

# A Review of Indian trade and Industry during the Covid-19 Era

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## ABSTRACT

The Indian economy has been experiencing significant slowdown over the past few quarters. Investment and consumption demand had been falling and a number of stimulus measures have been taken to bring back the economy on a growth path. There was a strong hope of recovery in the last quarter of the current fiscal. The new corona virus epidemic has made the recovery extremely difficult in the near to medium term. The outbreak has presented fresh challenges for the Indian economy now, causing severe disruptive impact on both demand and supply side elements which has the potential to derail India's growth story. There is an urgent need to take immediate steps to not only contain the spread of the virus but also to address the key pain areas of the industry which can help in minimizing the impact of the outbreak on the Indian economy and businesses. A combination of monetary, fiscal and financial market measures is needed to help the businesses and people cope with the crisis.

**Keywords:** Indian economy, Investment, Industry, businesses, Corona virus

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## I. INTRODUCTION

The Covid-19 outbreak has compounded the challenges and could send the economy hurtling toward a recession. Global growth has hit unprecedented depths of despair amidst COVID-19 with substantial risks of even more severe outcomes remaining. IMF's World Economic Outlook of April, 2020 projects global output in 2020 to contract by 3 per cent with output of advanced countries contracting more than emerging market and developing economies.

Indian economy had begun to regain momentum with clear signs of uptick in consumption and investment towards the end of third quarter of 2019-20 only to be halted by COVID-19 that made government enforce country-wide lockdown in late March 2020. The sharp negative growth of merchandise exports and imports in March 2020 gave first signs of distress having already entered the country's economic space. With the imposition of lockdown, the financial year 2019-20 closed with a seven-day period of economic inactivity. Besides trade, negative growth in Industrial production reflected the economic adversity of the lockdown.

Indian benchmark equity indices recorded largest gains in April 2020 after plummeting in March 2020, buoyed by optimism over lockdown easing in major global economies, stimulus packages by Central Banks and governments, expanding business activity in China and encouraging

COVID-19 drug trial results in the US. IMF has projected India's GDP growth in FY 2020-21 at 1.9 per cent and 7.4 percent a year later. The Government is aware of the severity of lockdown on economic activity in the country and is cautiously optimistic about the revival of growth later in the year.

## **II.DISCUSSION**

### **The Covid-19 Impact:**

#### **The Global Lockdown**

Global financial markets dramatically sold-off equity and debt in March 2020 which led to crashing of benchmark equity indices and tightening of bond yields before a modest recovery in April 2020 due to the Governments and Central Banks have responded by announcing stimulus packages and liquidity injections. On 12th May, 2020, the Prime Minister of India announced a package of Rs. 20 lakh crore for the country, amounting to 10 per cent of GDP, inclusive of all previous liquidity support by RBI and fiscal stimulus by the government. During the month of Global Lockdown, the month of April 2020 saw major indices of manufacturing and services across countries declining to record lows on the back of supply-side disruptions. Global energy prices plunged, US unemployment rates surged to double digits, Euro zone consumer confidence and UK retail spending fell, signaling the onset of a demand crisis as well. This has impacted heavily on commodity exporter countries as their currencies depreciated relatively more sharply.

#### **Weakening of Rupee against dollar**

On the external front, the rupee weakened against the dollar with sharp foreign portfolio investor (FPI) outflows. Yet, rupee outperformed its emerging market peers displaying a new found resilience in the forex market. Further, rupee depreciation did not inflate crude oil import bill as its price crashed in global markets. However, gold imports turned costlier with gold price spiking, riding on the yellow metal's safe haven appeal.

#### **Balance of Payments and External Debt**

Fortunately, India's external sector has acquired resilience manifest in improvement in Balance of Payments (BoP) position despite being challenged by net FPI outflows for some time. A comfortable BoP rests on manageable current account deficit (CAD), prudent external debt and robust availability of foreign exchange reserves adequate to finance more than eleven months of imports. As a considerable drop in domestic economic activity significantly curtails imports, India's current account balance may generate a small surplus in the first quarter of 2020-21. India's CAD is also supported by low levels of external debt servicing.

#### **Falling Imports and Exports**

The decline in exports has been mainly due to the ongoing global slowdown, which got aggravated due to the current Covid-19 crisis. The latter resulted in large scale disruptions in supply chains and demand resulting in cancellation of orders.

India's overall exports (Merchandise and Services combined) in April 2020\* are estimated to be USD 27.96 billion, exhibiting a negative growth of (-) 36.65 per cent over the same period last

year. Overall imports in April 2020\* are estimated to be USD 27.80 billion, exhibiting a negative growth of (-) 47.36 per cent over the same period last year.

### **Exports**

India's merchandise exports slumped by a record 34.6% in March while imports declined 28.7% as countries sealed their borders to combat the covid-19 outbreak. In February, merchandise exports had rebounded 2.9% after falling for six months in a row. Of the 30 major items each in India's export and import baskets, 29 saw a contraction in March, signaling the severity of the impact of the corona virus pandemic on global demand.

Exports in April 2020 were USD 10.36 billion, as compared to USD 26.07 billion in April 2019, exhibiting a negative growth of (-) 60.28 per cent. In Rupee terms, exports were Rs. 78,951.41 crore in April 2020, as compared to Rs. 1, 81,021.34 crore in April 2019, registering a negative growth of (-) 56.39 per cent. Except for Iron Ore and Drugs & Pharmaceuticals which registered a growth of 17.53% and 0.25% respectively, all other commodity/commodity groups have registered negative growth in April 2020 vis-a-vis April 2019. As compared to USD 19.54 billion in April 2019, exhibiting a negative growth of (-) 53.54 per cent.

### **Imports**

Imports in April 2020 were USD 17.12 billion (Rs. 1,30,525.08 crore), which was 58.65 per cent lower in Dollar terms and 54.59 per cent lower in Rupee terms over imports of USD 41.40 billion (Rs 2,87,432.93 crore) in April 2019. Major commodity groups of import showing negative growth in April 2020 over the corresponding month of last year are:

Oil imports in April 2020 were USD 4.66 billion (Rs. 35,537.22 crore), which was 59.03 percent lower in Dollar terms (55.01 percent lower in Rupee terms), compared to USD 11.38 billion (Rs. 78,989.46 crore) in April 2019.

In this connection it is mentioned that the global Brent price (\$/bbl) has decreased by 67.22 % in April 2020 vis-à-vis April 2019 as per data available from World Bank.

Non-Oil and Non-Gold imports were USD 12.46 billion in April 2020, recording a negative growth of (-) 52.18 per cent, as compared to Non-Oil and Non-Gold imports of USD 26.05 billion in April 2019.

### **Merchandise Trade**

The trade deficit for April 2020 was estimated at USD 6.76 billion as against the deficit of USD 15.33 billion in April 2019.

### **Services**

As per RBI's Press Release dated 15th May 2020, the trade balance in Services (i.e. Net Services export) for March 2020 is estimated at USD 7.05 billion.

### **Overall Trade Balance**

Taking merchandise and services together, overall trade surplus for April 2020\* is estimated at USD 0.16 billion as compared to the deficit of USD 8.67 billion in April 2019.

<b>EXPORTS &amp; IMPORTS (MERCHANDISE TRADE) : (US \$ Billion)</b>	
<b>(PROVISIONAL)</b>	
	<b>APRIL</b>
<b>EXPORTS(including re-exports)</b>	
2019-20	26.07
2020-21	10.36
<b>%Growth 2020-21/ 2019-20</b>	<b>-60.28</b>
<b>IMPORTS</b>	
2019-20	41.40
2020-21	17.12
<b>%Growth 2020-21/ 2019-20</b>	<b>-58.65</b>
<b>TRADE BALANCE</b>	
2019-20	-15.33
2020-21	-6.76
<b>EXPORTS &amp; IMPORTS : (Rs. Crore)</b>	
<b>(PROVISIONAL)</b>	
	<b>APRIL</b>
<b>EXPORTS(including re-exports)</b>	
2019-20	1,81,021.34
2020-21	78,951.41
<b>%Growth 2020-21/ 2019-20</b>	<b>-56.39</b>
<b>IMPORTS</b>	
2019-20	2,87,432.93
2020-21	1,30,525.08
<b>%Growth 2020-21/ 2019-20</b>	<b>-54.59</b>
<b>TRADE BALANCE</b>	
2019-20	-1,06,411.59
2020-21	-51,573.67

**Table 1: Merchandise Trade**

<b>EXPORTS &amp; IMPORTS (SERVICES) : (US \$ Billion)</b>		
<b>(PROVISIONAL)</b>	<b>March 2020</b>	<b>April-March 2019-20</b>
<b>EXPORTS (Receipts)</b>	18.16	214.61
<b>IMPORTS (Payments)</b>	11.11	131.56
<b>TRADE BALANCE</b>	7.05	83.05
<b>EXPORTS &amp; IMPORTS (SERVICES): (Rs. Crore)</b>		
<b>(PROVISIONAL)</b>	<b>March 2020</b>	<b>April-March 2019-20</b>
<b>EXPORTS (Receipts)</b>	1,35,043.18	15,21,939.15
<b>IMPORTS (Payments)</b>	82,618.50	9,32,981.07
<b>TRADE BALANCE</b>	52,424.68	5,88,958.08
Source: RBI Press Release dated 15 <sup>th</sup> May 2020		

**Table 2: Services Trade****Rate of Inflation**

Consumer price inflation (CPI) showed signs of price levels abating in March 2020, decelerating for the third month in a row. Growth in aggregate CPI index was 70 bps lower at 5.9 per cent (YoY) in March 2020 as compared to 6.6 per cent in February 2020. Food inflation also declined to 8.8 per cent in March 2020 as compared to 10.8 per cent in February 2020

**Industrial Production of Core Industries**

India witnessed sharp contractions in March 2020 both on the production and consumption side with a seven-day lockdown enforced in the last week of the month. Industrial production steeply contracted by 16.7 per cent (YoY) in March 2020 with manufacturing shrinking sharply by 20.6 per cent (YoY). For FY 2019-20, industrial production declined by 0.7 per cent compared to last year. Eight core industries also declined by 6.5 per cent (YoY) in March 2020, recording its steepest fall since 2012. Construction and manufacturing got disrupted with a 24.7 per cent fall in cement production and 13 per cent decline in steel output. Energy industries tracked domestic and global bearish trends.

**Manufacturing and service activity**

As the lockdown continued, manufacturing and services activity came to a standstill in April 2020 resulting in supply side disruptions and demand falling to unprecedented lows that fed into PMI indices going into a free fall. A huge decline in railways freight traffic for April 2020 gave clear evidence that economic inactivity was indeed widespread both across regions and sectors.

**PMI Manufacturing Index**

As seen in figure 3, the Manufacturing PMI fell sharply from 51.8 in March 2020 to 27.4 in April 2020. Record contractions in output, new orders and employment reflected a severe deterioration in demand conditions. Meanwhile, there was evidence of unprecedented supply-side disruption with input delivery times lengthening to the greatest extent during lockdown.

**PMI Service Index**

As shown in figure 4, the India’s Services Business Activity Index gravitated to new lows from 49.3 in March 2020 to 5.4 in April 2020, with business activity falling at record lows, demand for services collapse and excess capacity leading some firms to cut employment.

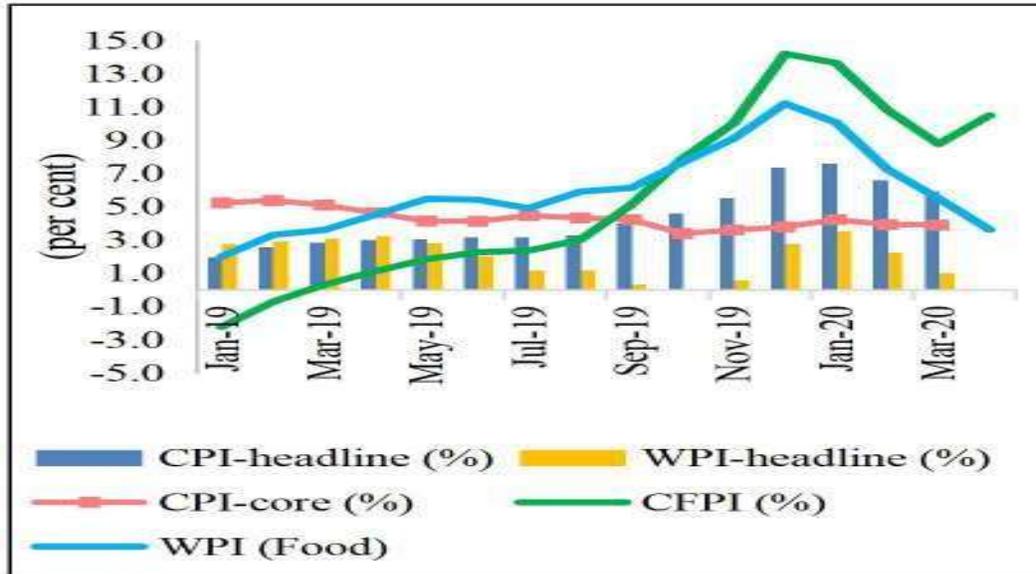


Figure 1: Rate of Inflation

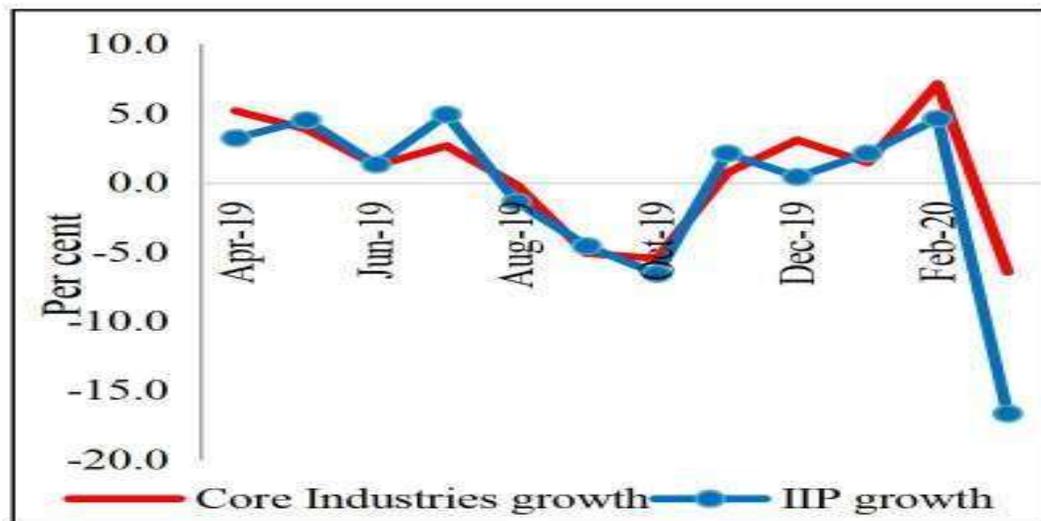


Figure 2: Growth Rate in Index of Industrial Production and Eight Core Industries

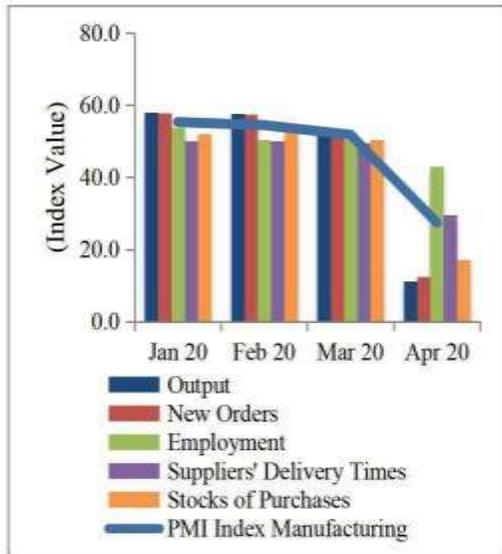


Figure 3: PMI Manufacturing India and components

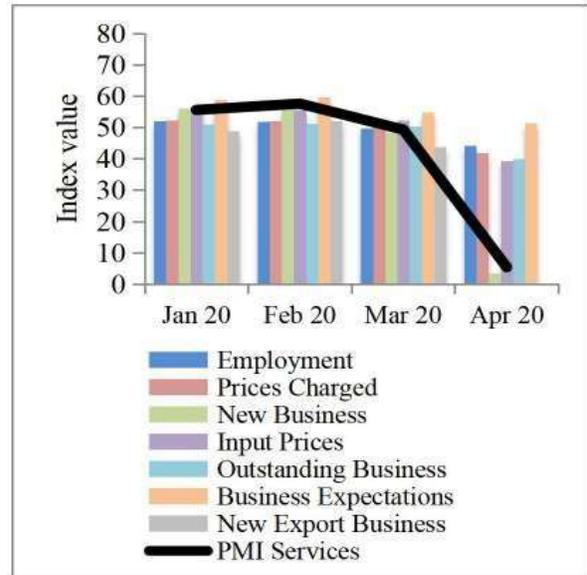


Figure 4: PMI Services India and components

### The Stimulus Packages of the Central Government

The impact of all the announcements today shall inject almost 3.2% of GDP, the Governor said in his brief today. The RBI also added that since February 2020 it had injected Rs 2.8 lakh crore of liquidity, equivalent to 1.4 percent of GDP. The stimulus package was announced by the Government will spend Rs 20 lakh crore to tackle the impact of virus on the economy. The Finance Minister Nirmala Sitharaman had laid out the measures that the Centre will take to contain the economic impact of the corona virus. The Government focused on providing relief to micro, small and medium enterprises, non-banking finance companies, power distribution companies and the real estate sector. The Finance ministry announced three big schemes -- a collateral free loan scheme, loans for critical MSMEs and mega 'fund of funds' to provide liquidity

### IV. CONCLUSION

The time has come to address the key pain areas of the industry which can help in minimizing the impact of the outbreak on the Indian economy and businesses. Challenges that members of Indian industry are facing either due to decline in consumption demand or due to supply chain disruptions owing to closure of factories in China, and the manufacturing units where workers are required to be physically present at the production sites, and services sector like banking and IT where lot of confidential data is used and remote working can enhance security threat. Hence companies operating in these sectors are finding it difficult to implement work from home facility without compromising with their day to day operations. The industry members have shared suggestions on possible actions that the government and RBI can take to contain the spread of coronavirus in India and mitigate the immediate concerns of the Indian companies. For frame correct actions and policy measures, it is important to understand clearly the specific problems that people and businesses are facing currently.

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