

ECONOMIC IMPACT OF THE COVID-19 PANDEMIC IN INDIA

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“Life in the time of COVID-19 has been one of unprecedented loss and violation. Yet it is worthwhile to remember that tough times never last; only tough people and tough institutions do.”

Shaktikanta Das (RBI GOVERNOR)

Abstract

The outbreak of 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 is lifted. In this paper we describe the state of the Indian Economy in the Pre-Covid -19 period, assess the potential impact of the shock on various segments of the economy, analyses the policies that have been announced so far by the Central Government and Reserve bank of India to ameliorate the economic shock and put forward a set of policy recommendations for specific sectors. The challenges and containment measures adopted by India to restrict the spread of Covid-19 Virus like ‘Janata Curfew’.

Keywords

Covid-19, Pandemic, Economic downturn, Aggregate Demand, Supply Chain, Informal Sector, Financial Institutions, Fiscal Policy.

Introduction

Corona Virus outbreak was first reported in Wuhan, China on 31st December 2019. Corona Virus is a large family of viruses that causes illness. It ranges from the common cold to more severe diseases like Middle East Respiratory Syndrome (MERS-COV) and Severe Acute Respiratory Syndrome (SARS-COV). The Novel Corona Virus is a new strain precautionary and preventive measure. The COVID 19 epidemic is the first and foremost

human disaster in 2020. More than 200 countries and territories have confirmed effective medical cases, caused by coronavirus declared Pandemic by the World Health Organisation. The Economic Impact of the 2020 Corona Virus Pandemic in India has been largely disruptive. The World Bank and Rating agencies had initially downgraded India's growth for fiscal year 2021 with the lowest figures India has seen in three decades since India's Economic liberalization in the 1990s. If we refer to the recent measures announced by the government and the RBI to mitigate the impact of pandemic, as said by the RBI Governor, these are only for the short term and may not deliver the desired results as the problem is severe and has been further aggravated by the lockdown.

India's Economy seen slowing rapidly in March quarter, with worse to come. In India upto 53% of business have specified a certain amount of impact of shutdown caused due to COVID-19 on operations (FICCI) survey. By April the Unemployment across India, according to the "Centre for Monitoring Indian Economy" around 14 crores Indians lost employment in the lockdown. More than 45% households across the nation have reported an income drop as compared to the previous year. In April, former Reserve Bank of India Chief Raghuram Rajan said that the Corona Virus Pandemic in India may just be the "greatest emergency since Independence." While the former Chief Economic Advisor to the Government of India said that in April India should prepare for a negative growth rate in FY21.

Gross Domestic Product (GDP)

India's Economy is expected to grow 1.5% to 2.8% for FY21. The World Bank Report said that the Pandemic has "magnified pre-existing risks to India's Economic Outlook." In mid-April the International Monetary Fund projection for India for the FY21 Of 1.9% GDP growth was still the highest among 20 nations. Confederation of Indian Industry (CII) estimated that India's GDP for FY21 will be between 0.9% and 1.5%. On 22 May the RBI Governor Shaktikanta Das also said that India's GDP growth will remain negative in FY21. State Bank of India research predicts a contraction of over 40% in the GDP in Q1 FY21. For the states, the total loss due to COVID-19 is estimated at 13.5% of the total Gross State Domestic Product. The Ministry of Statistics released India's GDP estimates for Q4 FY20 at 3.1% while overall GDP for FY20 is 4.2%. The Unorganized sector excluding this likely to suffer a great downfall in the coming days as the job generation is going down in an alarming rate with the prolonged lockdown and weak GDP.

Energy

Night lights and Economic activity are connected. In Delhi, night light radiance fell 37.2% compared to 1-31 March 2019. This was the biggest fall for any Metro in India. Bangalore fell 32%, while Mumbai dropped by 29%. India's fuel demand in April 2020 as compared to the previous year fell nearly 46%. Consumption of fuel was lowest since 2007. Cooking Gas (LPG) sales rose 12%. An International Energy Agency Report in April estimated India's fuel Consumption will decline 5.6% in 2020. Diesel demand will drop 6%.

Stock Markets

On 23 March 2020, stock markets in India post worst losses in history. SENSEX fell 4000 points (13.5%) and NSE NIFTY fell 1150 points (12.98%). However, on 25 March, one day after complete 21 day lockdown was announced by the Prime Minister, SENSEX posted its biggest gains in 11 years, adding a value Rs.4.7lakh Crore (US Dollar 66 Billion) for investors. On 8 April, following positive indication from the Wall Street that the Pandemic may have reached its peak in the US, the stock markets in India rose steeply once again. By 29 April, NIFTY held the 9500 mark.

MGNREGA

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 warning across technology, automotive, consumer goods, Pharmaceutical and other industries.

Food and Agriculture

The food and agriculture sector contributes the highest in GDP 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 species products at a global scenario. A major destination in the grapple of COVID -19 for the next few months the Indian export is impacted due to low consumer demand the export-oriented commodities like seafood, mangoes, grapes are crashing this will impact the future crop availability. With the shortage of Labour, the food processing units are facing a hunch in

normal function but the government is trying to ease out the situation until that the factories have to adjust to working with low Labour count.

Restaurants Services

The National Restaurant Association of India (NRAI), which represents 5, 00,000 plus restaurants across the country, has advised its members to shut down, this will impact operations of thousands of dine-in restaurants, pubs, bars and cafes. By extension food delivery platform such as Swiggy and zomato have dropped 60% amid the Pandemic.

Trade

In terms of trade China is the world's largest exporter and second largest importer. It accounts for 13% of world exports and 11% of world imports. Upto a large extent, it will impact the Indian industry. In Imports the dependence of India on china is huge. Of the top 20 products (at the two-digit of HS code) that India imports from the world, China accounts for a significant share in most of them. India's total electronic imports account for 45% from China. Around one-third of machinery and two-fifths of organic of organic chemicals that purchases from the China. Therefore we can say that due to the current outbreak of corona virus in China, the import dependence of China will have a significant impact on the Indian industry.

Defence

The Department of Military Affairs led by the Chief defence Staff has postponed all capital acquisitions until the Corona Virus Pandemic recedes. No new major defence deals will be made in the beginning of the financial year 2020-2021. While the delivery of S-400 Missile Systems won't be affected. In May, the Chief Defence staff General Bipin Rawat again emphasized the need for India to minimize the costly defence imports and boost domestic Production. During the announcement of the economic package the Finance minister announced a change in the FDI cap from 49% to 74% for defense, the corporization of India's ordnance production and a list for the ban of select defence imports.

Centre and State Collaboration

The Modi Government in view of Corona virus Pandemic suspended Members of Parliament Local Area Development Scheme (MPLADS) for two years. This action has been called problematic in many ways, including causing a centralization of power being anti-federal in nature and having an affect on local level development and MP influence at micro level of the society to handle distress. Several Center versus State tussles have taken place during the COVID-19 Pandemic having a socio- economic impact, which may leads to the immediate political impact. During the exit of lockdown there has been a lack of center and state collaborations as well as with local authorities.

Government Initiatives

Prime Minister Shri .Narendra Modi announced the first 21 days lockdown on 24March. During this address to the nation he said, “JAAN HAI TOH JAHHAN HAI.”(Only if there is life, there will be livelihood). On 11th April in a meeting with the Chief Ministers of India, the Prime Minister said, our mantra earlier was” JAAN HAI TOH JAHAAN HAIN BUT NOW IT IS JAAN BHI JAHAAN BHI”(Both, lives and livelihood matter equally).” In the Prime Ministers Fifth meeting with the Chief Ministers on 11 may, the Pandemic world, during the meeting Modi said “JAAN SE LEKAR JAG TAK” would be the new principle and way of life. On May 12, the Prime minister addressed the nation sayings that the Corona Virus Pandemic was an opportunity for India to increase Self-Reliance. He proposed the ATHAMANIRBHAR Bharath Abhiyan (self-reliant India Mission) economic package.

The government introduced the Arogya Setu Mobile Application to educate citizens about novel Covid-19.

The government set up a chain of 20 lakh retail shops called ‘Suraksha Stores’ across India.

Wages to MGNREGA to be hiked to Rs.202 from Rs. 182. The move would bring in Rs.2, 000 in addition to workers.

The last date of filling income tax returns for the Financial Year 2018-19 has been extended to June 2020. The interest rate on delayed income tax payment has been decreased to 9% from 12%.

The Government said it will release 12 Mission Mt of food grain during the April-June quarter under Pradhan Mantri Garib Kalyan Anna Yojana amid the Covid 19 crisis.

The Government decided to double the collaborated free loan amount for women in Self-help groups to Rs.20lakh.

Challenges

There is no doubt that COVID-19 will have a large impact on the Indian Economy, with respect to India, the discussion can be bifurcated into two parts- India's Economy and its Stock Markets. The recovery of the underlying economy will be slow and it will take around 2 years for normalcy to come back across sectors. While the overall economy might take a hit because of the government lockdown, some sectors are set to see immense growth in the Post-Covid Era- FMCG, B2C specialised lenders. Gold dependent companies, food retail and Pharmaceuticals companies etc. Stock Markets have a mind of their own, formed by the collective emotions and intelligence of millions. They are often skewed and are not the best indicators of the underlying economy. Stock markets have a strong recovery, not due to the fundamental strength but due to global liquidity which is available for almost free.

Measures

The Indian Government has announce a slew measures to prevent collapse. However it is not enough. This works to alleviate some of the pain, not counter it.

- Loosen its purse and spend money on infrastructure development-Rebuild India, Rejuvenate India
- Personal tax cuts and tax holidays for 6 to 12 months can be adopted to revive consumption, which will help super economic growth.
- Public sector financial institutions need to be further capitalized and nudged by the RBI to lend out low ticket loans below INR 1 Crore in the form of working capital to ensure that liquidity comes back into the systems.
- Banking sector needs to be nudged to pass on rate cuts induced by RBI to the borrowers.
- The distribution will be done through Public Distribution System and can availed in two instalments.

These are not an exhaustive list of measures but could help alleviate the impact of Covid-19 on the Indian Economy while stimulating growth.

COVID-19 Impact on 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 hit for the next 12 months. Before we end, let's look at some of the behavioral or societal impacts that COVID-19 might have. 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 manifold. The next 5 years are going to be the golden period for media and entertainment. 3D/4D chatrooms and conference rooms will emerge rapidly. The largest chunk of media spending will shift from television to digital. Print media will cease to exist. Business will experience an increase in productivity due to reduced staff. The burden on local transportation infra will ease. Fewer roads, less traffic and Pollution.

Conclusion

This may be the time to reset. Never before has the world come to a standstill where one can pick apart the many moving pieces-like Tom Cruise in *Minority Report*. We have the opportunity to rethink everything. If we do things right, we may be able to fix challenges that face humankind-environmental damage, inequality etc. More importantly, we must ensure something like this never happens again. History says that humankind has never learnt from history. An outbreak of COVID-19 impacted the whole world and has been felt across industries. The outbreak is declared as a National Emergency by the World Health Organisation. In India are three major contributors to GDP namely Private Consumptions, investment and external trade will get affected? World and Indian economy are attempting to mitigate the health risks of COVID-19 with the economic risks and necessary measures needed will be taken to improve it.

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