AgriCos e-Newsletter
ISSN: 2582-7049
Volume: 02 Issue: 05 May 2021 Article No: 29

Impact of Covid-19 on Indian Economy

Shelake P. N.[1] and Jagtap V. A.[2]
[1]Assistant Professor, Department of Agricultural Economics, Lokmangal College of Agriculture Business Management, Wadala, Solapur, (MS.).
[2]UG Student, College of Agriculture Phaltan, Satara (M.S.)

SUMMARY

The countrywide lockdown has brought nearly all economic activities to an abrupt halt. Though, the supply of essential commodities including medicine has been ensured uninterrupted by the government. The disruption of demand and supply forces are likely to continue even after the lockdown is lifted. It will take time for the economy to return to a normal state and even then social distancing measures will continue for as long as the health shock plays out. Hence demand is unlikely to get restored in the next several months, especially demand for non-essential goods and services. There is likelihood that the three major components of aggregate demand - consumption, investment, and exports are likely to stay subdued for a prolonged period of time. In addition to the unprecedented collapse in demand, there will also be widespread supply chain disruptions due to the unavailability of raw materials, exodus of millions of migrant workers from urban areas, slowing global trade, and shipment and travel related restrictions imposed by nearly all affected countries. The supply chains are unlikely to normalise for some time to come. The longer the crisis lasts, the more difficult it will be for firms to stay afloat. This will negatively affect production in almost all domestic industries. This may further affect the investment, employment, income and consumption, pulling down the aggregate growth rate of the economy. There will also be large scale cascading effects for the aviation, hospitality and tourism industries. Over and above the domestic problems, the Indian economy will also get affected by the global recession that is looming large on the horizon. This is bound to have spillover effects through financial and trade linkages of India with the rest of the world. Already foreign investors have been pulling money out of the Indian financial markets and are fleeing to safe assets as 5 stock markets have crashed. At this early stage it is difficult to fully comprehend the extent of the damage that the Indian economy may incur once the epidemic wanes.

INTRODUCTION

The world has witnessed several epidemics such as the Spanish Flu of 1918, outbreak of HIV/AIDS, SARS (Severe Acute Respiratory Syndrome), MERS (Middle East Respiratory Syndrome) and Ebola. In the past, India has had to deal with diseases such as the small pox, plague and polio. However, the Novel Corona virus Covid-19 which originated in China in November-December 2019 and over the next few months rapidly spread to almost all countries of the world has turned out to be one of the biggest health crisis in our history. The World Health Organisation (WHO) has declared the coronavirus disease 2019 (COVID-19) a pandemic. A global coordinated effort is needed to stop the further spread of the virus. A pandemic is defined as "occurring over a wide geographic area and affecting an exceptionally high proportion of the population.'' The last pandemic reported in the world was the H1N1 flu pandemic in 2009. India recorded the first case of the disease on January 30, 2020. Since then the cases have increased steadily to around 33610 total confirmed cases and around 1075 deaths (as on 30 April 2020). India has recorded lower number of cases compared to other countries, especially those in the developed world, which have been badly affected. The global Covid-19 pandemic, which is inflicting two kinds of shocks on countries: a health shock and an economic shock. Given the nature of the disease which is highly contagious, the ways to contain the spread include policy actions such as imposition of social distancing, self-isolation at home, closure of institutions, and public facilities, restrictions on mobility and even lockdown of an entire country. In order to curb the spread of the virus, the government of India announced a three week long nationwide lockdown starting 25 March 2020 and further extended to 3 May. The economic impact of COVID19 can be seen on following major sectors of Indian economy:

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 labour 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 6 agricultural production. Closures of restaurants, transport bottlenecks can diminish demand for fresh produce, poultry and fisheries products, affecting producers and suppliers.

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 labourers 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 8 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. Possibility is there that defaults will not only rise in the banking system but also in the NBFCs who lend to the MSME (Micro, Small and Medium Enterprises) sector as the latter's earnings will fall sharply. Particularly worrisome might be the depth of financial stress faced by the large micro-finance sector (NBFC-MFIs) that provides support to innumerable small and micro enterprises throughout the country. Micro finance institutions (MFIs) serve many low income poor people with their saving and credit services. The economics of micro finance requires high repayment rates. Any slip in repayment rate makes these institutions insolvent. Repayment rates may fall drastically now as borrowers struggle to make ends meet in the face of the precipitous income shock.

Tourism, Hospitality & Medical Value Travel:

With large scale cancellation of travel plans by both foreign and domestic tourists, there has been a drop in both inbound and outbound tourism of about 67% and 52% respectively since January to February as compared to the same period last year. Of all the segments of the hospitality sector, the Meetings, Incentives, Conferences and Exhibitions — popularly known as MICE segment — has been hit the most. Some of the major international business events have also been cancelled including tech events such Mobile World Congress (MWC), Google I/O, and Facebook's F8 event, which has led to huge economic losses. The tourism industry expects the situation to further deteriorate in the forthcoming summer season i.e. April-June. Usually, the number of Indian travellers to both domestic and international destinations peak during the months of March and April. However, this time around nearly 90% bookings of hotel and flights for the peak time have been cancelled. According to the Indian Association of Tour Operators 9 (IATO), the hotel, aviation and travel sector together may incur loss of about Rs 8,500 crore due to travel restrictions imposed on foreign tourists by India for a month. This is also expected to have a negative impact on jobs in the industry.

Government's Measures:

The Government of India has announced a variety of measures to tackle the situation, from food security and extra funds for healthcare, to sector related incentives and tax deadline extensions. The immediate objective of the policy responses to the economic impact of Covid-19 is to ameliorate the effect of the shock on economic agents in both the formal and the informal sectors and to help them tide over the crisis. The central government and RBI have announced an initial round of fiscal and monetary policies respectively. In addition, several state governments have also announced fiscal stimulus measures.

CONCLUSION

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 preCovid-19 period, and the economy's dependence on informal labour, 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 minimise the impact of the shock on both the formal and informal sectors and pave the way for a V-shaped 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.

REFERENCES

Covid-19: Impact on the Indian Economy, Indira Gandhi Institute of Development Research, Mumbai, April 2020. http://www.igidr.ac.in/pdf/publication/WP-2020-013.pdf.

Press Information Bureau (PIB) Press Release, March-April, 2020. www.pib.gov.in

Impact of Covid-19 on the Indian Economy, FICCI, March 20, 2020 http://www.ficci.in/publication.asp?spid=23195.

https://www.physio-pedia.com/Coronavirus_Disease_(COVID-19).