A Study on COVID-19 and its Impact on Indian Economy

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Abstract: ***The outburst of the COVID-19 pandemic is an unparalleled knee jerk to the Indian economy. Indian economy was previously in a risky situation before the attack of COVID-19. With the extended nation-wide lockdown, world economic recession and related distraction of supply chains, the economy may face a prolonged period of stoppage. The degree of the economic effect will be subject to the extent and severity of the health disaster, the length of the lockdown and the custom in which the state of affairs reveals once the lockdown is elevated. In this paper an attempt to study the state of the Indian economy in the pre-COVID-19 period, evaluate the probable impact of the shudder on several sectors of the Indian economy, analyse the strategies that have been declared until now by the central government and the Reserve Bank of India to upgrade the economic shock wave and set forth a set of policy recommendations for specific segments.***

Keywords: COVID-19, pandemic, economic recession, supply chain, health disaster, policy recommendations.

1. Introduction

The economic impact COVID-19 pandemic in India has been immensely troublesome which causes two types of shocks in the country: a health shock and an economic shock. As the nature of the illness due to corona virus is extremely transmissible, various methods to control the infectious disease have been imposed by the central government comprises maintain social distancing, remain at home quarantine, shut down of institutions, public gathering, restrictions on movement and declared complete lockdown throughout the country. These strategies can potentially initiate terrible significances for economies across the globe. Otherwise, active suppression of the ailment forced the economy of the country to stopover its usual operations. It has generated uncertainties of a profound global recession. Mr. Kristalina Georgieva, IMF - Chief has opined that the current year 2020 might see the worst world economic upshot since the inordinate depression in the 1930s, with more than 210 nations probably experience negative growth in the GDP due to the intense COVID-19 pandemic.

India documented the first case of COVID-19 on January 30, 2020. Ever since the cases have augmented steadily and significantly. So as to control the spreading of the corona virus, the Indian government has announced a three week long nationwide lockdown starting March 25, 2020 further it is extended to May 3,2020(while writing this paper on April last week). Supply scarcities are anticipated to affect various sectors because of panic buying of people. There have been prevalent reports on scarcity of pharmaceuticals, through various sectors witnessing panic buying and as a result of its shortage in food and other essential grocery items have raised.

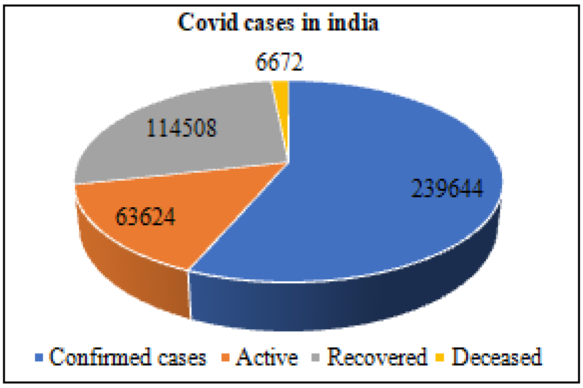

Figure 1: Confirmed COVID-19 cases in India
Source: Ministry of health and social welfare

India has declared its first lockdown when the number of confirmed cases was 564 across the country. As on April 28 (in the midst of second lockdown) number of confirmed cases in the country has increased to 29451. Lockdown period should be effectively utilized to increase the number of COVID-19 test, tracing the contact of the affected people, quarantine the COVID-19 patients and to make necessary arrangements for the treatment together with makeshift hospitals. Necessary training should be given to the health workers to handle this pandemic both in urban and rural areas as they have not experienced in handle it before.

Lockdown in the country is anticipated to have a substantial contrary effect on Indian economy. Employment of people and their source of revenue are at stake. Any kind of economic and non-economic activity in India has come to a stop, without any income middle class and lower-class people of the country are affected badly. Countries have locked their borders and continued to be isolated from other corona virus affected countries and as result of that trade across the country has witnessed an unexpected halt. All these will result in severely disordering the supply chain mechanism in almost all segments. Meanwhile there aroused a total downfall of consumption of commodities as majority

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of the population of the country stay at home and postpone their daily expenditures.

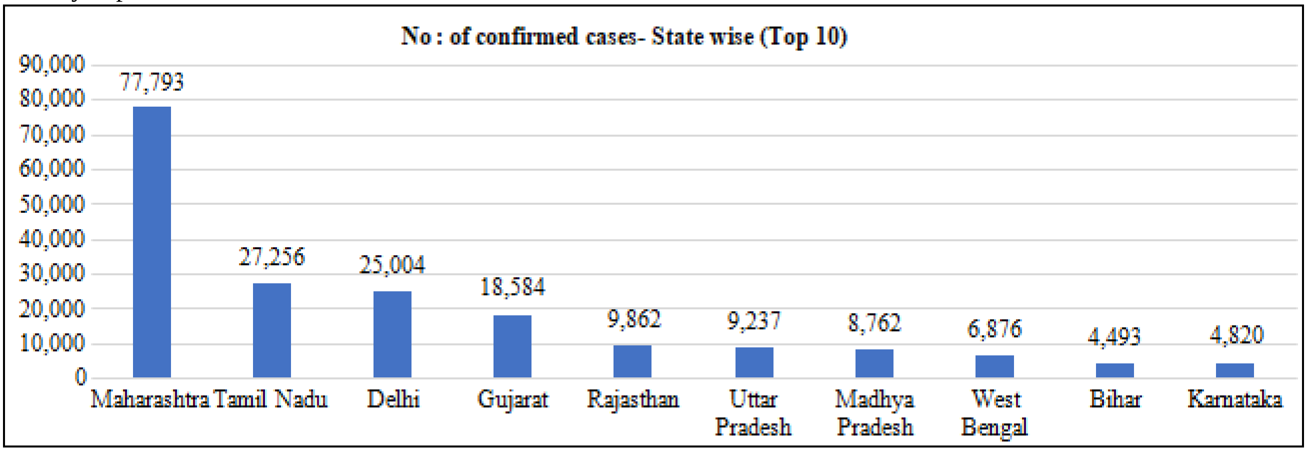

Figure 2: State-wise confirmed cases in India (Top 10)
Source: Ministry of health and social welfare

The extent of the impact of lockdown is solely depend on the duration and severity of the crisis in people's health and the ways and means in which the situation handles once the lock down is elevated. The damage to the economy is even now significant. In case if lockdown remains after the mid of May 2020, the loss to the economy and to the source of revenues might be disastrous. It will probably take long period for the economy to overcome this shudder. It may take a long time for the economy to recover from this shudder even if the lockdown is lifted by April 14, 2020. To a large extent the recovery will depend on the policy responses of the government and the Reserve Bank of India (RBI) during the crisis period. The policymakers have already announced an initial round of actions. Much more needs to be done to minimize the impact of the shock on the economy.

2. Indian economy in Pre- COVID-19 period

Indian economy is featured as a developing market economy. The economy of India is considered as fifth's major economy in nominal GDP and in purchasing power parity Indian economy holds third position in the world. As per the report of IMF, India positioned 139th rank by GDP on per capita income basis and 118th rank by GDP of purchasing power parity in 2018. Since independence in 1947 until pre-reform period succeeding governments encouraged nationalist economic policies with wide-ranging state interference and guideline; after finishing a cold war and severe balance of payments devastation in 1991 directed towards the espousal of extensive program of liberalization in the country.

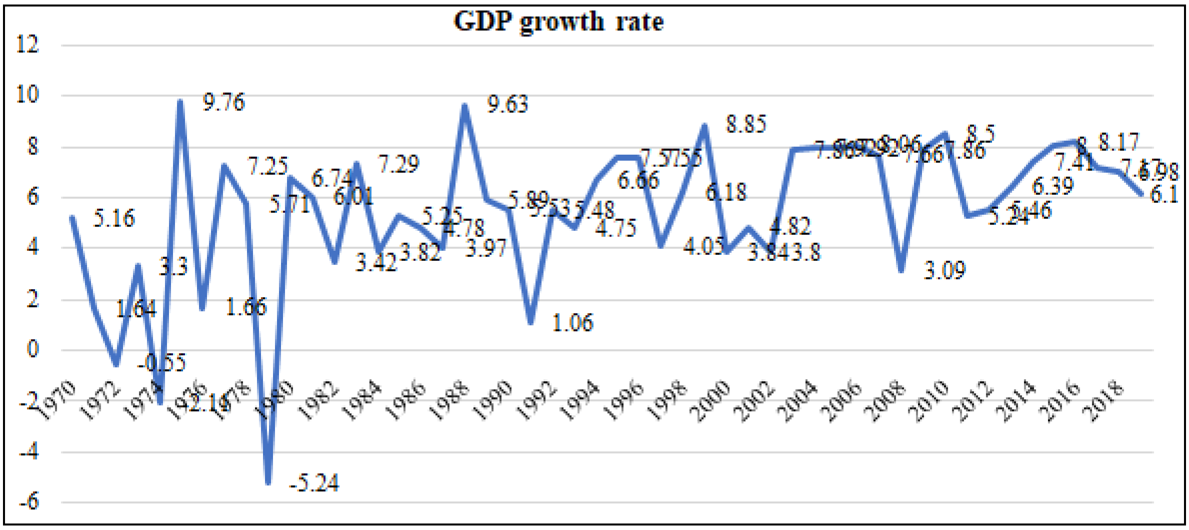

Figure 3: GDP growth rate
Source: World Bank Data

Above figure 3 displays GDP growth rate of the country from 1970 -2019. It is observed that Indian GDP growth rate has perceived several ups and downs. In pre-reform period fluctuations reflected were comparatively more than those experienced after 1991.In the beginning of 1991, growth rate has picked up a leap but towards the end of the 1999. From the beginning of the new millennium, The GDP growth rate has been increased from 6% to 7%. GDP growth rate of the country has drastically declined in the year 2008 on account of the Global Financial Crisis. India was a least affected country by the disaster than the rest of the countries across the globe, not for the reason it was secluded but as its entrepreneurial fundamentals are well-made.India's economy has recorded as the fastest growing economy surpassing China during the years 2014 – 2018. During the last quarter of 2019, country's GDP has increased to 2.1 per cent as per the 3rd estimate issued by 'The Bureau of Economic Analysis'. Even in the 2nd estimate issued in February, same growth rate has been recorded while in the 3rd quarter of 2019, GDP has increased 2.1 per cent.

3. Indian economy during COVID-19

Up to 53 per cent of industries have quantified a particular amount of influence of lockdowns on account of COVID-19. Numerous commercial establishments like guesthouses, commercial airline and various private enterprises are deducting salary of the employees and laying off staffs. "Centre for Monitoring Indian economy" has opined that unemployment proportion had increased approximately 23 per cent within a month, attainment 30 per cent of unemployment rate within the country. Approximately 15 crores citizens of the country lost their job in the lockdown. More than 50 per cent of families are affected badly as their income has dropped drastically. Several companies are taking numerous steps within their organizations to safeguard the apprehension of their employees to be kept at its minimum.Ex-Governor of Reserve Bank of India has stated that COVID-19 pandemic in the country can be considered as the first emergency India has ever witnessed after its independence

Farming

Tea estates in the country couldn't harvest its first level due to problems aroused in the logistical sector on account of lockdown in the country. Effect of this was badly observed in the second level harvesting. Same adverse effect in the field of agriculture has witnessed across the country. From May 31st under the new lockdown strategies to regenerate the Indian economy and relax the lockdown, farming sector such as milk industry, tea, coffee, rubber cultivations and at the same time allied industries and shops will also reopen.

Manufacturing

Majority Indian companies has temporarily adjourned its manufacturing activities during the initial stages of lockdown and gradually started its production by implementing several precautionary measures of social distancing due to COVID-19. Almost entire automobile companies have stopped its manufacturing process in the first phase of lockdown in the country. Numerous companies have decided not to restart its production activities in any case till May 31st earlier and transformed their decision in the midst of May as the nation has decided to survive along with coronavirus.

Evaluation of financial losses

Apart from the considerable cost of re-starting all the sectors which affect the economy of the country, Indian economy should cover on an average $190 billion production loss due to more than two months of lockdown executed in India due to COVID-19. A rough ascertainment of loss in GDP on account of lockdown is approximately $3 trillion and in case if we continue to shut for another one month with 100 per cent drip in the loss of production would be $260 million. Consideration of Indian Industry(CII) has demanded an financial stimulus package of not less than 1 per cent of country's GDP which amounts to Rs. 2 lakh crore. Monetary package and fiscal policies tactic is being compared with other countries which are badly affected by COVID-19. It is assessed that tourism industry alone will face a loss of Rs.20,000 crore till the end of May which leads to a high chunk in the tourism industry.

Logistics

Sector was totally affected during the initial days of lockdown and by the end of March Central Government permitted the transport of all essential and non-essential commodities across the nation. Managing Director of Britannia has discoursed that if at least one link in supply chain remains broken, the nation possibly will run out of stocks of packed food in another one week. Each state has to streamline the progression in the sector triggering a disorder to supply chains.

Stock Markets

Stock markets in India has documented its worst losses in history. SENSEX points and NSE NIFTY points has drastically come down on 23rd of March and two days later ie. on March 25th, day one of entire country's lockdown, SENSEX reported its highest profit in the last 11 years. As a result of the vibrant indication from the Wall Street that the COVID-19 have attained its top in The United States of America, the stock market in India has enormously increased another time.

Households

Indian Prime Minister on his first address to nation on COVID-19 (March 19) has put in a request to the high income segment community to take care of the financial requirements of those who render services to them directly or indirectly and further in another live telecast after few days fascinated not to deduct the salary of private employees, contractual employees, casual labours and outsourced employees as they could not turn up to their work place due to lockdown and they shall be considered as "on duty" during the tenure of lockdown. Hence ensured the non-interrupted payment of salary to households.

Unemployment

In the month of April 2020, 27 million people in the age group of 20 – 30 lost their job in India Approximately 120 million labours of the country, mostly street sellers and daily wages employees., lost their livelihood in April on account of countrywide lockdown due to pandemic COVID-19. As per the statistical site statistia.com Unemployment rate in March 25 due to COVID-19 was just 7.55 per cent. As per CMIE's data monthly unemployment rate in April reared at 23.52 per cent and the same ahs increased to 27.11 per cent in the first week of May and later it has documented that unemployment rate due to COVID-19 pandemic has increased to the extent of 29.22 per cent by the end of May 2020.

4. Conclusion

GDP growth rate of the country has been adversely affected by capital formation rate, agriculture growth rate, power consumption per capita, poverty rate, export and import rate and so on. Agriculture sector significantly contributes towards country's GDP and crisis in the sector severely affected the GDP growth. Capital formation rate has expressively subsidized on the way to GDP growth rate and has been an important determining factor of GDP progress rate. COVID-19 is a huge negative supply and demand shock, and collective with the lockout will harshly reduce short-term development. Meanwhile stock will recuperate, though, whereas commodity values remain controlled, there is an opportunity to shift from the truncated credit and money evolution that categorized India's post 2011 growth slowdown, to a credit-led recovery, that also decreases obstinate financial sector stress. It emphasizes the importance of domestic demand in sequestering India from global shockwaves and probably extended reduction of trade. The hefty post GFC monetary-fiscal inducement made conceivable a sharp V-shaped retrieval. But over-reaction, and trouble in retreating the stimulus, formed macroeconomic susceptibilities. A limited, well targeted and fleeting impetus would evade this while preventing illiquidity becoming insolvency, relieving persistent financial stress, and creating a virtuous growth cycle.

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