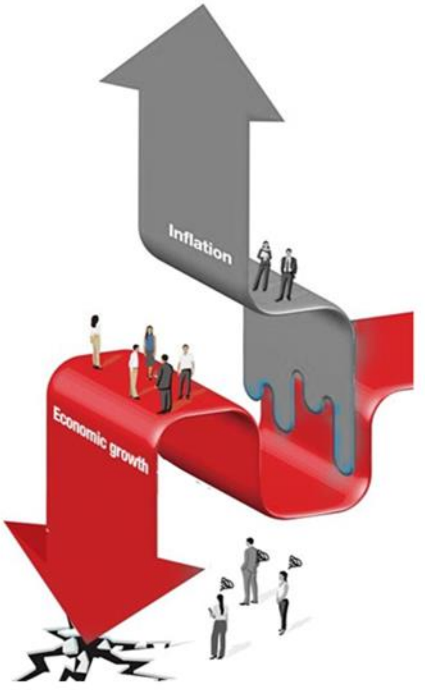
ACQUISORY

Your Growth, Our Business



COVID - 19: Looming Stagflation?

Stay Connected with Acquisory

www.acquisory.com

COVID - 19: Looming Stagflation?

In an unprecedented move, in the face of COVID – 19, India locked itself down for 3 weeks. The economic repercussions of lock down are expected to be felt for months. With a large population, and already faltering growth rate, India will need to choose between fiscal prudence and keeping our economy afloat. India's growth was anyways steadily decelerating over the past many quarters presenting challenges to policymakers tasked with reviving growth. Now COVID – 19 has disrupted supply chain and sapped business confidence. Before COVID – 19, there were hopes of a gradual rebound in economic activities led by a bumper winter crop and signs from sectors including automobile which were experiencing some optimism. Now, as a possible global recession looms with the widening outbreak, forecasters are revising growth estimates downwards.

Various Indian industries, viz., electronics, pharmaceuticals, automobile manufacturers, apparel industry, etc., all sourced many of their crucial raw materials from China. An earlier full lock down in China has disrupted supply chain globally. Serious production shortages will be faced not only by large enterprises, but more importantly by MSMEs which contribute almost 40% of India's GDP. In addition, with global travel industry at a complete standstill, hospitality and related sectors are facing a severe downturn. The result: possible huge unemployment and slackening demand.

In India there are growing fears that ***'stagflation' - a term coined to reflect the twin strains of a stagnant economy and rising consumer prices*** - is squeezing household incomes as COVID spreads. Stagflation is when demand remains stagnant, with rising prices. Another noticeable feature of stagflation economy is unemployment or lack of job security, which make people spend less. India is experiencing decade high unemployment. With manufacturing shutting down in organized and unorganized sectors, services industry being hard hit, consumer demand may become flat or even decelerate. Under normal circumstances, this would have led to a deflationary spiral. However, under the current unprecedented circumstances, shortage of products due to supply chain disruption may eventually lead to spike in prices even when demand has decelerated, ***unless our government announces a slew of measures to ease supply chain worries keep demand from faltering.*** With official unemployment at 7.2% and the RBI's consumer confidence survey showing sentiment at 6 years low, one key possible way is for the government to ***put money back in consumers' pockets to boost consumption in order to mitigate this possible and likely scenario***.

For consumers, particularly the EWS, and the unorganized sector, the much-touted Direct Benefit Transfer (DBT) could be a game changer at this time (through Jan Dhan Account). Our government was trying hard to maintain fiscal prudence. Now, the priorities must change. In order to keep the economy afloat, injection of liquidity is the only option. Tax breaks, easier credit facilities to business, ease of business process et al should now become the norm. India is now blessed with the lowest Brent price in the last many decades. With an expected windfall from reduced oil import bill, our government can possibly look at a large bail out package for the economy. That in turn can boost, credit, lead to renewed production and reduce supply chain bottlenecks. On the demand side, it can lead to more demand and spending power. A well thought out combination of these measures is possibly the only way to ride over these trying times.

Note: at the time of writing this, several measures through frontloaded DBT have been announced for agriculture sector, EWS and workers in the unorganized sector. Some immediate measures were announced for the organized sector. It is a good beginning and more on this package will be shared by us.

ACQUISORY

Your Growth, Our Business

CONTACT US

OUR OFFICES

Delhi NCR

1116, 11th Floor, WTT, C-1, Sector 16,

DND Flyway, Noida – 201301
T: +91 120 614 300
Fax: +91 120 6143033

Mumbai

1st Floor, Unit No. 108, Inspire, BKC, Bandra Kurla Complex, Bandra Ease, Mumbai City, Maharashtra, 400051
T: +91 22 68648100
Fax: +91 22 68648132

Bengaluru

BHIVE WORKSPACE- 7th Floor, Mahalakshmi Chambers, 29, MG Road, Yellappa Garden, Yellappa Chetty Layout, Ashok Nagar, Bengaluru, Karnataka 560001

info@acquisory.com

Our Services

M&A Advisory

- Deal Structuring / Negotiation
- Buy Side / Sell Side Advisory
- Due Diligence
- Valuations
- M&A Integration
- Corporate Finance

Asset Management

- Portfolio Management
- Strategic Advice
- Finance Management
- Dispute Resolution and Litigation Management
- Exit advisory
- Asset Management Tool

Operations & Risk Consulting

- Internal Audit
- Risk Management
- IFC Review
- DAS Audit
- Compliance Management
- Process Improvement
- Cost Reduction
- Working Capital Optimization
- Data Analytics
- Physical Verification

Assurance & Regulatory

- Compliances
- Accounting & Reporting
- Regulatory Compliance Audits
- Financial Audits
- FEMA / RBI Regulatory Compliances
- RERA Compliance
- Secretarial

IT Risk, Forensics

- Information Security Management Services
- Forensics
- Technology Risk Solution
- Security Risk Management
- Creative Training Solution