

Impact of Covid-19 on Indian Economy & the Challenges Ahead

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Abstract As we reach the mid of year 2020 and virus COVID-19 takes most of the world under its influence, it's high time we should start looking at a post COVID-19 world. The changes its going to bring upon us, how vastly world is going to get impacted both economically as well as emotionally, as damage has left many in dire situation. It's the moment of global lockdown where everyone is predicting a worst economic downturn since the days of Great Depression. The heart-wrenching images of migrants are there for everyone to see, a moment of reverse migration, happening across India and other parts of world are showing the anxiety and desperation of many due to loss of livelihood and social security. As more and more companies announcing layoffs, rising unemployment data in world's major economies and the possibilities of discovering a vaccination in near term looking grim, we are certainly in a situation never seen before in recent times. Wearing a mask has become a new fashion statement, work from home has become a new norm in corporate world as more and more companies adopting this new change to bring cost effectiveness as well as keeping it safe for everyone, sanitization, social distancing have become new trending words for the masses. World is looking away from China and everyone wants to grab the opportunity, virtual classes to virtual meeting rooms, world is changing quite rapidly and we are witnessing an anxious nation with rural distress among many of its worries. This paper provides us the opportunity to study the impact of COVID-19 on global economy with special focus on Indian Economy. The aim is to study the possible challenges we going to face as nation on many fronts and how different the world is going to be post novel corona virus outbreak.

Keywords- COVID-19, Pandemic, Great Depression, Corona virus Disease, Lockdown and Post Corona World

Introduction

What is COVID-19 & How it all started?

Corona viruses are a large group of viruses that are known to infect both humans and animals, and in humans cause respiratory illness that range from common colds to much more serious infections. Since the beginning of the century, two other corona viruses have infected humans, causing the SARS outbreak in 2002 and the MERS epidemic in 2012. The WHO named the illness caused by the corona virus as COVID-19 — “co” and “vi” for corona virus, “d” for disease, and “19”

for the year when the disease has emerged. Experts are still trying to trace its initial source with some reports suggesting it to spread from a seafood market in Wuhan while other reports claiming other things. As per WHO initial estimates each sick person will go on to infect, on average, between 1.4 and 2.5 additional people. Other experts also share the same view with most saying a sick person will infect an average of around two or three people.

At the end of December 2019, public health officials in China reported the World Health Organization's (WHO) China office about a previously-unknown virus behind a number of pneumonia like cases in Wuhan, a city in Eastern China with a population of over 11 million. Initially it was limited mainly to China but now has become a truly global pandemic. The disease has been detected in more than 216 countries and territories so far, with the US, Russia and most of Europe experiencing the most widespread outbreaks. At present there are over 48 lakh infected by the disease with the highest numbers were reported from USA followed by Russia, Brazil and UK. The number of confirmed deaths due to virus is over 3 lakh at the moment with maximum numbers of around 90000 by USA alone.

A possible near term solution is the development of a vaccine for Covid-19 but it seems not to be happening too soon. Developing a vaccine and bringing it to the market is a slow process and any potential vaccine will have to pass through multiple stages of testing for safety and effectiveness. And once all testing is done and a vaccine is considered safe, its production also needs to be at a scale high enough to ensure its usage across the world. It's likely that any vaccine is around 18 months away as per initial reports.

COVID-19 in India

With the size of population India has, so far government has done quite well in controlling its spread and the speed of its growth is slow as compared to other countries. India has so

far reported over one lakh cases with death numbers around 3000, recovery rate is better here. To control the spread India took many measures that include an initial Janta Curfew of 14 hours on 22nd March to a full phase lockdown beginning from 25th March to 14th April. On 18th May India entered into the fourth phase of lockdown with some relaxations in guidelines.

India confirmed its first case on 30 January 2020 in the state of Kerala, when a university student from Wuhan travelled back to the state. As a protective measure India began thermal screening of all international passengers. By mid of March as the spread increased to other parts of the country and following the impact of virus witnessed in other parts of world Indian government decided to initiate necessary steps. Indian government stopped issuing new visas and suspended previously issued visas for the nationals of Iran, Japan, Italy and South Korea. Travel restrictions were imposed within the country as few states imposed ban on both foreign and domestic tourists. Multiple states across the country began to shut down schools, colleges, public facilities such as malls, gyms, cinema halls and other public places as precautionary measures.

As country entered into the lockdown phase all the economic activities came to a halt, and only services related to essential goods were allowed. All sort of transportation whether train, road or air was banned and interstate movements of citizens were stopped. Although India's response has been quite fast and steps taken were stringent but as we enter into this fourth phase we can witness the anxiety it has caused for its citizens, for authorities as well as for service providers. The scale of testing has been slow and it speed up only after the private labs were also allowed to do testing. The lack of preparation was quite evident from the beginning, lack of testing kits, shortage of PPE kits for medical staff and isolation wards and ventilators made the situation tough to handle.

Figure-1 Shortage of Medical Supplies



Objectives of the Study

To Study the impact of COVID-19 on the Indian Economy.

To find out the need & effectiveness of Lockdown as a measure taken by the Indian Government.

To find out the possible challenges across the Globe in Post Corona world.

Research Methodology

The paper is exploratory & descriptive in nature. The study will be based on secondary sources of data which can be obtained from published articles in journal, web articles, websites of WHO, IMF, newspapers and other official publications from FICCI and Dun & Bradstreet. With the help of these secondary sources an attempt has been made to highlight the need of lockdown and its impact on Indian Economy.

Changing Faces of Lockdown

Phase 1 (25 March – 14 April)

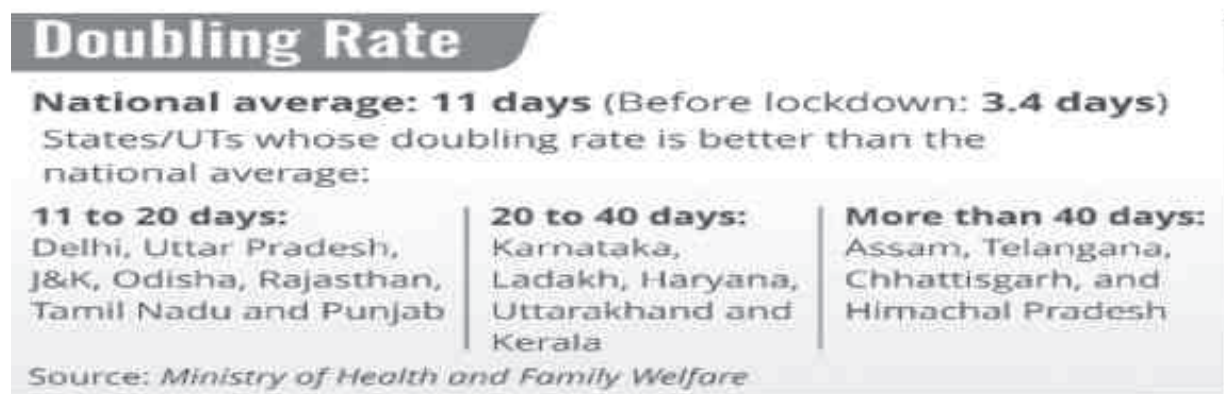
In the first phase of the lockdown, nearly all services and factories were suspended. The sudden panic led people

into panic buying and people were hurried to stock essentials goods. The closure of businesses and fear of dying led to sudden rush in migrant workers movement, to control the damage several states announced relief funds for the poor and affected people while the central government announced first of its stimulus packages.

On 26 March, finance minister announced a 170,000 crore (US\$24 billion) stimulus package to help those affected by the lockdown. The package was aimed to provide food security measures for poor households through direct cash transfers, free cereal and [cooking gas](#) for three months. It also provided insurance coverage for medical personnel. Following the initial measures announced by finance ministry on 27 March, RBI announced a slew of measures to help mitigate the economic impacts of the lockdown.

Towards the end of the first phase, the rate of growth of COVID infections in India slowed down significantly, from a rate of doubling every three days prior to the lockdown to one of doubling every eight days on 18 April but on suggestions given by different states government lockdown was further extended into phase 2.

Figure 2 Doubling Rate of Infected Patients in Different States



Phase 2 (15 April – 3 May)

On 14 April, PM Modi extended the nationwide lockdown further till 3 May, with a conditional relaxation promised after 20 April for the regions where the spread of virus is controlled. Lockdown areas were further classified as "red zone", indicating the presence of infection hotspots, "orange zone" indicating some infection, and "green zone" with no infections. In this phase the government announced certain relaxations in activities related to agricultural businesses, including dairy, aquaculture and plantations, as well as shops selling farming supplies, to open. Public works programs, Banks, small retail shops with half staff

capacities, movement of cargo vehicles including trucks were also allowed to reopen with instructions to maintain social distancing. Guidelines were also announced for the states to allow inter-state movement of the stranded persons. States were asked to create designated nodal authorities and form protocols to receive and send such persons after proper screening and necessary health checkups.

Phase 3 (4 May – 17 May)

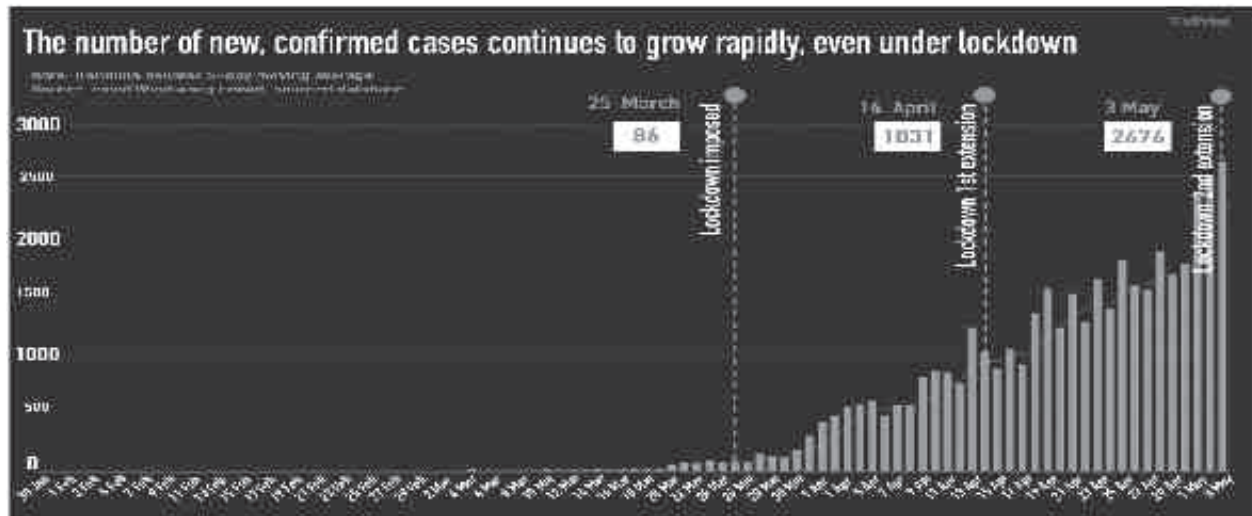
On 1 May, the Ministry of Home Affairs (MHA) and the Government of India (GoI) further extended the lockdown period to two weeks beyond 4 May, with some relaxations.

The highlight of the third phase was the 20 lakh crores stimulus package announced by Government to strengthen the economic activities and boost the financial liquidity into the system. The prime minister gave the slogan of 'Atmanirbhar Bharat' - a self-reliant India.

The number of new cases added each day rose extensively in each successive phase of lockdown, although the

average daily growth in cases slowed down with each successive stage as well, and the daily growth rate of cases in the second and third phase of lockdown was half of what it was in the first three weeks of lockdown. Maharashtra remains the most effected state with numbers touching almost 50000 followed by Tamil Nadu and Gujarat.

Figure 3 Growth Chart of confirmed cases under lockdown



Source: ThePrint

Phase 4 (18 May – 31 May)

On 17 May, the National Disaster Management Authority (NDMA) and the Ministry of Home Affairs (MHA) extended the lockdown for a period for two weeks beyond 18 May, with additional relaxations. This included more power into the hands of state governments to set the guidelines as per the situation. Trains were started to allow movement of migrants and new directions were stated to start the domestic airlines. As the guidelines are relaxed it's the most important phase the country is entering into, number of cases are increasing on daily basis and economic activities more or less in a stagnant state, it's becoming more and more important in balancing the two things.

Was lockdown the answer?

To begin with India locked down very early to curb the spread of the novel corona virus in the country, with around 500 cases and 10 deaths which now stands at over a lakh cases and over 3000 deaths. Although the numbers have not increased as quickly as everyone predicted initially but the downturn trend has not yet started and the peak still looks far away. When compared to other countries with similar or

higher case load, India called its strict lockdown at a much earlier point on its case and death curves. There are 18 other countries that had more than 500 cases when they called their strictest lockdown, while India had 320 around the same time. The early lockdown helped India in breaking the chain of community spread without which the actual numbers could have been huge. The Fig.4 is just the indicator of how effective the lockdown has worked. The timely intervention has not only delayed the outbreak peak rather has helped in controlling the burden on health infrastructural system.

Figure 4: The benefits of early planning and quick intervention in stemming a communicable disease.

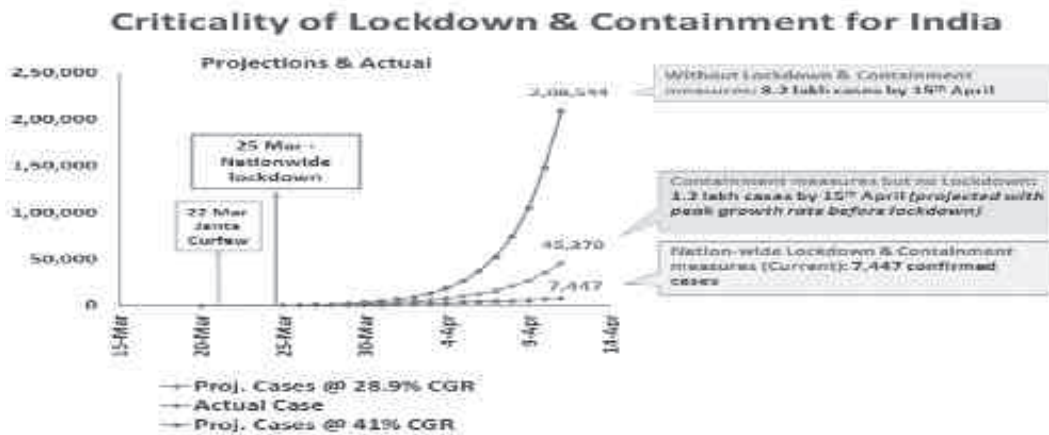


Source: Centers for Disease Control and Prevention

Figure 5 gives us a good indicator about how critical the lockdown was for India. The actual numbers India recorded and the possible numbers that could have been if no stringent measures were taken. The purpose of the lockdown was essentially to halt the unrestricted transmission in the community from people who are

infected to people who were susceptible, it provided the necessary breathing time to the government to prepare itself better for tough times ahead with higher number of patients and spread at a bigger level.

Figure 5: Criticality of Lockdown for India



Source: Twitter: @PIH_India

Impact of COVID-19 on Indian Economy

COVID-19 has impact every economy in a severe way and the recent global shutdown has simply put everything on a hold. The actual effects of the crisis are yet to be estimated properly but most the experts agree to the view that slowdown has already began and all the major economies are heading towards a recession. India is no different, all economical activities are stopped, whether it's a small shop near you or a MNC providing services to global or local clients, or its manufacturing activity related to any sphere of life, everyone is facing the heat. Large layoffs are inevitable and the rural distress is rising as large number of migrants move from their places of works to their native spaces. Recent financial stimulus packages by government are an effort to ease the situation and to pump up the liquidity into the market through all means. The lockdown might help in controlling the faster spread of corona virus in India, but the damage is already done as there are various sectors which are severely impacted due to lockdown and outbreak of this pandemic-

Micro Small and Medium Enterprises (MSME)

MSME's are considered to be the backbone of Indian Economy as it contributes more than 40% of India's exports and 30% of GDP. At present, there are over 75 million MSME's in India employs over 114 million people. This pandemic is expected to have long term and short term impact on this sector. The recent movement of migrant workers due to fear is going to put a near term shortage of skilled labor and will also put extra pressure of rural economy. The demand of exported goods will decline since the world economy is facing Recessionary pressure and the adverse effect of it would linger for a longer time. In the short term, severe liquidity problems will put more pressure to operate and survive in the market. A study by All India Manufactures organization (AIMO) analyzed that 25% of MSME's will face closure, if immediate actions are not taken by the government.

Entertainment/Events/Sports

Entertainment Industry is the one Industry which gives employment to people of every skill. The COVID 19 pandemic has adversely impacted the television and film Industry. Due to lock down, shooting exhibitions, sports and events has been either suspended or postponed. The Cancellation of IPL matches alone adds a loss of Rs. 10,000 crore for the industry. The Events and Entertainment Management Association appealed to government to support industry by providing the required funds to bring stability and supporting the lives of 60 million people working in this industry. A study by CRISIL suggests that revenues from Indian Media & Entertainment Industry in

the Current Financial Year are expected to reduce by 16% or Rs. 25,000 crores to Rs. 1.3 lakh crores.

Tourism/Hospitality

The contribution of tourism sector Indian Economy has mostly remained unsung. The domestic as well foreign tourist number has grown over a period of time contributing to GDP. Spread of COVID 19 pandemic, resulted in the large scale cancellation of travel plans and complete shutdown of hotels and other hospitality services. The impact would be severe in the short term as well as in the long term. A study by Credit Ratings predicts that the revenue from tourism would be 40% less than the revenue earned in 2019. Even when the restrictions are lifted, there would be less globalization of people within and outside the country because of lower disposable income and precautionary approach by travelers to avoid this pandemic risk. The tourism industry is expected to incur a revenue loss of Rs. 1.25 trillion in 2020. A negative growth in tourism will also have cumulative effect on hospitality sector.

Automobile Industry

Automobile Sector was already under slowdown for some time and was reporting 20% to 25% downturn due to new emission norms. With the outbreak of COVID 19, the downturn is expected to have more severe impacts, delay in India's transition to BS VI vehicles and due to lack of Economic activities, Consumers would have lower disposable income which likely to postpone their decision of buying a new vehicle. A Recent Report by Fitch Ratings forecasted that in 2020, the vehicle production in India would probably contract by 8.3%. This pandemic is likely to push back Indian Automobile sector by four to five years.

Banking Sector

Over the past few years, The Indian Banking Sector has been experiencing a major slowdown due to increase in amount of Bad Loans and Non Performing Assets (NPA's). RBI in its Financial Stability Report released in December, found that a under benchmark framework, the ratio of gross bad loans may increase to 9.9% by September 2020 from 9.3% in September 2019. With the outbreak of COVID-19, Banks and Financial Institutions are facing liquidity crunch as Investors are pulling out their deposits and increase in moratorium period will delay in Cash collections from borrowers. After this Pandemic, Central Banks expect an increase in Non Performing Assets to 10.2% -10.5% by September 2020. However, Banking Sector has been facing a very severe downturn as the whole Economic Sector is undergoing a very big shake up.

Sectors like Retail, Textiles, Drugs and Pharmaceuticals

would have a short term recovery period from this Pandemic as Indian Government has extended its full support in production and regular supply of essential commodities like Medicines, Masks, Cotton roll & other essential household items required for living.

Post Corona World - Global Challenges

- Developed Countries having Medical advancement will shorten its supply chain concerning clinical, medical devices which will be vulnerable to this kind of pandemic.
- Dependence of developing nations over developed nations would increase to fight any such pandemic.
- In short- term, there will a change in globalization of people between countries. Countries have to invest more to strengthen their digital infrastructure.
- It may lead to greater economic nationalism i.e. making their own economy self- reliant and restricting trade from outside.
- The role International organizations like IMF, WHO, the G20 would increase to ensure international cooperation as there will lack of social trust between countries.
- The face of globalization will change as countries would likely to shorten its supply chain by bringing production activities as close as to place of consumption. Japan is the first country who initiated the process of reallocating its companies from china either to its own economic territory or to other Asian Countries.
- The countries to overcome this type of crises would likely to involve technological advancement in Artificial Intelligence for quick drug development and Robotics to curb the risk of off shoring.
- Post COVID would bring uncertainty about earnings and Job security, the Consumers across the globe would like to spend their disposable income only on necessity items including health & Insurance. Recent Press Release published by UNI-WIDER estimated that half a billion population in developing countries could fall under poverty after the pandemic. The study also shows that SDG's 2030 Agenda of no poverty and zero starvation is under a great threat.
- COVID 19 can be a catalyst for Educational Institutions, finding creative solutions for teaching students apart from Brick & Motor lecture based approach, but the use of these Innovative solutions may widen the Socio Economic gap as students from

poor & digital savvy families might be left behind.

Conclusion

At present moment it's still too early to predict whether the lockdown was too early or too late. The numbers of cases are still rising, although there are states like Kerala and Rajasthan which has done reasonably well in controlling its spread after the initial hiccups, but the war is still far from its end. Maharashtra remains the centre point and the stress on health infrastructure is very much evident and it really has opened up the eyes of all the authorities. Right from the need of more hospitals, to more medical staff and need of safety equipments plus to speed up the funding requirements to invest more on research facilities. On the economical front, the state and centre are unanimous on one thing; lockdown needs to be open in phased manner to ensure things can be repaired soon then later. Different sectors will have different issues and the fear among public is not going to help it much. To bring back the confidence, to provide liquidity to the market recent rate cuts by RBI and financial packages by Finance Ministry in different forms are certainly the steps in right direction. How much will they be able to boost the sentiment that's a thing yet to be seen but a start has been made. The next biggest task for governments is to normalize life of the migrants, provide them source of income by providing employment at their native places. It's a tough road ahead but journey has to be made as whole world is counting upon us with eyes of hope.

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