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Experiential Study on Effect of COVID-19 on Indian Economics

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Abstract

The COVID-19 pandemic has had large scale ramifications for India. The strict lockdown enforced by the government to curb the spread of the virus in India precipitated a humanitarian and economic crisis. As the pandemic spreads across the country, greater challenges in terms of human and economic costs need to be tackled and also COVID -19 pandemic is inflicting severe impact on the Indian economy in terms of health crisis and economic crisis. To contain the spread of pandemic Indian government adopted different approaches like - three weeks lockdown, imposed social distancing, closure of non essential and businesses and very high restrictions on the mobility of people. Due to the approaches followed by the government qualitatively it throws a different challenge – first save level, save livelihoods, meet other costs like loss of jobs and production (in terms of Gross Domestic Product(GDP)) and supply chain disruptions. The pandemic will impact economic growth and important sectors like agriculture, industrial, services and more impact on micro, small and medium enterprises(MSME). This paper is experiential and empirical review on direct and indirect impact of COVID-19 pandemic on different domains of Indian Economy.

Keywords: COVID-19 Impact, Disaster and Pandemic impact on Economics, Impact of COVID-19 on Indian Economics, Mass Economics Crisis, COVID impact on GDP.

Literature Survey

The answer would depend largely on the extent of spread within India. So far, India is among the Asian economies that are not deeply impacted. With the number of Covid-19 cases nearing 2 lakh and the death toll topping 7,800, the impact of the virus on global sentiment, economic and otherwise, has been immense. While new afflictions have been declining in China – the epicenter of the outbreak – since the end of February, it is spreading fast outside. A new case outside China now surpasses those in China, with Italy, Iran and South Korea being the worst affected. With more than 160 countries reporting confirmed cases of Covid-19, its implications on the global economy is more threatening than envisaged a month ago.

Introduction

The COVID-19 pandemic is an unexpected shock to the Indian economy and has in general brought normal life to a halt. The pandemic is inflicting severe impact on the economy in terms of health crisis and economic crisis. In India the first case of disease was identified on 30th January and since then the number of cases are increasing significantly. The number of cases as on 18th, July, is 1003832. To contain the spread of pandemic Indian government adopted different approaches as follows- three weeks

Lockdown since March 25th, 2020 to 14th April 2020 imposed social distancing, closure of non essential and businesses and very high restrictions on the mobility of people. All these effective approaches have repercussions on living conditions and the state of economy. There is no particular policy instrument that could be implemented to minimize the repercussions because no one is aware of how long the problem will stay on. The intensity of the problem will depend on the length of the period it lasts for which government take effective action to close down. The challenge for the government is to protect the lives and livelihood of the people during and after the lack down period. Qualitatively the challenges for Indian government are different –apart from saving the lives and livelihoods, meet other costs like loss of job and production in terms of Gross Domestic Product (GDP) and supply chain disruptions because it is internationally inter connected to the world economy. The economic impact of covid 19 is severe due to its effects in many sectors. Several fiscal and monetary measures have already been announced by the government to support house holds, businesses and financial system. With this background the study attempts to discuss the impact of Covid 19 on economic growth, financial impact and impact on MSME sector followed by the policy interventions by the government to stabilize the economy.

Comparative Study before and after Pandemic COVID-19

GDP Growth

The International Monetary Fund (IMF) slashed India's growth estimate for FY21 to 1.9% from 5.8% estimated in January, warning that the "worst recession since the Great Depression" will dwarf the economic damage caused by the global financial crisis a decade back. It also said that India and China would be the only two major economies likely to register growth, with all others contracting. The Covid-19 pandemic will shrink world output by 3% in 2020, IMF said in the April update of its World Economic Outlook (WEO), the first after the magnitude of the outbreak became clear. Similarly, Domestic rating agency CRISIL cut its projections for India's economic growth rate to 1.8 per cent, from 3.5 per cent it had earlier predicted for 2020-21. Moody's Investors Service, also, slashed India growth forecast for calendar year 2020 to 0.2 per cent, from 2.5 per cent projected in March. For 2021, the rating agency expects India's growth to rebound to 6.2 per cent.

Agriculture and Rural Activities

The agriculture sector is critical as large number of workers and the entire country's population is dependent on this sector. With the outbreak of Covid-19 the situation in rural India is likely to worsen significantly. The lockdown and associated disruptions will affect agricultural activities and the necessary supply chains through several channels: input distribution, harvesting, procurement, transport hurdles, marketing and processing. Restrictions of movement and labor scarcity may impede farming and food processing (FAO, 2020). March-April is the peak season for the sale of the *rabi* produce but harvesting will get hampered due to the departure of thousands of migrant workers. Shortages of fertilizers, veterinary medicines and other inputs could also affect agricultural production. Closures of restaurants, transport bottlenecks can diminish demand for fresh produce, poultry and fisheries products, affecting producers and suppliers.

A study by Sudha Narayanan (2020) of Indira Gandhi Institute of Development Research indicates that farmers are stuck with harvest as APMC (agricultural product market committee) *mandis* are closed in several states thereby disrupting food supply disruption from the production to the consumption centers. The above study indicates that the government should focus on post- harvest activities, wholesale and retail marketing and initiate procurement operations. Some state governments have already taken initiatives.

Informal sector

India has a very high share of informal employment in total employment. The share, which includes agricultural workers, has declined marginally from 94% in 2004-05 to 91% in 2017-18. Out of a total of 465 million workers, 422 million were informal workers in 2017-18. Even in non-farm sector (manufacturing and services), the share of informal workers was around 84% in the same year. The informal workers were already facing problems with low wages and incomes in the pre-Covid-19 period. Daily wage laborers' and other informal workers are the worst hit during the lockdown period and will continue to be adversely affected even when the lockdown is relaxed. With almost no economic activity particularly in urban areas, the lockdown has led to large scale losses of jobs and incomes for these workers. There are about 40 to 50 million seasonal migrant workers in India. They help in the construction of urban buildings, roads, factory production and participate in several service activities. There was a large scale exodus triggered by the lockdown. In the formal sector to the extent that firms do not close down, employees will still have their jobs and receive their salaries. The informal sector works differently. It depends crucially on people's daily demand. With a large chunk of the potential customers of the informal sector staying at home right now and withdrawing from non-essential expenditures, the survival of informal sector units will become questionable with every passing day, especially as the health crisis and the associated lockdown drags on. Many firms in the informal sector will be forced to shut down.

Micro, small and medium enterprises (MSMEs)

The micro, small and medium enterprises as a whole form a major chunk of manufacturing in India and play an important role in providing large scale employment and also in the country's exports. Recent annual reports on MSMEs indicate that the sector contributes around 30% of India's GDP, and based on conservative estimates, employs around 50% of industrial workers. Over 97% of MSMEs can be classified as micro firms (with an investment in plant and machinery less than Rs 25 lakh), and 94% are unregistered with the government. Many of the micro enterprises are small, household-run businesses. Although all businesses have been affected by the pandemic, the MSME sector would be badly hit by reduced cash flows caused by the nationwide lockdown. Their supply chain would be disrupted, and they would be affected by the exodus of migrant workers, restrictions in the availability of raw materials, by the disruption to exports and imports and also by the widespread travel bans, closure of malls, hotels, theatres and educational institutions etc. This, in turn, would massively hamper the MSME businesses. As a consequence, hundreds of thousands of people who work for these small businesses may end up with job and salary losses.

Employment

The data from the Consumer Pyramid household level survey of the Centre for the Monitoring of Indian Economy (CMIE) shows that the unemployment rate in urban areas increased sharply to 30% in the week ending March 29, about 3.5 times the rate of 8.7% for the week ending March 22. For rural areas, the corresponding figures were 21% and 8.3%. The overall unemployment rate increased from 8.4% to 23.8%. The data for the week ending April 5 estimates the rate at 30.9% for urban areas, 20.2% for rural areas and 23.4% at the all-India level.

Financial markets and institutions

With the country-wide lockdown extended, the risk aversion of the banking system gets significantly aggravated. As more and more firms struggle to stay afloat and are unable to repay their dues amidst the massive demand and supply disruptions, corporate delinquencies will go up and the level of NPAs in the already fragile banking system will increase precipitously. Moody's Investors Service has already changed the outlook for the Indian banking system to negative from stable, as it expects deterioration in banks' asset quality due to disruption in economic activity.

Conclusion

Firstly COVID-19 has posed an unprecedented challenge for India. Given the large size of the population, the precarious situation of the economy, especially of the financial sector in the pre- COVID-19 period and the economy's dependence on informal labor, lockdowns and other social distancing measures would be hugely disruptive. The central and state governments have recognized the challenge and have responded but this response should be just the beginning. Policy makers need to be prepared to scale up the response as the events unfold so as to minimize the impact of the shock on both the formal and informal sectors and pave the way for a V-shaped analysis and recovery. At the same time they must ensure that the responses remain enshrined in a rules-based framework and limit the exercise of discretion in order to avoid long-term damage to the economy. Secondly a Corona outbreak is a tragedy, and in times like these, it's difficult to foresee anything, and we're surrounded by a lot of unknowns. COVID-19 poses several new threats to business and economic patterns. While India and other South Asian countries have not begun to address this problem in a systematic manner, it is critical that they do so. COVID-19 crises are multiplying, and new threats are arising. As a result, it is past time to recognize the situation, and we must work closely together to address this issue and bring new plans and operations to light. It is self-evident that after COVID, a new normal would arise. Indians must be well-versed and knowledgeable about the situation in order to deal with it effectively. This will support the industries and give instructions to the economy.

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