

The Economics behind the COVID-19 Outbreak with a Special Emphasis on the Indian Economy

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Abstract: *The COVID-19 outbreak has shaken the humanity, after the medical aspect, economic aspect tops the list having adequate importance. The scope of this article is to understand the economics behind the pandemic with a special focus on the Indian economy. The presence of verified statistics and the use of pandemic economics provides clarity about the current scenario and the pathway we are heading towards.*

Keywords: Economics, Pandemic economics, Indian Economy, Lipstick effect

1. Introduction

What is the COVID-19 outbreak?

Coronavirus disease (COVID-19) is a communicable disease spread by a new virus that has taken over the world economy since its outbreak in Wuhan, China in December 2019. The disease causes a respiratory problem with some symptoms such as fever, cough and in severe cases, difficulty in breathing. The virus comes from a family of viruses that cause common cold, forms like SARS and MERS are even life threatening. The virus gets its name from its shape that takes the form of a crown. Since it's a new strain, there is no specific vaccine yet developed that can treat it.

Coronavirus disease spreads primarily through contact with an infected person when they either cough or sneeze. It also spreads when a person touches a surface or object that has the virus on it. Over 170 countries have confirmed positive cases of the virus and by the end of March 2020 over 31,000 have died with more than half a million confirmed infections across the globe. The graph of the infected people has experienced an acceleration and is increasing with an upward slope.

What is the origin of the outbreak?

The source of the virus is believed to be the wet markets of the Wuhan city in China. These markets sell both living and dead animals, fishes and birds. Coronaviruses are a family of viruses that cause disease in animals. However, the new virus has made its jump to humans. The animal source of coronavirus is not confirmed yet but bats are thought of as the original hosts. Bats are the source of number of zoonotic viruses like rabies and HIV.

The wet markets are generally jam packed, densely located which hampers the level of hygiene and precautions. Additionally, number of animals are butchered on site which acts as a catalyst in spreading of any type of infection.

2. Impact of Corona Virus on the Global Economy

Major economic superpowers like China and the USA have been the most critical victims of the virus which has directly

affected the world economy. Within a span of two to three months due to lockdowns and unrest in several parts of these countries, they have moved into a phase of a severe recession. With the government spending millions of dollars fighting against the disease, workers sitting idle locked inside their houses and trade halted, the economy is suffering a devastating impact. Chinese industrial production fell by 13.5% in the first two months of this year. The Asian Development Bank (ADB) has predicted that the global cost of coronavirus pandemic can reach \$4.1 trillion.

Stated by the IMF Managing Director Kristalina Georgieva on 28th March 2020, 'It is now clear that we have entered a recession as bad or worse than in 2009'. The IMF has received over 81 emergency financing requests while all the countries have taken measures to address the monetary and the fiscal economy. The situation in Europe is worst. Across the whole of Europe, the coronavirus has so far been responsible for 61,427 confirmed deaths, with 17,669 of the deaths occurring in Italy only (March end). Countries like Italy, Germany, UK, Spain and France are facing the worst turmoil ever since the second world war.

The World Health Organization (WHO) is facing allegations from several nations for acting as a catalyst in the spread of the virus because of the delays and inaccuracy in its report for January and February. While the virus had been spreading for weeks globally, WHO declared it a pandemic on March 11. WHO was uncritically repeating information from the Chinese authorities for weeks, ignoring the warning signs and inaccuracy in the data. For its inadequate evaluation to address the outbreak, Japan's Deputy PM Taro Aso publicly asked to rename WHO as the Chinese Health Organization.

While major sectors like tourism, aviation, trade suffering due to the government precautionary measures and disturbed demand pattern with people utilising their savings and present income for sustaining through the outbreak, there are sectors like telecommunication and pharmaceutical booming. There has been a major acceleration in the numbers when it comes to data usage and a high demand of a number of medicines, sanitizers, protection masks etc. Internally in many countries while demand for expensive luxuries have fallen majorly, the demand for life utility items

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and inferior goods has rose drastically because of the practice of hoarding by the people amid lockdown scenarios. A perfect example of the lipstick effect is at play.

For the rest of 2020 even after the flames of virus have been extinguished, the tourism sector will show long term dip. Major tourist locations in Europe have been severely hit, middle east countries are not doing good either and the states is also collapsing. Minor category like education abroad will also be affected with people less willing to go overseas in countries like the US and UK to pursue education. All these numerous variables will indirectly and invisibly account to a major slowdown of various economies and flow of revenue. The virus has led to a domino effect, with one sector affecting the other which in turn affects a third sector.

There have been calculations that state that the GDP growth in China would be just 0.3% in 2020 while it will shrink by 9.3% in Europe and 10.4% in the United States. The numbers are getting horrifying with each day passing by. Thus, the only way out is to somehow contain the virus and prevent liquidity problems from becoming an issue of solvency. The pandemic economics is at play. There are also major risks of bankruptcies and layoffs that can make the situation worse due to the sudden stop of the world economy.

3. Indian Economy vs the COVID-19 Pandemic

The Prime Minister of India made the biggest announcement stating 21 days complete lockdown in the entire country from 24th March onwards with a few exceptions like medical and utility shops realising that public gatherings amid such situation is a social pollution. Number of cases in India have been rising eventually due to numerous people returning from European and North American countries due to which the government announced a complete ban on international aviation from 22nd March onwards.

Due to the complete lockdown, the complete economy has come to a standstill. With manufacturing completely halted except for a few utility items, the cyclic flow of demand and supply has been affected drastically. The sale of consumer-based items like electronics, automobiles, etc. has been stopped which also directly impacts the indirect tax collection by the government. Durable household items have also been affected due to the delay in transportation as a result of less manpower and restrictions which has caused severe wastage.

Millions of daily wage earners in the sector of construction, transportation, petty services, etc. have lost their jobs and have started migrating back to their villages from cities that have created havoc on the highways amid the lockdown and the deadly infectious virus. India's unemployment rate in March rose to nearly 9%, the highest in 43 months. Many small-scale businesses are also suffering due to the less availability of liquid money especially the ones which recently came into existence. It has become a serious challenge for a middle-class business family to sustain for such a long period inside their house spending on food and utilities with the inflow of income completely ceased.

People are facing major issues with the cancellations with big players in the hotel industry like Air-BNB denying refund of the reservations made, marriage houses charging high cut on refunding the payment made for a future wedding. Also, people recently invested in marketing and advertising for their business also faced a loss due to the lockdown. Thus, the complete cash flow has been disrupted with money not being able to change hands.

The government of India announced a number of relief packages for the daily wage earners, people below the poverty line and farmers. Altogether, the package estimated cost works out to be a little over a thousand billion rupees (13.2 billion USD) which includes distribution of food grain and pulses for the next three months, free gas cylinders, ex gratia payments for women, old and disabled, etc. On top of all, major funds are being allocated to the health sector to ramp up the capacity to save lives through affordable testing facilities, hospital beds, medicines, and medical personnel. India has been neglecting the health sector throughout the last two decades with just a contribution of 1.2% of GDP on an average while it should have been more than 3%. Despite several recommendations and formulation of committees, our focus on this sector has been poor and in these apocalyptic type scenarios, we're paying for it.

It will take at least a couple of quarters for the government to recover these additional expenses that India is currently struggling with. It further implies the slowdown of an already crawling growth. Furthermore, the demand will also take a couple of months to restore properly because millions of people have been utilizing their savings in these serious circumstances when things get better there will be comparatively lesser transactions, especially for luxury goods. One of the major sources of income for India is tourism which will be invisible for at least one and a half quarters after things get better. Thus, the government has been attacked from every side and has become cornered with lower-earning and higher spending.

However, the central bank of India has intervened to ensure that India's fight against the COVID-19 is backed by a good monetary policy. The repo rate, reverse repo rate and the cash reserve ratio have been lowered. It has also allowed a 3-month moratorium by all lending institutions for term loans. No minimum cash balance is required in the bank accounts for the next 3 months from the lockdown.

The commodities and stock markets have also been hit by the outbreak with the minimum analysis by the trade pundits in place about the movement of the market. Post the announcement of the lockdown, the Indian market experienced a lower circuit in a long time, major stocks crashed and rose abruptly without any significant pattern. BBC reported that stock markets around the world suffered the worst quarter since 1987. Dow Jones Industrial Average, London's FTSE 100, S&P 500 all lost more than 20% on average. Additionally, the oil and gold prices have also been disturbing with major fall and rise in a small period. This has majorly affected the economies and also the public on the micro-level, not to forget the government bodies and the central bank fighting against the outbreak.

Thus, the Indian economy strangles by the chains of this major pandemic with number of cases and casualties increasing daily. Apart from the financial problems due to major expenses in controlling the outbreak, this situation has given birth to many social and administrative problems as well. From tackling lay offs by the corporates and private firms to rescheduling the fiscal year, academic processes there are numerous issues at hand which the government has to deal with side by side.

Unaffected sectors

While almost every sector is struggling due to the pandemic, there are a couple of sectors that remain untouched from the impact of the COVID-19 outbreak as yet.

Insurance sector in India being an under-penetrated sector does not face any consequence due to the virus instead insurance regulators are positive about the growth in number of health insurance to be sold in nearby future. Additionally, unlike the banking sector, the insurance sector does not suffer from the asset quality cycle wherein during a positive cycle there are profits while during a negative cycle there are NPAs. Mihir Vora, director and chief investment officer at Max Life Insurance Company Ltd., said there might be some short-term disruptions due to logistics but structurally there should not be an issue.

Telecom sector is another sector which has not faced the impact of the virus outbreak instead is facing a mini boom due to the masses sitting at home. Both the data consumption and the dialling hours have increased substantially with people practicing social distancing at their houses during the lockdown. China's telecommunication companies experienced a rise of 1.5% in their revenue compared to the past year when the country was facing a lockdown situation.

4. Conclusion

The longer the coronavirus continues to spread, the more likely it is for the situation for the economy to get from bad to worse with each day passing by. Every nation has been trying to play all the cards they have to somehow sustain the outbreak thus saving lives and the economy. The monster unleashed is gargantuan, with each day passing by, the world is digging more and more graves, if not contained soon then the virus has the power to slash off a major chunk of population from all the infected countries. The outbreak has already left certain long-lasting effects on major world economies, government treasuries and millions of families who lost somebody due to the virus. Who thought that a flu virus could crash the global market and affect the world economy to such an extent?

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