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COVID-19 and Service Sector in India

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Abstract:-This paper makes an attempt to analyse how the service sector has been affected by COVID-19 on services sector in India. Though, the exact impact of COVID-19 can be measured only after the situation normalises. However, there is no doubt in the fact that COVID-19 has affected the service sector severely than estimated or predicted. Apart from trade, hotels and restaurant, insurance, transport, IT Telecommunication, and real estate other key sectors such as Oil and gas, insurance, manufacturing, education etc. will be impacted as consumers will restrict outdoor activities to essentials in the foreseeable future.

Keywords:- *COVID-19, Service Sector and India.*

I. INTRODUCTION

The service-led growth of India during the post liberalization period is now well documented. The implementation of reforms in the service sector has led to high growth in industries such as telecom, information technology, financial services and real estate. Economic Survey, 2016-17 observes that "The services sector has emerged as the most dynamic sector of the world economy, contributing almost one-third of world gross value added, half of world employment, one-fifth of global trade and more than half of the world foreign direct investment flows". However, the growth of this sector has moderated to 7.7 per cent in 2016-17 compared to 9.7 per cent achieved in 2015-16, but it continues to be higher than the other two sectors, namely, agriculture and manufacturing. Today, economic growth in all the states is led by the service sector.

However, the COVID- 19 pandemic has impacted adversely the services sector in India. There are only predictions on the extent and severity of Impact of COVID-19 since the pandemic is still continuing with increased infections.

This paper attempts to analyse service sector in the light of ongoing pandemic in India. The paper is divided into four sections. Section II deals with growth and structure of Services in India. Section III examines the effect of COVID-19 on Service sector in India and section IV gives conclusion.

II. GROWTH AND STRUCTURE OF SERVICES IN INDIA, 1991-92 TO 2016-17

Table I shows the relative contribution of different economic sectors in GVA (%). It is observed from the table that during the post-reform period from 1991-92 to 2016-17, the relative contribution of agriculture sector continues to fall from 35.38 per cent during the period 1991-92 till 1996-97 to 17.66 per cent during 2012-13 to 2016-17. However, for the manufacturing sector the fall in its contribution to total GVA has been moderate. The services sector witnesses consistent and substantial rise in its share in GVA. 'Construction', 'trade, restaurant and hotels' and 'transport storage and communication' account for more than two third of the services sector GVA for the entire post reform period, i.e. from 1991 to 2016.

As can be further seen from Table -I, major changes in the structure of the services GVA happened from 2003-04 to 2007-08. During this period, the services sector has contributed to more than half of the GVA of the economy. 'Trade, hotels and restaurants' continue to be the largest contributor to services GVA by accounting for about 21.19 per cent of the services GVA. The sub-period from 2008-09 to 2011-12 appears to be the most vibrant and high growth period for the economy as a whole, but more for the services sector. The contribution of the services sector in GVA reached closer to 60 per cent.

It is also important to note that the 'trade, hotels and restaurant' has been the largest contributor to services GVA except for the period 2012-13 to 2016-17. During this period, the above said services sub-sector has been replaced by 'finance, insurance, real estate and business services' contributing to 21.96 per cent of the GVA.

Table I: Relative Contribution in GVA (%), 1991-2017

S.No.	Sectors	1991-92 to 1996-97	1997-98 to 2002-03	2003-04 to 2007-08	2008-09 to 2011-12	2012-13 to 2016-17
1	Agriculture	35.38	29.47	23.37	19.48	17.66
2	Manufacturing	21.37	21.19	20.56	20.80	18.55
3	Services	43.25	49.34	56.07	59.71	63.79
3.1	Construction	8.48	8.53	9.90	10.37	8.70
3.2	Trade, restaurant and hotels	17.04	19.49	21.19	21.90	11.17
3.3	Transport storage and	7.78	8.84	10.17	11.04	8.80
3.4	Finance, insurance, real estate and business services	6.74	9.55	12.11	13.62	21.96
3.5	Community, social and personal services	3.20	2.94	2.69	2.78	13.16

Source: Author's calculation based on data from National Accounts Statistics and CSO.

Table II: CAGR at 2004-05 constant prices (%), 1991-2017

S. No.	Sectors	1991-92 to 1996-97	1997-98 to 2002-03	2003-04 to 2007-08	2008-09 to 2011-12	2012-13 to 2016-17
1	Agriculture	4.70	1.42	3.41	3.96	2.46
2	Manufacturing	9.93	3.90	9.86	7.46	7.45
3	Services	8.14	8.06	11.18	8.43	7.76
3.1	Construction	3.57	6.56	12.25	7.59	2.85
3.2	Trade, restaurant, and hotels	9.20	7.55	9.87	8.10	9.18
3.3	Transport, storage and communication	7.77	8.42	9.85	10.80	11.03
3.4	Finance, insurance, real estate and business services	8.29	11.34	14.78	7.71	9.68
3.5	Community, social and personal services	7.64	4.50	7.11	8.45	6.87

Source: Author's calculation based on data from National Accounts Statistics and CSO.

Table II provides the compound annual growth rates at 2004-05 constant prices. It is seen that in sub-period from 1991-92 to1996-97, the compound annual growth rate of the manufacturing sector (9.93 per cent) is highest among agriculture (4.70 per cent) and 'services sector' (8.14 per cent). Within the services sector however, there is a wide variation in the growth performance of different sub-sectors. Between 1991-92 and 1996-97, the services that have grown at a faster rate than the compound annual growth rate for the entire services sector have been 'trade, restaurant and hotels' (9.20 per cent) and 'finance, insurance, real estate and business services' (8.29 per cent). The services that have experienced lower than the average growth in the period from 1991-92 to 1996-97, include 'construction' (3.57 per cent); 'transport, storage and communication' (7.77 per cent); and 'community, social and personal services' (7.64 per cent).

In the second sub-period from 1997-98 to 2002-03, the pattern of growth in the services sector is more or less similar to first sub-period from 1950 to 1966. However, in case of manufacturing sector significant fall has been witnessed in the average annual growth rate from 9.93 percent in 1991-92 to 1996-97 to 3.90 per cent in 1997-98 to 2002-03.

Of all the periods discussed, the growth rate of services GVA was highest (11.8 per cent) during the period from 2003-04 to 2007-08. As in the previous periods different individual sub-sectors of services outperformed the average in terms of GVA growth, but during 2003-04 to 2007-08, 'finance, insurance, real estate and business services' outperformed the average annual growth rate of services.

During the period from 2008-09 to 2011-12, the average annual growth rate of all the sub-sectors of services, witnessed decline except, 'transport, storage and communication' and 'community, social and personal services'. However, during the period from 2012-13 to 2016-17, the 'construction' sector has witnessed significant decline in its average annual growth rate followed by 'community, social and personal services'. Finally, there are two services namely, 'trade, restaurant and hotels' and 'transport, storage and communication' that stand out prominently in terms of high growth in recent years. Both these services have accounted for non-significant shares in the 1950s, 1960s right up to 1980s. It can be said that impressive progress in IT and IT enabled services and addition to existing stock of telephonic communication; particularly mobiles have played a key role in such a growth.

III. IMPACT OF COVID-19 ON SERVICE SECTOR IN INDIA

Barclays has estimated the expected losses to the Indian economy at $234.4 billion. India's service sector has fallen to historical low due to lockdown. The IHS Markit India Services Business Activity Index was at 49.3 in March fell to 5.4 in April 2020. Workers in both formal and informal service sector are being laid off and situation does not seem to normalize in coming months.

A. Trade

India is one of the most affected economies due to the COVID-19. According to a UN report for India the trade impact of the coronavirus epidemic for India is estimated to be about 348 million dollars with the worst hit chemicals sector (129 million dollars), followed by textiles and apparel ($64 million), automotive sector ($34 million), electrical machinery ($12 million), leather products ($13 million), metals and metal products ($27 million) and wood products and furniture ($15 million). In the recent years, there has not been much growth in our exports. During FY20, India's exports contracted 4.8% to $314.3 billion while imports shrank 9.1% to $467.2 billion. The severity of impact can be seen through the fact that 29 of 30 items each in export and import baskets contract. Now due to pandemic and resultant lockdown there may not be buyers for our products in the international market. Moreover, countries all over the world are adopting protectionist measures. It is going to be tougher for India because we are dependent on agriculture and intermediate exports and supply chain disruption, demand shock and the looming recession are bound to impact trade even further.

The worst affected entity is MSME sector. Due to lockdown, production is halted and laborers employed in MSMEs are moving to their native lands. According to CII, the MSME sector add 13-15 million jobs annually. This sector is a key component of the Indian economy but Indian MSMEs are too small to sail through a pandemic like COVID-19. Moreover, on the one hand government has asked MSMEs to shut down their operations and on the other hand they have to pay employees, apart from meeting costs for taxes, power, and other utilities. It is not sustainable and will lead to layoffs. The layoffs will result in lower demand pushing companies out of business. So if demand from international market revives in near future it will be very unlikely for India to cater them.

However, COVID-19 has also given some opportunities for India. There are several manufacturers who are moving out of China and are showing interest to get settled in India but how India reaps benefit of this opportunity is still uncertain.

B. Hotels and Restaurants

Like all other sectors, the impact of COVID-19 on India's hospitality sector is nothing short of severe. With the halt of tourism, suspension of visas and global advisories against travel, there are hardly any bookings being made for the future and those which were made earlier are being cancelled. The imposition of section 144 has led to cancellation of corporate events, conferences and even weddings and family gatherings. The lockdown has left most of the hotels struggling with near record low occupancies. Many hotels have offered their rooms to healthcare professional or for quarantine at subsidised rates or for free out of social responsibility but how long they will be able to continue them is a major concern. There are very low chances that foreign tourists will come and ban on international travel will be lifted in coming months.

According to the report by CII, Hotels across all over India were negatively affected in key performance indicators i.e. occupancy, ADR and RevPAR. The overall occupancy in the branded hotels segment in 2020 is estimated to decline by 16.7 - 20.5 percentage points over 2019, while ADRs are estimated to decline by 7% to 8% for the year. As a result, RevPAR will witness a significant decline of 31% to 36.2%. Therefore, the overall revenue of the Indian hotel sector is set to decline by anywhere between US$ 8.85 billion to US$ 10 billion. Apart from actual business loss, the hotel owners will also incur losses due to fixed operating expenses, debt repayments, interest payments etc.

Travel and hospitality industry is expected to have a revenue loss of Rs 5-trillion over the next year making while 35-40 million jobs vulnerable. Because of this hotel have incorporated difficult measures to mitigate their losses. These measures include booking cancellations without refund, providing customers with credit notes, encouraging employees to take paid leave, laying off contractual staff and shutting down certain sections of the hotels.

If hotels are struggling the restaurants are also not better off. Dine-out joints, cafes and restaurants are fighting to maintain their existence. Although deliveries from restaurants are exempted in lockdown, the same is not sufficient for their survival. The restaurant industry in India with an annual turnover of over Rs 4 lakh crore and direct employee base of over seven million, is at jeopardy. This has created a threat for those small scale industries and businesses across the country that depend on restaurants to survive. From farmers to manufacturers, to delivery boys to online food app, the whole network dependent on restaurants is on the verge of collapse. Many restaurant chains are now mulling to shut 20-30% of their branches as they are forced to reassess business strategies (CNBC TV-18). It is estimated that lockdown will cost around Rs 1 lakh crore to restaurant industry.

C. Transport

Transportation sector has also been the primary victims of COVID-19. All modes of public transport are suffering due to lockdown. From rickshaw pullers to airlines, all have been affected economically by the pandemic. Whereas the loss of Indian railways is of the amount 12500 crore grounding of domestic and international flights is expected to result in Loss as high as 3-3.5 Billion US dollar. For all State Transports the fixed cost has increased and revenues have almost been zero. However, even after lockdown ends the problems of social distancing, Crew safety, Paper tickets, uncertain demand for transport etc. will be there which will further make it difficult for normalcy to return and discourage usage of mass transit systems. People may avoid using public transport modes to maintain social distancing. People are most likely to avoid shared auto rickshaws, e-rickshaws, app based taxi services like Ola and Uber etc. It will add to the economic suffering of the drivers in the wake of reduced demand resulting from COVID-19.

According to ICRA COVID-19 is expected to impact transportation infrastructure as transportation infrastructure has a strong correlation with the health of the economy and thereby with the movement in GDP. Therefore, the detrimental impact of Covid-19 on the overall economy would in turn affect the movement of freight on the road stretches and the air traffic.

D. Telecommunications

Telecommunication is the only sector with minimum losses and driven up demand during COVID-19. There has been higher dependency on digital tools such as videoconferencing, collaborative applications etc. The MHA guidelines provided for telecommunications, internet services, broadcasting and cable services, IT and IT-enabled services (ITeS) as essential services, which not only ensured the continuity of service but also eased the movement of employees working in telecommunication sector. During the lockdown the overall traffic has jumped by 10% and streaming platforms have witnessed a 20% spike. However, there is considerable impact on Manufacturing of hardware (due to supply chain disruptions and halting of production). According Indian Cellular and Electronics Association (ICEA), manufacturers may incur losses to the tune of nearly INR 15,000 crore due to suspension of production. This is not the only loss. There has been decline in the sales of new handsets, number of customers purchasing new sim cards. Tariff hikes planned in aApril – June quarter have been delayed, 5 G spectrum auction is also likely to be delayed.

E. Real Estate

Real estate contributed nearly 6% to India’s GDP in 2017.The sector creates tremendous opportunities for the skilled and unskilled workforce. migrant workers comprise at least 80 per cent share of the total 44 million workforces in the construction sector. However, due to COVID-19 when all the construction work is stopped millions of workers have migrated to their hometowns due to lack of work. Some reports indicate that 300,000 workers have already been laid off by developers across India due to the ongoing slowdown. Moreover, as per an April 2020 KPMG report – Potential impact of COVID-19 on the Indian economy – the real estate industry will witness an estimated job loss of around 30%.

Even if lockdown is lifted the real, estate sector cannot start at once altogether because this sector is labour intensive and labourers have already moved to their native places where state and central government are trying their best to provide them with rations and sustenance wages and the workers may not soon return to their work. For developers, this could cause delays stretching a few months or more. This will lead to the vicious circle of no work, no labour; no liquidity, no project completion; no completion, no bookings to emerge.

Apart from labour the restrictions on logistics and transport have disrupted supply chains, creating a scarcity of raw materials. So even if workers return they may not find work in the absence of raw material. Moreover, Developers can extend their projects to one year only otherwise there will be legal action against them they can’t avail FDI due to volatile global market. There are no new flat buyers,no site visits and no negotiations for the last 60 days.

A Naredco report foresees the Indian realty sector enduring losses to the tune of Rs 1 lakh crore due to the pandemic.

F. IT Services

Due to COVID-19 Indian IT Services industry the sector is expected to grow at 3-5% in earlier expectation of 6-8% (ICRA).The major reason for this is that 80% of IT Services export revenues generate from US and the Eurozone. The GDP growth fall of US and Euro zones from 2.3% and 1.2% in CY2019e to 1.5% and 0.7% respectively in CY2020 (Source: Moody’s Investor Services) will impact IT services export revenue. Moreover, the travel restrictions to developed countries has impacted movement of IT professionals. The IT offices are either closed or employees are working from home which, has delayed the new commissioned as well as the projects in pipeline.

IV. CONCLUSION

Though, the exact impact of COVID-19 can be measured only after the situation normalises. However, there is no doubt in the fact that the impact of COVID-19 is severe as the demand has dampened and firms are laying off workers. Even the big companies are cutting pays since the situation doesn’t seem to improve in near future. Service sector is the major contributor of GDP growth in India, we cannot deny the emergence of recession if the current situation prevails because the mental toll covid has taken on people, may prevent them from returning to pre covid days even after vaccination.

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