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Impact of Pandemic on the Indian Economy

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Abstract:

India is a developing country. It is considered young with only seventy five years of Independence, but with a population of the nation being the second largest in the world in terms of population and the seventh largest in terms of Area occupied, it also has one of the largest economies in the world.

But owing to its underdeveloped state and its overpopulation with over fifty percent dependent on the Agriculture and Agro-based industries, the Indian economy can only be considered barely adequate compared to its counterparts.

It ranked fifth most contributing nation for the GDP of the world by 2017 with contributing 3.28% of the total world GDP indicating its global contribution and its position as one of the largest economies. But it also has some of the glaring disadvantages or loopholes, which were often ignored or dismissed due to the lack of resources, urgency or responsibility among the policymakers.

As the Global Pandemic of COVID-19 hit, some of the disadvantages and drawbacks were laid bare. This paper is an attempt to analyze what kind of impact this Global Pandemic has on an already struggling economy.

Keywords: Lockdown, Impact of Indian Economy in pandemic situation, Indian Economy System **Introduction:**

India as a developing nation displays most of its features such as overpopulation, low-per capita income and dependence of Agro based industry.

An economy's GDP is contributed by three sectors. The primary sector is the Agriculture and Allied sector. It comprises all kinds of Agriculture and other fields dependent on the natural resources of the nation such as mining, fishing, forestry etc.

The secondary sector is the Industry sector which comprises the manufacturing and the production of the country and the tertiary sector is the Services sector.

In 1950-51, when the Indian economy is still in its independent infancy, the Agriculture and Allied sector contributed 51.81%, the Industry sector with 14.16% and finally the Services sector with 33.25%

The Indian economy evolved and as the changes occurred by 2017 the Agriculture and Allied sector only had 15.18% share, Industry with 23% and services at 61.5%.

Even though the contribution of the Agriculture sector is reduced in actual fact more than 50% of the Indian population is dependent on the Agriculture and Agro based industries. By 2019 around 6.7% of the total Indian population is below the poverty line.

Despite many economic struggles, India which is a \$2.65 trillion dollar economy was aimed to be a \$3 trillion dollar economy by 2024 and \$5 trillion dollar economy by 2030, but the global pandemic has worsened the already existing problems.

The International Monetary Fund predicted in April 2020 that the global economy would shrink by at least 3% because of the pandemic and it must be noted that even the Global financial crisis of 2009 only made the economy shrink by 1.7% which could indicate the severity. And India being one of the major contributors of the economy is bound to be impacted equally.

Pre-Pandemic Issues of Indian economy:

The Indian economy was not actually smooth sailing before the pandemic happened. In fact, the situation of the Indian economy has been less than optimum for over three consecutive years. In 2016-17 the GDP growth rate was 8.3%. It was reduced to 7% in 2017-18 and then to 6.1% in 2018-19 and 4.2% in 2019-20.

This kind of steady decline was not witnessed in India since 1991-92.

This type of constant decline for three consecutive years has only happened twice before in Indian history and one of the instances was because of the Bangladesh war in 1970-71 and the second time it was because of the gulf war.

But this type of economic crisis hit India this time because of the government policies that are too driven by the bias towards the supply side of the economy and an extreme optimism displayed in the policies towards the newly emerging companies to encourage investments. But this resulted in the over supply and demand driven slowdown.

While India was already facing a crisis like this, the global pandemic's impact only worsened the situation.

Impact on the GDP:

GDP is one of the major indicators of an economic situation of any nation and the growth of the GDP is the indication of the development or decline of the nation.

As the GDP growth rate of India was already in decline for three consecutive years, the global pandemic didn't help in improving the situation. The immediate lockdown that was administered in March 2020 caused the nation to shut down all the sectors that were considered non-essential for survival. Tourism, transportation, aviation, hospitality, manufacturing, production and services sectors were all closed in the pandemic and only a few essential sectors which are healthcare, food and basic utilities were kept running. As all the sectors that were shut down were important in contributing to the growth of the GDP, it declined like never before.

The initial crash of GDP growth rate with the no notice lockdown by the central government is around 23.9% and the GDP itself shrank by 7.3% in 2020-21.

Impact of Pandemic on Unemployment:

India being the second most populated country in the world has an equally large unemployment problem. Before the pandemic struck the world, the Indian unemployment rate was already 5.3% in 2019. Even though it is not the worst in the world, considering its large population it is still high in number.

And due to the pandemic and the lockdown, many companies had to let go of many of their employees to maintain their financial stability.

The unemployment rate of India was 7.8% in February 2020 and it declined to 8.8% in March 2020 when the lockdown was imposed.

During the lockdown period the unemployment rate peaked to 23.5% in April 2020 and stayed around 21.7% in May 2020.

It showed decline from June 2020 and tapered and fluctuated between 7% to 10 percent before finally settling down at 7% in July 2021.

Even though it is a small number in terms of percentage, when it is converted to the actual number of people, it is large because of the large population of the nation.

Impact on the Agriculture:

Agriculture has always been one of the major contributors for the Indian economy and provided that more than fifty percent of the Indian population is dependent on agriculture and agriculture based products both directly and indirectly, it is a critical component in both the economy of the nation and its survival.

The impact of the pandemic didn't leave such a critical sector alone, however compared to many sectors that left many people unemployed and threw many households below poverty line, it is still considered bearable.

The major impact of the pandemic on agriculture is the lower prices for the farmers. Due to the lockdown, the transportation facilities, particularly interstate transport has been minimized and the farmers had surplus amounts of goods in one place which resulted in the reduction of the prices for their harvest.

Apart from that another main problem the farmers faced is the difficulty in the planting fields as there was a lack in supplies such as the seeds, fertilizer, tractors and other things that support their farming process.

This impact on agriculture indirectly impacted the food processing industry and even the exports of India as the nation is one of the largest exporters of the agriculture products.

But even with all the problems, the contribution of the Agriculture to Indian GDP increased to 20.19%

Impact on the Industry:

There is not a single industry that was not completely unaffected by the Pandemic. And the manufacturing and Production sectors of India were severely impacted.

After the lockdown was induced, the demand for all the products that are considered non-essential was reduced. At least, during the first wave of the pandemic, the Pharmaceutical industry thrived as India one of the largest generic medicine manufacturers supplied for many other nations.

But the rest of the industries were impacted all the same. The small business owners went bankrupt due to the sudden induction of lockdown without any prior preparation or the notice.

This lockdown created supply-chain shortages and reduced the labor force, forcing the companies to let go of the employees just to stay afloat. The reduced demand brought the production to a standstill.

During the second wave which hit right after the people saw hope that the pandemic could be fought and endured, it crushed all the hopes and made the matters worse. The Industrial Index of Production(IIP) which is an Index that indicates the growth rates in the different industry groups of the economy in a stipulated period of economy showed a drastic decline.

The IIP growth rate which was around 4.6% positive growth in 2017-18 became a negative growth of 9.6% in 2020-21.

This caused the GDP contribution of the Industry sector to change to 25.92% in 2021.

Impact of Pandemic on the Services Sector:

The Indian economy is mostly dependent on services as it contributes more than fifty percent of the GDP. But due to the sudden induction of the lockdown, all the services that are considered Non-essential were shut down completely or were put on a lot of uncomfortable restrictions which reduced their income and even made them suffer huge losses. Some of the services and the impact of pandemic on them is given below.

Transportation is one of the major services with a large population and a lot of domestic travel which happens in crowded bus and train services was completely shut down to stop the spread of the virus. Even domestic air travel was completely restricted for a few months and even after it was allowed, there were partial restrictions implemented to stop the spread.

According to the Directorate General of Civil Aviation the passenger flow of domestic air travel was reduced by almost fifty percent by November 2020 when compared to the November of 2019.

E-commerce is one of the industries that didn't have a complete restriction imposed on it. But it still has restrictions such as curfews and the government making them only sell the essential goods for survival and stopping the supply of non-essential goods.

E-payment is one of the services that has shown a clear increase. Due to more access to the E-commerce and the E-payments and the simultaneous less access to the direct purchase of the goods, the E-payments thrived.

Healthcare services were put under severe stress due to the pandemic. While all the other areas are suffering due to the restrictions imposed on them that did not allow them to work, the health care employees were stressed too much as their demand for work increased beyond imagination.

In fact, the whole health care service sector revealed its drawbacks under this stressful condition and the government has to undertake some rapid strategies to correct them.

But the service sector not only faced the negative effects, but there are some positive effects such as a 24% increase in the foreign direct investments despite the global disruption.

All these effects brought the overall contribution of the Service sector to 53.89% of Indian GDP in 2021.

Conclusion:

The Indian government could still be considered quite young, but hard to manage due to its large population and many diverse fields the country operates in. But still it is one of the largest economies even with all the problems.

Provided that the steady decline of GDP even before the COVID pandemic has not helped during the crisis, it could be said that India recovered quite well and the economy could be said to be heading towards the brighter side.

Many new measures were forced upon by the government due to the unique circumstances not only to overcome the pandemic crisis but also to eliminate some of the drawbacks that already existed.

Indian GDP is contributed by the Service sector 53.89%, by the Industry sector 25.92% and the agriculture and allied sector with 20.91% in 2021. When compared to the world's average India is leading in agriculture and allied sector as the world average is only 6.4% and simultaneously India is on back foot in the remaining two sectors with averages of 30% in Industry and 63% in services.

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