



IMPACT OF COVID-19 ON INDIAN ECONOMY

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Abstract:

With COVID-19 coming into the picture, the Indian economy is going through a major slowdown, which was evident over the recent quarters even before the crisis struck. In the third quarter of the current financial year, the economy grew at a six-year low rate of 4.7%. With all these problems hitting the world of work from multiple directions, companies are finding it difficult to sustain in this environment. They are forced to take tough decisions such as cutting down the salaries, giving pink slips to employees and opting for other cost-cutting measures.

The financial market has experienced uncertainty about the future course and repercussions of COVID-19. An estimated Rs 10 lakh crore of market cap was reportedly wiped off due to the fall of Sensex in the second week of March 2020.

The supply-side impact of shutting down of factories resulted in a delay in supply of goods from China which has affected a huge number of manufacturing sectors which source their intermediate and final product requirements from China. Some sectors like automobiles, pharmaceuticals, electronics, chemical products etc were impacted big time.

According to a survey by the Federation of Indian Chambers of Commerce & Industry (FICCI), the immediate impact of COVID-19 reveals that besides the direct impact on demand and supply of goods and services, businesses are also facing reduced cash flows due to slowing economic activity which in turn is having an impact on all payments including to those for employees, interest, loan repayments and taxes. Corona virus had its impact in the industry in general, which has seen, not only cutting the salaries but also laying off its employees. The hotels are vacant and airlines have closed their wings. The live events industry has also estimated a loss of more than Rs. 3000 Crs. The manufacturing, an important part of any economy, suffers from total lack of clarity. Lockdown has put great stress on the supply chains of essential commodities, and therefore, many of the Indian companies have focused on the production and supply of essential items only, thereby stopping all other production activities, thereby bringing down the production graph. Likewise, the other sectors like agriculture being the primary sector and the tertiary sector are also not free from its impact. There is hardly any manpower available for the agricultural purposes in different states. Lockdowns have manifestly made the farmers difficult to take their produce for sale to the markets. Informal sector of India, the backbone of its economy, will be hardest hit in view of economic activities coming to a total standstill.

Keywords: COVID-19, Pandemic, Economic Sector, Impact, slowdown, Lockdown Agriculture.

Introduction:

Almost every country has been affected by the devastating Corona virus disease (COVID-19). The world is passing through a great uncertainty. Undoubtedly, the Corona virus has put the world economy at a major risk.

The Covid-19 pandemic is an unprecedented shock to the Indian economy. The economy was already in a parlous state before Covid-19 struck. With

the prolonged country-wide lockdown, global economic downturn and associated disruption of demand and supply chains, the economy is likely to face a protracted period of slowdown. The magnitude of the economic impact will depend upon the duration and severity of the health crisis, the duration of the lockdown and the manner in which the situation unfolds once the lockdown is lifted.



As we have already acknowledged that India is a developing economy, it is stated as an economy passing through demand depression and high unemployment, with 21-day lockdown announced by Prime Minister on March 23, 2020, it would slowdown the supply-side, accelerating the slowdown further and jeopardizing the economic wellbeing of millions.

With an increasing number of corona virus cases, the government has locked down transport services, closed all public and private offices, factories and restricted mobilization. Based on recent studies, some economists have said that there is a job loss of 40 million people in the country, mostly in the unorganized sectors.

In this scenario, they are predicting that India would go into recession affecting the unorganized sector and semi-skilled jobholders losing their employment. The labour sector under the MGNREGA, 2005 are worst impacted as they are not provided jobs due to lockdown, most of the labour sectors are associated with the construction companies and daily wage earners. Travel restrictions and quarantines affecting hundreds of millions of people have left Indian factories short of labour and parts, just-in-time supply chains and triggering sales warnings across technology, automotive, consumer goods, pharmaceutical and other industries.

If we refer to the recent measures announced by the government and the RBI to mitigate the impact of the pandemic, as said by the RBI governor, these are only for short term and may not deliver the desired results as the problem is severe and has been further aggravated by the lockdown.

IMPACT ON DIFFERENT SECTOR

Food and Agriculture:

It is important to assess the effect of COVID-19 pandemic on Agricultural sector and Food as it primarily involves the sustainability of human life and secondarily involves the economy.

The food and agriculture sector contributes the highest in GDP i.e. 16.5% and 43% to the employment sector. The major portion of the food processing sector deals with dairy (29%), edible oil

(32%), and cereals (10%). India also stands number one in dairy and spices products at a global scenario (export).

The pandemic protocols and provisions interferes the supply chain of the market with impaired production and distribution accompanied with lack of labor and supply of inputs. This vastly affects the livestock, poultry, fishery as well as dairy production. The planting of spring crops like maize, sunflower, spring wheat, barley, canola and open field vegetable can't be operated amidst pandemic.

There may be a further reduction in job quality in the sector and job destruction, especially at the base of the supply chain. Women and youth are likely to feel the impact more strongly, as they are particularly exposed to socioeconomic vulnerability. Restrictions on movement may prevent farmers from accessing markets and result in food waste. In many countries, farmers are now unable to sell their produce in local markets or to local schools, restaurants, bars, hotels and other leisure establishments, which have been temporarily closed.

The pandemic may also have a significant negative impact on the livelihoods of millions of plantation workers engaged in export-oriented, labour-intensive agricultural production in developing countries.

COVID-19's impact on the agricultural sector will have far-reaching effects beyond food-security, across industries, and on our economy as a whole. Governments, businesses, and non-profits need to respond to the challenges with a foresight to protect farmer livelihoods in the medium to long term and prevent cataclysm in our agricultural systems in the future.

Manufacturing Sector:

Major companies in India such temporarily suspended or significantly reduced operations in a number of manufacturing facilities and factories across the country. iPhone producing companies in India also suspended a majority of operations. Nearly all two-wheeler and four-wheeler companies put a stop to production till further notice. Many companies have decided to remain closed till at least



31 March such as Cummins which has temporarily shut its offices across Maharashtra. Hindustan Unilever, ITC and Dabur India shut manufacturing facilities except for factories producing essentials.

Online Business sector:

The online business in today's economy plays a major role in the economy with a market share of USD 950 billion. It contributes 10% to the Indian GDP and showed a drastic in the employment sector in the FY19 viz 8%. Its major segments are the household and personal care products (50 %), healthcare segment (31%) and the food and beverage sector (19%).

At mist the social distancing due to threat of covid-19 the tendency of the consumers to overstock on essential product and commodities viz rice, flour and lentils. This gave rise in the sales of the Fast Moving Consumer Goods companies (FMCG) which it saw fall in the stock in trade due to distorted supply chain.

The e-commerce sector saw a dip in growth with pressure on the supply chain deliveries and the expectations of the consumers on the companies to come up with newer distribution channels focusing on direct to customer routes. In this soaring environment the managing and predicting of demand will play a vital role in the customer relation sector. Categorizing the commodities into part i.e. essential commodities and non-essential commodities showed different responses in the market.

Raw materials and spare parts:

Nearly 55% of electronics imported by India originate from China. These imports have already slid down to 40% in light of the corona virus outbreak and subsequent lockdown. As a countermeasure, India is considering the promotion of indigenous production in a bid to reduce dependency on a single market. Additionally, China is India's third largest export partner for export of raw materials like organic chemicals, mineral fuels, cotton, etc.; and a lockdown of the countries is likely to lead to a substantial trade deficit for India.

Pharmaceuticals:

The toll on the pharmaceutical industry is of significant concern for India, mainly as 70% of active pharmaceutical ingredients (API) are imported from China. These active pharmaceutical ingredients are essential to a large number of pharmaceutical manufacturing companies in the country. As COVID-19 is rapidly making its way through India, medication is going to be the number one consumer demand, and because there aren't nearly enough APIs to manufacture drugs, the subsequent traders and the market are witnessing skyrocketing prices.

Aviation:

The Government of India indefinitely suspended tourist visas, airlines are said to be working under pressure. Nearly 600 international flights to and from India were canceled for varying periods. Around 90 domestic flights have been canceled, leading to a sharp drop in airline fares, even on popular local routes.

Tourism:

India is big on cultural and historical tourism, attracting domestic and foreign nationals throughout the year. It does not come as a surprise that a large number of confirmed COVID-19 cases in India include foreign tourists. But with visas being suspended and tourist attractions being shut indefinitely, the whole tourism value chain, which includes hotels, restaurants, attractions, agents, and operators, is expected to face losses worth thousands of Crs. Experts believe the tourism industry is likely to take a massive hit.

Trade:

There has been a significant loss of human lives and the global economy has also felt the impact severely. Global markets are in a free fall with supply-chain disruption and manufacturing falling to the lowest levels in decades. Despite disturbances in the global economy, India was among the brighter spots till last month in terms of exports and manufacturing, with the Directorate General of Foreign Trade (DGFT) and Purchasing Managers Index (PMI) numbers coming in strong for February 2020. But our markets are not that insulated from global headwinds any longer, nor



from the COVID-19 pandemic. It has already disrupted normal economic activity and life in our country. India's trade has been severely impacted. People have a sudden loss of their income, causing a major drop in demand.

India's exports in April 2020 fell by -36.65% year-on-years, while imports in April 2020 fell by -47.36% as compared to April 2019

Indian benchmark indices, i.e., the SENSEX and NIFTY, are down by about 35-40% in a matter of less than 30 trading sessions. Further, the Indian government has imposed a lockdown of 21 days and brought major economic activities to a grinding halt.

State income and expenditure:

State governments incurred huge losses to the extent of having to cut capital expenses as well as government plans in the near future and finding alternate ways to pay salaries. Spending under government development schemes has been reduced by 67% for the current. The income of the State governments has fallen and borrowing has increased.

Some State governments have imposed a 70% to 75% "corona" extra taxes on liquor. Excise duty on liquor is the third largest source of income for a number of states, nearly 10-15% of total tax collection for some states. The ban during the lockdown affected alcohol sales, in turn having a major effect on the state revenue.

Impact on the Society:

During the course of the pandemic, people will be using digital medium for content and entertainment.

Events that require massive gathering of people – sports, music festivals, theatre, etc. will take a hit for the next 12 months.

As the world overcomes this pandemic, discretionary demand will pick up as people become imprudent. Retail leverage in the world will hit new highs. The use of addictive material – tobacco, narcotics and alcoholic beverages will jump multifold.

Conclusion

The Corona Virus pandemic may wreck the Indian economy. The level of GDP may further fall, more so when India is not immune to the global recession. Infected, it is believed that India is more vulnerable, since its economy has already been ailing and in a deep-seated slowdown for several quarters, much before the COVID-19 outbreak became known. The Prime Minister of India has already spoken of setting up an Economic Task Force to devise policy measures to tackle the economic challenges arising from COVID 19, as also on the stability of Indian economy. However, the concrete plans would have to be kept in place to support the economy and its recovery. More importantly, we must ensure something like this never happens again. History says that humankind has never learnt from history. Let's hope that it's a thing of the past.

As the disruption from the virus progresses globally as well as within India, it is for us to forget, at least for the time being, all talking only about economic recovery, and instead join hands to tackle the outcome of COVID-19.





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