Survey on ‘Impact of the Corona Virus on the Indian Economy’

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CARE Ratings had launched its Survey on ‘Impact of the Corona Virus on the India Economy’ and reached out to experts in various fields CEOs, CFOs, investors, analysts, economists and other stakeholders and gathered their views on the likely impact of the pandemic of coronavirus, which has led to disruptions in the global supply chains hampering the global economic growth. The Survey was carried t during the period 5th March-12th March.

The impact on the Indian economy could be significant if the virus continues to penetrate the country which will have a longer lasting effect. While the impact on economic prospects due to activity being affecting in countries like China, S Korea, Japan, Italy, etc. would be through trade, investment and services routes, it could be more damaging if there is any shutdown in India. The objective of the Survey is to understand the opinion from the business fraternity regarding the downside risks to the Indian economy on the backdrop of outbreak and spreading of this virus.

Broadly, the Survey covered impact of coronavirus on the economic growth, commodity prices, inflation, interest rates, and sectors to be impacted, monetary and fiscal stimulus, impact on trade, markets, exchange rate and GSec yields.

152 participants responded to the Survey from various sectors like manufacturing, financial services, banking, infrastructure, real estate and services. Based on these responses received the gist of the responses has been summarized below;

- India’s GDP will reduce by around 0.5%
- The RBI is likely to respond by reducing the repo rate by 25 or 50 bps either before or on April 2020
- Fiscal deficit may widen if the government announces fiscal measures to support the economy
- Among the industries, drugs and pharma, healthcare are to benefit while the hospitality and tourism and aviation industry are expected to be hampered
- Further contraction in India’s exports and imports in 2020-21
- Global commodity prices will fall
- Pick up in retail inflation by June 2020
- Import substitution may take place in drugs and pharma, electronics and textiles
- Rupee to remain under pressure
- NPA level in the banking system may get further pressured

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Q1. The likely growth rate of the Indian economy in 2020-21 (GDP growth for 2019-20 estimated at 5%) will be reduced by

- 52% of the participants indicated that India’s GDP growth will decline by up to 0.5%.
- 23 participants (22% share) expected more than 1% reduction in the GDP growth for India in FY21.
- 11 participants felt that the reduction in GDP would range between 0.75-1%

Q2. What could be the policy action from the RBI either before policy or on April 3, 2020 monetary policy meet notwithstanding the fact that CPI inflation will be in the region of 6% on account of covid-19?

- 46 of 106 respondents (43%) felt that there would be no rate action by the RBI
- 57% of the (60 out of 106) respondents said that the RBI would go for further monetary policy easing and would cut the repo rate to provide a monetary policy boost.
  - Out of respondents with expectations of rate cut by the RBI, 42% expect 25 bps rate cut while 38% felt the reduction in the policy rate would be by 50 bps.
  - 4 respondents expected a deeper rate cut by 100 bps.
  - 5 respondents gave a range for reduction in repo rate: 25-35 bps (2 individuals), 25-50 bps (2 individuals), 50-75 bps (1 individual).

Q3. Will the central government undertake additional spending and revise the fiscal deficit target of 3.5% for 2020-21?

- Nearly 70% (72 out of 105 respondents) expected widening of the fiscal deficit.
- 35% opined that the fiscal deficit target would be widened by another 0.25% to 3.75% for the fiscal year 2020-21

Q4. Which domestic industries/sectors could be impacted by the global spread of the corona virus?

We asked participants to list out 5 sectors which will benefit and 5 sectors which will be negatively impacted. Top 10 industries to be impacted positively and negatively are listed below in the Tables.
**Industries to benefit:**
- According to the responses, drugs and pharma industry appeared be the popular choice among the respondents with 23% of the responses.
- It was followed by healthcare (10%) and FMCG (8%).
- Some of the other industries which are expected to benefit apart from top 10 are retail and e-commerce (4%), BFSI (3%), infrastructure (3%), capital goods (3%) and auto and auto ancillary (3%) among others.
- 4 Finance experts indicated that BFSI sector to benefit while one expert from the healthcare industry suggested that drugs and pharma industry is expected to get an advantage.

**Industries with a negative impact**
- Highest 23% of the respondents opined that hospitality and tourism will have an adverse effect of the outbreak of coronavirus followed by airlines (11%) and auto and auto ancillary (9%).
- 3% of the total respondents said that Textiles would be adversely affected along with chemicals (3%), oil and gas (2%), services (2%), retail and e-commerce (2%), FMCG (1%) among others.
- Among the respondents who indicated negative impact on BFSI sector, 5 belonged to the same industry.
- 1 expert from hospitality sector suggested that the industry is expected to have a negative impact.

### Top 10 industries with positive impact

<table>
<thead>
<tr>
<th>Industry</th>
<th>Number of responses</th>
<th>% share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Drugs and Pharma</td>
<td>72</td>
<td>23</td>
</tr>
<tr>
<td>Healthcare</td>
<td>30</td>
<td>10</td>
</tr>
<tr>
<td>FMCG</td>
<td>24</td>
<td>8</td>
</tr>
<tr>
<td>Consumer durables</td>
<td>20</td>
<td>6</td>
</tr>
<tr>
<td>IT</td>
<td>20</td>
<td>6</td>
</tr>
<tr>
<td>Chemicals</td>
<td>19</td>
<td>6</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>14</td>
<td>5</td>
</tr>
<tr>
<td>Metals</td>
<td>13</td>
<td>4</td>
</tr>
<tr>
<td>Textiles</td>
<td>13</td>
<td>4</td>
</tr>
<tr>
<td>Oil and Gas</td>
<td>11</td>
<td>4</td>
</tr>
</tbody>
</table>

### Top 10 industries with negative impact

<table>
<thead>
<tr>
<th>Industry</th>
<th>Number of responses</th>
<th>% share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hospitality and Tourism</td>
<td>84</td>
<td>23</td>
</tr>
<tr>
<td>Airline</td>
<td>40</td>
<td>11</td>
</tr>
<tr>
<td>Auto and auto ancillary</td>
<td>34</td>
<td>9</td>
</tr>
<tr>
<td>Electronics</td>
<td>24</td>
<td>7</td>
</tr>
<tr>
<td>Metals</td>
<td>20</td>
<td>6</td>
</tr>
<tr>
<td>BFSI</td>
<td>14</td>
<td>4</td>
</tr>
<tr>
<td>Consumer durables</td>
<td>14</td>
<td>4</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>14</td>
<td>4</td>
</tr>
<tr>
<td>Drugs and Pharma</td>
<td>12</td>
<td>3</td>
</tr>
<tr>
<td>Food and beverages</td>
<td>11</td>
<td>3</td>
</tr>
</tbody>
</table>

### Q5. The impact on the spread of corona virus on India’s export growth in 2020-21 versus 2019-20?

- 58% i.e., 60 out of 103 respondents opined that the pandemic will adversely impact the exports of India. Exports are expected to contract in 2020-21.
Q6. The impact on the spread of corona virus on India’s import growth in 2020-21 versus 2019-20?

- 80 out of 103 respondents (78%) expected the imports to contract further in 2020-21.

Q7. Will global commodity prices on an average be impacted in the coming 4 months (March – June 2020)?

- 60 out of 104 participants who responded to this question of commodity price trend said that there would be downward pressure on the commodity prices up to June 2020 owing to disruptions caused by coronavirus across various countries.
- 42% of the respondents felt prices will increase in the next three months.

Q8. What will impact on domestic (retail) inflation be by June’2020 on account of the impact of coronavirus?

- 53% of the respondents expected an upward pressure on the inflation in the next 4 months.
  - 32 individuals expected retail inflation to increase by 0-0.5% by June 2020 while 14 individuals expected a rise by around 0.5-1% in the inflation rates.
- On the other hand, with decline in the global commodity prices (especially crude oil), the retail inflation is expected to moderate by June 2020, was the view of 47% of the respondents.

Q9. Will the epidemic provide a boost to domestic industry by way of import substitution or increased exports/new export markets?

- No, 43% of the respondents did not believe the epidemic will provide a boost to domestic industry.
57% of the respondents agreed that the epidemic is likely to provide a boost to the domestic industry to make up for the shortfalls from the imports.

Out of the total 59 positive responses in favour of boost to domestic industry, 22% respondents opined that the drugs and pharma would benefit.

It was followed by textiles (11%) and electronics (10%).

Others comprised of metals, FMCG, capital goods, BFSI, food and beverage.

Interestingly, two respondents who suggested import substitution in drugs and pharma and healthcare industry were the experts from these industries.

Q10. What could the $/Rs exchange rate be by June 2020?

Nearly 75% of the respondents foresee the rupee to remain under pressure till June 2020.

- As many as 23 respondents out of 104 who answered the question (22%) expect the Rupee to weaken and remain below Rs. 74 per dollar even in June 2020.
- 20 out of 104 respondents accounting for 19% share pegged the rupee to range between Rs. 73-73.5 per dollar by June 2020.
- Only 9% (9 respondents) felt that Rupee will recover and be below Rs. 71 per dollar by June 2020.

Q11. What could be the level of Sensex by June 2020?

On the backdrop of recent drop in the SENSEX levels, we sought opinion regarding the SENSEX levels by June 2020.

- 88% of the respondents said that the SENSEX will remain below 40,000 mark by June 2020.
- 12% were optimistic and expected SENSEX to regain its pre-coronavirus levels and breach 40,000 mark by June 2020.
- Highest 28% of the respondents felt that SENSEX will range 38,000 - 40,000 by June 2020

Q12. What could be yield of the 10 year benchmark government security by June 2020?

- When asked regarding the GSec yields levels by June 2020, the respondents had divided opinions.
- Highest 23% of the respondents were of the opinion that the yields will fall and range between 6 to 6.1%.
- 20% each felt that the GSec yields will range between 6.2%-6.3% as well as 6.4%-6.5%.
- Only 19% expected the yields to fall below 6% by June 2020.
Q13. Would the NPA situation of banks be further pressured?

- 80% of the respondents opined that the NPA levels in the banking sector are going to increase owing to adversities in the economic activities owing to outbreak of COVID-19 across various countries.
- 33 out of 83 respondents belonged to banking and finance industry who suggested NPA situation will be further pressured.