 2020-

 38,202  
Case filed by MSEs

 ₹10,008 crore  
Amount Involved

 3093  
Applications Disposed

 ₹590 crore  
Amount involved in disposal

 3317  
Mutual Settlement

 ₹380 crore  
Amount involved in mutual settlement

 9854  
Cases under consideration

 6453  
Applications rejected

# SIDBI in News

## SIDBI MSME Outreach programme

Taking forward the MSME outreach initiative, the Bank organized Outreach programme in Jharkhand, Kerala and Haryana, making the total tally 10. The prime objective of the initiative is to gauge the expectation of MSME stakeholders, identify the good practices of the State and suggest State-

specific schemes. The outreach programme of the Bank is based on recommendation of the expert committee on MSMEs, headed by Shri U.K. Sinha (former Chairman SEBI), for SIDBI, to collaborate with State Governments to get MSME units from respective State onto digital platforms such as PSBloansIn59minutes, listing on stock exchanges, e-commerce platforms etc. 10 outreach programmes under this initiative were organized in the states of Uttar Pradesh, Bihar, Uttarakhand, Gujarat, Maharashtra, Rajasthan, Telangana, Kerala, Jharkhand and Haryana.

Target audience of these programmes were officials from State Governments, banks, industry associations, Technical Consultancy Organizations (TCOs), MSMEs and other relevant stakeholders.



As the next logical step, Bank has initiated efforts to set up Project Management Units (PMU) for facilitating MSME aligned engagement in 13 States / Union Territories (UT) of Andhra Pradesh, Assam, Delhi, Gujarat, Haryana, Rajasthan, Jammu & Kashmir UT, Karnataka, Ladakh UT, Maharashtra, Tamil Nadu, Uttarakhand and Uttar Pradesh.

## MSME Pulse flags slowdown in credit growth

The 8th edition of MSME Pulse tables that Commercial credit, which has been steadily growing over the past few years, has slowed down in the past few quarters. The total on-balance sheet commercial lending exposure in India is ₹65.0 lakh crore in Sep'19 indicate slowdown through comparative figure of Sep' 18. The Year-On-Year (YOY) commercial credit growth was at 8.1% in the quarter ending in Sep'19. MSME Segment with aggregate credit exposure of up to ₹50 Crores, constitutes ₹18.3 lakh crore outstanding (~28% of commercial credit outstanding). Micro (less than ₹1 crore), Small (₹1 crore-₹15 crore) and Medium (₹15 crore-₹50 crore) segments showed a YOY growth of 7.7%, 4.6%, 1.9% respectively for the period Sep'18 to Sep'19.

The overall NPA rate of commercial lending was at 16.8% in Sep'19 marginally lower than 17.0% in Sep'18. In the MSME segment, NPA rate has increased from 11.7% in Sep'18 to 12.2% in Sep'19. The report also revealed that, Private Banks and NBFCs have successfully managed to gain market share from Public Sector Banks on MSME lending front, in last few years. However, in the quarter ending Jun'19, the share of NBFCs had declined for the first time in the last two years. NBFCs have also witnessed an increase in NPA rate in the quarter ending Sep'19.

Link of report-

[https://sidbi.in/files/announcements/MSME%20REPORT\\_JAN\\_2020\\_WEB%20lr.pdf](https://sidbi.in/files/announcements/MSME%20REPORT_JAN_2020_WEB%20lr.pdf)

## SIDBI organized 2<sup>nd</sup> Investors' day

SIDBI organized 2nd edition of Investors' Day on January 16, 2020, at Bengaluru, to provide a platform to emerging startups, who can present their ideas before the leading Alternative Investment Funds (AIFs). For the event, 20 startups were selected from a pool of 200 applicants and they were introduced to various fund managers for making a pitch for raising funds. The startups pitched with their next level of growth plans and made a case for investment in their respective company/concern. Fund managers evaluated and evinced interest to propel investee companies to the next ladder of investment cycle.

The Bank has also automated the event process by introducing a mobile application whereby the startups and AIFs have end-to-end access to the event. The AIFs shall indicate their interest in startups on the app itself which shall be displayed at the event on real time basis. A total of 85 Expressions of Interest (EOI) were extended by 27 fund managers with the best startups getting 12 EOIs. All the startups received at least one EOI while the best 6 startups were felicitated by CMD, SIDBI.



## SWAVALAMBAN – UTSAV & SWAVALAMBAN - SANKALP

Under its Mission Swavalamban, the Bank has undertaken a range of initiatives to kindle entrepreneurship spirit among youth, women and unserved/underserved segments, especially from the rural areas and to create role model entrepreneurs for aspirational India. Under Mission Swavalamban, the Bank launched 'SWAVALAMBAN UTSAV – Pragati Ki Udaan' for promoting handicraft products of Women Micro Entrepreneurs at Varanasi, Uttar Pradesh. The two-day event was aimed at providing a marketing platform to rural women micro entrepreneurs to sell their handicraft products to traders and public in Varanasi. The event features handicraft and other products including jute items, wooden crafts etc. made by 500 women micro entrepreneurs.



SIDBI in association with Dalit Indian Chamber of Commerce & Industry (DICCI) has launched 'Swavalamban Sankalp – Mega Campaign', a series of pan India one day Outreach, Awareness and Business Opportunity Program' pan India to give fillip to Stand Up India (SUI) Scheme. Swavalamban Sankalp envisages boosting the penetration of the SUI scheme and providing an opportunity for the aspiring SC/ST entrepreneurs to start their entrepreneurial journey to become Swavalambi - The Job Giver as against Job Seeker. The one-day intensive program witnessed a participative interaction by all stakeholders, thus providing a platform for inculcating awareness and business development.



# MSME in News

## Extension of MSME debt recast window

RBI notified extension of deadline for the one-time restructuring scheme of MSME loans by another nine months to 31 December 2020. As per the scheme, the aggregate exposure, including non-fund based facilities, of banks and NBFCs to the borrower should not exceed ₹25 crore as on 1 January, 2020. This recast will be applicable if the borrower's account, though in default, is a standard asset as on 1 January and continues to be classified as standard till the recast. However, loans that have already been restructured in accordance with the last year's provisions will not be eligible for restructuring under the current circular.

The borrowing entity should also be GST-registered on the date of implementation of the restructuring. However, this condition will not apply to MSMEs that are exempt from GST-registration, which shall be determined on the basis of exemption limit (as on January 1, 2020).

## Govt plans to rank states on their efforts to promote MSMEs

The Govt is working to rank states on the basis of their efforts to promote MSMEs. The state ranking system will be prepared by Ministry of MSME in coordination with Niti Aayog. The states will be ranked based on the 4 Es, i.e. Employment Generation, Enterprise Creation, Exports and Ease of Doing Business.

The Ministry of MSME is also developing a platform with global market intelligence system for providing a consolidate database of export related information on MSMEs. The information will be available in all 22 languages.

## CRR leeway for new Retail and MSME loans

To revitalize the bank credit to productive sectors, RBI allowed banks to deduct, from their net demand and time liabilities (NDTL) for maintenance of the cash reserve ratio (CRR), the equivalent amount of incremental credit disbursed by them as retail loans to automobiles, residential housing, and loans to micro, small and medium enterprises (MSMEs), over and above the outstanding level of credit to these segments as at the end of the fortnight ended January 31, 2020. The first such deduction can be claimed from the NDTL of February 14, 2020 for the amount equivalent to the incremental credit extended vis-a-vis outstanding level of credit as on January 31, 2020. As per scheme, an amount equivalent to the incremental credit outstanding from the fortnight beginning January 31, 2020 and up to the fortnight ending July 31, 2020 will be eligible for deduction from NDTL for the purpose of computing the CRR for a period of five years from the date of origination of the loan or the tenure of the loan, whichever is earlier.

## Other MSME News

# India Plans Legal Platform for MSMEs to Counter Cheap Imports, Trade Distortions

Panel of lawyers to help in areas of trade remedies such as anti-dumping and countervailing duties

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New Delhi: India is putting in place a legal platform to help small and medium enterprises, threatened by cheap imports in the fight against trade-distorting practices. The commerce department is looking to constitute a panel of lawyers to provide legal guidance to micro, small and medium enterprises (MSME) in the area of trade remedies such as anti-dumping duty, countervailing duty and safeguard measures.

### A Helping Hand

Panel of lawyers to help MSMEs fight cases of trade remedies



- MSMEs lack resources to report cases of dumping, import surges
- 46 cases of countervailing investigations against India

• ₹765.37 cr raised via anti-dumping duties in Apr-Nov



32 days taken to initiate anti-dumping investigations in 2019 vs 110 days in 2017



tion of anti-dumping investigations in 2019 is 32 days compared to 110 days during 2017 and 259 in 2016.

DGTR has also set up a help desk and facilitation centre to ensure optimal utilisation of available trade remedial measures aimed at curbing unfair trade.

# Goa gets standing committee for MSMEs to monitor, reform sector

Times News Network

Prasanth line bid to support micro, small and medium enterprises (MSMEs) in the state, the Goa government has constituted a state-level standing committee on MSMEs that will not only monitor all initiatives, but also recommend reforms for the sector.

MSMEs in Goa said issues concerning Goods and Services Tax (GST) refunds, access to finance, and delayed release of payments by government bodies continue to dog the sector, which contributes 20.0% to the national GDP.

The state-level standing committee will be chaired by chief secretary Pratul Rai with secretaries of finance, labour, factories and boilers, transport, law, revenue, agriculture and industries departments making up the members.

### NEED FOR BOOST

1.00L Approx no. of MSME units in Goa, including 2,800 industrial units

₹1,36,52 lakh crore Nation's GDP

20.0% Share of MSME in GDP

1.37 crore No. of



Chairman of National Council of MSME, Assocn, Mangutrish Pal Raikar, who recently met Union minister of commerce Piyush Goyal, discussed some of these issues with the Centre and requested the Centre resolve the problems faced by the sector.

"A common grievance of MSME sector is delayed payment for goods or services de-

livered from clients, which includes government departments and public sector undertakings. The GST refunds have also been delayed for over six months and this leads to a liquidity crunch for MSMEs," Raikar said.

He further said that banks also hesitate to disburse loans to both existing and new MSMEs and thus the lack of fi-

nance prevents MSMEs from expanding operations and could also result in loan defaults.

State government officials said that the standing committee will try to address some of these issues by discussing it with the Reserve Bank of India, whose deputy general manager will serve on the state-level standing committee.

Raikar said that government officials, who create road blocks and harass entrepreneurs, need to change their attitudes. "It is not only the ease of doing business that is important, but there is a dire need of improving the system to have ease of running the business," Raikar told TOI.

Raikar has also raised these issues with the Union minister and high-level officials of the central government, including finance, industry, commerce, textiles, railways, corporate affairs, labour and others.

# BUDGET AT A GLANCE

### POWER PLAY

Lower Tax for Power Cos  
Concessional corporate tax rate of 15% to be given to new domestic power cos provided they start generating electricity by 31st March, 2023

### LESS PAPERWORK

Audit Ease for MSMEs  
MSMEs having turnover more than ₹5 crore that conduct less than 5% of their business transactions in cash will get their books audited

# Retail, MSME Loans Rise Sharply On Govt Outreach

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Mumbai: Finance minister Nirmala Sitharaman's loan meha efforts are beginning to show signs of having an impact with loans growing in the first half of the fiscal.

Ever since the government launched its first loan outreach programme to revive demand by extending loans to retail customers and MSMEs in early October, commercial banks have disbursed over ₹1.75 lakh crore in the October-December period of 2019 as compared to a contraction of ₹62 crore during the April-September, according to the latest data from RBI.

Data show that besides MSME, vehicle loans, unsecured loans and loans to the service sector, there is a pick-up in hotels and tourism and whole-

sale numbers.

An analysis of RBI's data on sectoral flow of credit for October-November shows that after the outreach, fresh loans to MSMEs rose by ₹1,430 crore, compared to a contraction of ₹14,177 crore in April-September. Loans to services sector rose by ₹1,000 crore compared to a contraction of ₹53,743 crore in April-September.

Vehicle loans rose up by ₹1,550 crore in October-November compared to ₹1,292 crore in April-September.

While credit growth in July-September quarter was only ₹29.5 crore compared to ₹3.56 lakh crore in the same period last year, the numbers look much better with credit growth in October-December at ₹1.76 lakh crore compared to



# New incentive plan for MSMEs

TIMES NEWS NETWORK

Kolkata: The state budget this year has given special emphasis on micro, small and medium enterprises (MSME) sector. Finance minister Amit Mitra has proposed to introduce a new incentive scheme for MSME — 'Bangashree' — from April 1, MSMEs that started operations with effect from April 1, 2019, will also be eligible for the scheme.

"It is expected that with this incentive scheme, more MSMEs can be established and huge employment will be generated," the minister said. He has allocated Rs 100 crore for the scheme. Besides this incentive scheme, Mitra has announced to establish 100 new MSME parks in the next three years. He has proposed allocation of Rs 200 crore for this purpose. According to him, as per NSS report of the Centre, West

Bengal has close to 90 lakh MSME establishments. During the last eight years, Mitra pointed out, the number of MSME clusters in operation has grown from 49 to 539. "At present, 52 MSME parks are operating and 39 more such parks are under construction," he added.

MD of Patton International, Sanjay Budhia, feels that the move will boost establishment of new MSMEs.

FICCI eastern region chairman Rudra Chatterjee said the strength of MSME has been the catalyst of Bengal's economic growth and incentivising new enterprises through dedicated parks will further boost the sector. BNCCI president Arpan Mitra has also lauded the MSME initiatives in the budget. MCC vice president Rishabh Kothari feels that this emphasis on MSME will also help in widespread job creation in the state.

## Budget highlights for MSME sector

	Budget proposal	Remarks
1	Provision for Subordinate Debt for MSMEs by banks as quasi-equity, fully guaranteed through CGTMSE	The proposal will enable the Banks to extend subordinate debt to MSMEs under CGTMSE guarantee to address the Working Capital requirements. The Government shall suitably augment the corpus of CGTMSE.
2	Debt restructuring window to MSMEs extended to March 31, 2021.	<p>The one-time restructuring scheme was first announced by the RBI on Jan. 1, 2019, for MSMEs with loans up to ₹25 crore. It was applicable on loans that are stressed but still standard at the time of issue of the guidelines. Any restructuring under this scheme would not attract any downgrade of the asset classification of the account. Lenders were, however, expected to make 5 % additional provision for restructured accounts. More than 5 lakh MSMEs benefitted under scheme in last one year.</p> <p>The scheme shall be extended till March 31, 2021.</p> <p><b>RBI vide its notification dated February 11, 2020 has extended restructuring window to December 31, 2020.</b></p>
3	Amendment to the Factor Regulation Act 2011, to enable NBFCs to extend invoice financing to MSMEs through TReDS platform.	<p>The permission given to NBFCs to lend against invoices in the TReDs platform will help to improve the MSMEs' liquidity position and their access to funds for Working Capital requirements.</p> <p>The move will enable NBFCs to penetrate in the Working Capital segment; nevertheless, the existing challenges of scaling TReDS platform, lack of adequate participation from large corporates and registration of MSMEs needs to be addressed.</p> <p>TReDS has registered base of 35 Financiers, as on Dec 31, 2019</p>
4	Launch of NIRVIK (Niryat Rin Vikas Yojana) offering higher insurance cover for exports	To achieve higher export credit disbursement, a new scheme Nirvik is being launched which provide higher insurance cover at reduced premium for small exporters and simplified procedure for claim settlement. Under scheme, insurance cover percentage has also been enhanced to 90% from the present average of 60% for the both principal and interest.
5	No audit for MSMEs with turnover upto ₹5 crore	To reduce the compliance burden, the threshold turnover limit for audit increased to ₹5 crore from existing limit of ₹1 crore.

6	Launch of App based invoice financing loans	App-based invoice financing loans product will be launched to alleviate the problem of delayed payments and cash flow mismatches for MSMEs.
7	Full tax exemption for 3 out of 10 years for companies with turnover up to ₹100 crore (up from ₹25 crore)	<p>Presently, an eligible Start-up having turnover up to ₹25 crores is allowed deduction of 100% of its the profits for 3 consecutive assessment years out of 7 years, if the total turnover does not exceed ₹25 crore rupees.</p> <p>In order to extend this benefit to larger start-ups, the turnover limit is increased from existing ₹ 25 crore to ₹ 100 crores. Moreover, considering the fact that in the initial years, a start-up may not have adequate profit to avail this deduction, the period of eligibility for claim of deduction is increased from existing 7 years to 10 years.</p>
8	Setting up of Tech cluster	<p>A digital platform will be set up for seamless application and capture of Intellectual Property Rights (IPR) and an institute of excellence to work on the complexity and innovation in the field of IP.</p> <p>In addition to the digital platform, the announcement of Knowledge Translation Clusters to educate startups and MSMEs on business compliance and the risk of non-compliance.</p>
9	Launch of ₹1000 crore scheme for technological upgradation, R & D, etc. for mid-sized companies in select sectors to be funded by SIDBI and EXIM	To extend handholding support for R&D, tech and business strategy, a scheme of ₹ 1000 crore will be anchored in Exim bank and SIDBI. Both institutions will contribute ₹50 crore each and this ₹100 crore will be used towards equity and technical assistance. Debt funding of ₹900 crore from banks will be made available
10	Deferral of tax payment on employee stock ownership plans (ESOPs) for startups	<p>The move shall allow deferral of tax payment on ESOPs for 5 years or till the employee leave the company or sell their shares, whichever is earlier.</p> <p>Startups generally use ESOPs to attract and retain highly talented employees. ESOPs are a significant component for compensation of these employees. Currently, ESOPs are taxable as perquisites at the time of exercise.</p>
11	Simplification of GST filing process	To be introduced from April 2020 with proposed features like SMS based filing for NIL returns, improved input tax credit flow etc. besides overall simplification.

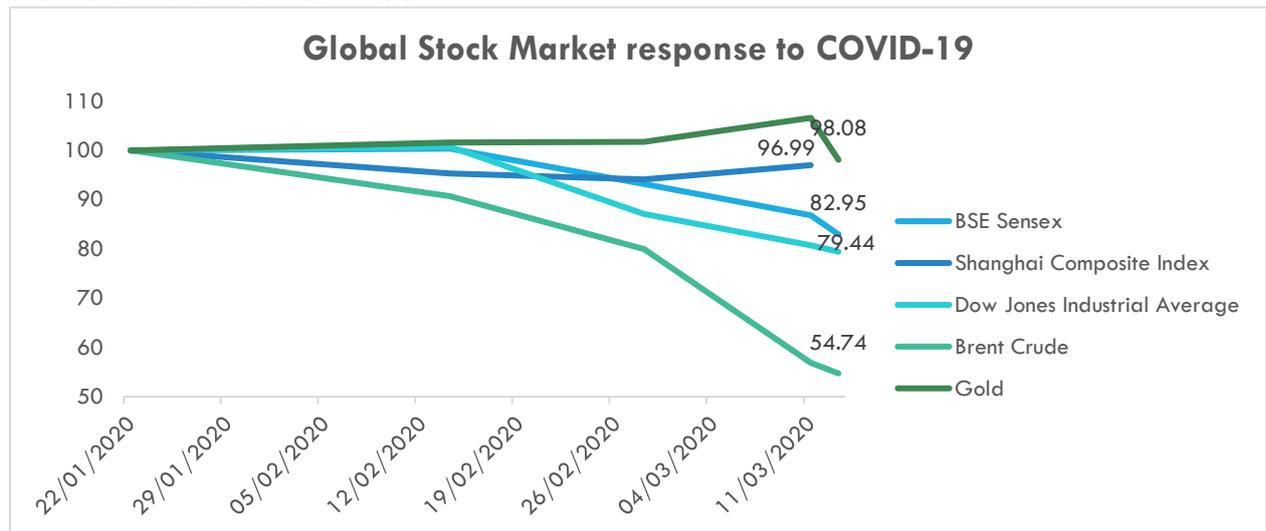
## Impact of COVID-19 on Indian Economy

As per UN Conference on Trade and Development, COVID-19 outbreak might cost the global economy in the range of \$1-2 trillion in 2020. COVID-19, a pandemic that began in China's Hubei province has spread rapidly and there are now significant outbreaks in other countries like Italy, Iran, Spain etc. As per WHO data, as on March 16, 2020, there are 1,73,344 cases across 152 countries with 7,019 casualties. Currently, the world is facing the twin challenges of containing the disease spread even while limiting the economic impact in an already slowing global economy.

### Economic fallout

As per OECD, the world's economy could grow at its slowest rate since 2009 this year due to the coronavirus outbreak. OECD has forecasted global growth at just 2.4% in 2020, down from 2.9% forecasted in November and has said that a longer lasting and more intensive outbreak could halve growth to 1.5% in 2020, as most of the affected countries are opting for lockdowns. China's economy has been worst affected, as the coronavirus brought the world's second-largest economy to a standstill.

Amid growing concern, the stock market reaction is closer to the crash of 2008, after Lehman Brothers filed for bankruptcy, as prices had crashed across asset classes as investors rushed for the exit.



Note- All index values rebased at 100 as on January 22, 2020

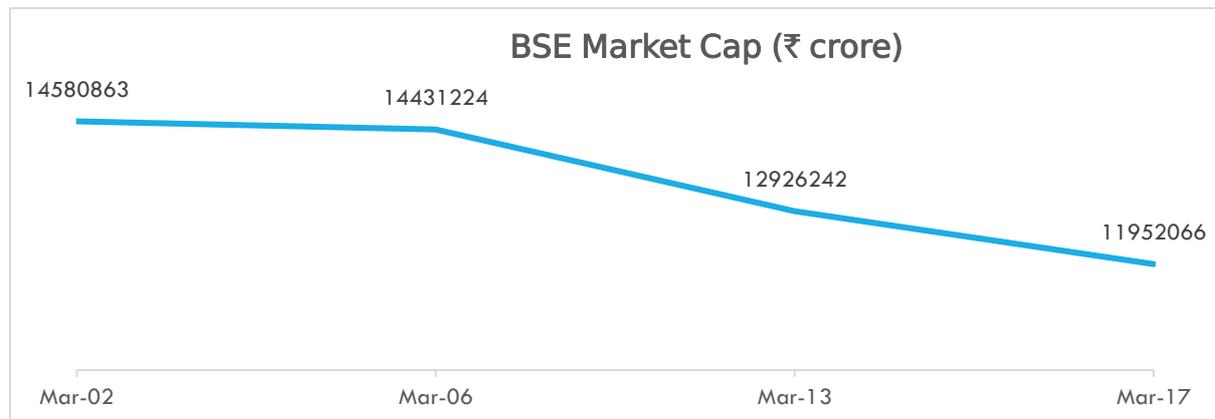
Countries like USA, UK, Netherlands and Canada have taken fiscal steps to lessen the damage to their economies. Central banks in many countries like the USA, South Korea and New Zealand have already announced deep cuts in their interest rates to make borrowing cheaper and push economic activity. The US government has announced more than a \$1 trillion boost in fiscal measures for the economy including an initial \$250 billion package that will send cheques directly to people. It has also given an extra 90 days to people to make their tax payments. This is besides the \$700 billion monetary easing announced by the US Federal Reserve when it cut lending rates to zero.

### Impact on Indian Economy

Amid rising concerns over spread of COVID-19, Indian Government also followed the precautionary measures of social distancing like discouraging travels, restricting visas, shutting down malls, gyms, markets, restricting social gatherings etc. The rapid spread of the coronavirus globally has raised the prospects of a hit to the Indian economy by weaker exports and disrupted imports. Rising instances of locally detected cases have

added to those concerns, with economists fearing a hit to key services sectors, starting from travel and tourism to hospitality and aviation.

Indian stock market has hit three year low amid the rising concerns of virus outbreak and slowing economic activity.



During March 02 to March 17 period, mayhem at Dalal street has eroded investors wealth worth ₹26.28 lakh crore, leading to cut back on spending and lead to further slowdown in economy. This might have a far-reaching effect on the consumer spending in coming quarters of FY 2021.

China, where the coronavirus began, is likely to see a contraction in GDP in the first quarter of 2020 — the first contraction since 1998. Indian economy may also suffer due to exposure to the global economy for exports of services and goods. Overall economy may face the demand and supply side constraints, major sectors which could be worst affected by the virus outbreak are given below-

#### 1. Demand side constraints-

- **Aviation sector-**

Aviation sector has been the worst affected sector due to the COVID-19 outbreak. In the wake of significant reduction in services due to suspension of visas, travel restriction leading to fall in domestic demands; airlines have grounded more than 150 aircrafts and cancelled most of international operations. Even with the oil prices around USD 30 per barrel, airlines are facing the liquidity crunch. Reduced scale of operation has resulted in manpower retrenchment and other cost cutting means.

As per experts, the impact on aviation sector could be long lasting and could affect the profitability of carriers even in Q1:2021.

- **Hospitality sector-**

With several travel restrictions, the hotel industry, which entirely depends on travel, trade & tourism, has been badly affected with sudden fall in occupancy levels to around 15-20%.

Further, National Restaurant Association of India, which has more than 5 lakh restaurants under its umbrella and advised its members to shut down the operations till March 31. Restaurants have witnessed a sharp decline in business in last few days and restaurants at malls have been worst affected by the shut down of malls in big cities.

- **Apparel Industry-**

Exports are the major source of revenue for India's Apparel industry as it accounts for 60% of the total revenue. Europe alone accounts for 1/3<sup>rd</sup> of India's garment exports. But with the region being declared the new epicenter for the virus outbreak by WHO, new orders are bound to be affected.

Further, the decline in footfalls at stores, especially in malls, has also badly affected the revenue flow of the sector.

## **2. Supply side constraints-**

The lockdown in China & European nations has resulted in supply side constraints in sectors such as Pharma, Chemical and Chemical Products, Electric & Non-electric goods, Metal & Metal Products and Textile. The short supply of inputs and soaring prices has resulted in the price escalation and output shortage. Such sectors may witness a serious fall in outputs levels if the situation persists for longer duration.

### **Way forward-**

Countries have resorted to various fiscal and monetary measures to contain the economic impact of the COVID-19. US has slashed the interest rates to almost zero and launched a \$700 billion stimulus programme to protect the economy. Australia has announced \$11.4 billion, Italy (\$28 billion), UK (\$39 billion), EU (€25 billion) to combat coronavirus impact. China has also called for targeted easing measures and cuts in bank Reserve Requirement Ratios (RRR) to shore up lending to Small and Micro businesses and reduce financing costs. The RRR cuts will release at least 300 billion yuan (\$43.1 billion) into the banking system. RBI has also announced to undertake 6-month US Dollar sell/buy swap auction worth \$2 Billion on March 23 to provide liquidity to the foreign exchange market.

As the situation aggravates, mitigation strategies would be required for firms struggling with loan repayments, (who may need additional time to get back on their feet) and daily wage earners, who would need cash or in-kind transfers till they are able to resume their livelihood. The positive part amid the turmoil has been the fall in crude prices, which has enabled the central government to raise fuel taxes and add to its revenue kitty. The additional revenue accruing to Centre by increasing the excise duty (₹35,000-₹40,000 crore) could be spent on providing relief to people at the lower strata who will lose income because of shutdown of commercial activity in their states.

From the lenders perspective, they will have to be watchful as the cash flow crunch for firms could result in higher stressed assets. In view of this, moratorium on debt for firms and relaxed capital requirements for banks would help.

As the Govt is going all out to control the further breakout of the COVID-19, it is expected that economy will manage to get back on track in coming months and market sentiments will improve.