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COVID-19 AND ITS IMPACT ON THE INDIAN ECONOMY

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ABSTRACT

Globally Corona virus has produced an unstable environment for people. This has spread all over the world and called as a pandemic by World Health organization. This is stopped many of economic activities due to contagious disease and has no cured till date to fight with corona. It has produced economic impact on globe and India. It may produce recession in many part of the world. In every sector in India most of the products are imported from China, especially in medicine and manufacturing industry. The outbreak of the Covid-19 pandemic is an unprecedented shock to the Indian economy. The economy was already in a parlous state before Covid-19 struck. With the prolonged country-wide lockdown, global economic downturn and associated disruption of demand and supply chains, the economy is likely to face a protracted period of slowdown. The magnitude of the economic impact will depend upon the duration and severity of the health crisis, the duration of the lockdown and the manner in which the situation unfolds once the lockdown is lifted. In this paper we describe the state of the Indian economy in the pre-Covid-19 period, assess the potential impact of the shock on various segments of the economy, analyse the policies that have been announced so far by the central government and the Reserve Bank of India to ameliorate the economic shock and put forward a set of policy recommendations for specific sectors.

Keywords: Covid-19, Pandemic, Economic downturn, and Lockdown.

INTRODUCTION

We are in the middle of a 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 lock-down of an entire country. These actions can potentially lead to dire consequences for economies around the world. In other words, effective containment of the disease requires the economy of a country to stop its normal functioning. This has triggered fears of a deep and prolonged global recession. On April 9, the chief of International Monetary Fund, Kristalina Georgieva said that the year 2020 could see the worst global economic fallout since the Great Depression in the 1930s, with over 170 countries likely to experience negative per capita GDP growth due to the raging corona virus pandemic. 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 smallpox, plague and polio. All of these individually have been pretty severe episodes. However the Covid-19 which originated in China in December 2019 and over the next few months rapidly spread to almost all countries of the world can potentially turn out tobe the biggest health crisis in our history. Many experts have already called this a Black Swan event for the global economy.

The World Health Organisation (WHO) has declared that the new corona virus outbreak is a public health emergency of international concern, officials announced on Thursday, 30th Janurary, 2020. WHO proposed calling the disease "2019-nCoV acute respiratory disease?" The 2019 novel corona virus (2019- nCoV) originating in Wuhan, China, has spread to 24 more countries alarming public health authorities across the world. More than 4,900 people have died and over 132,000 have been infected globally, according to the WHO on 13 March, 2020. According to Situation report-48 on Corona virus disease 2019 (COVID-19) on 08th march 2020 Over 100 countries have now reported laboratory-confirmed cases of COVID19.

TYPES OF CORONAVIRUS

Coronaviruses belong to the subfamily Coronavirinae in the family Coronaviridae. Different types of human coronaviruses vary in how severe the resulting disease becomes, and how far they can spread. Doctors currently recognize seven types of coronavirus that can infect humans. There are the following types of Coronaviruses:

- 229E (alpha coronavirus)
- NL63 (alpha coronavirus)
- OC43 (beta coronavirus)
- HKU1 (beta coronavirus)

Rarer strains that cause more severe complications include MERS-CoV, which causes Middle East respiratory syndrome (MERS), and SARS-CoV, the virus responsible for severe acute respiratory syndrome (SARS). In 2019, a dangerous new strain called SARS-CoV-2 started circulating, causing the disease COVID-19.

TRANSMISSION OF COVID-19

Limited research is available on how HCoV spreads from one person to the next. However, researchers believe that the viruses transmit via fluids in the respiratory system, such as mucus. Corona viruses can spread in the following ways:

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- Coughing and sneezing without covering the mouth can disperse droplets into the air.
- Touching or shaking hands with a person who has the virus can pass the virus between individuals.
- Making contact with a surface or object that has the virus and then touching the nose, eyes, or mouth.
- Some animal corona viruses, such as feline corona virus (FCoV), may spread through contact with feces. However, it is unclear whether this also applies to human corona viruses.

OBJECTIVES OF THE STUDY

- To study the types of Corona virus and Present status of Covid-19 in India.
- To know the Pandemic impact and Sector wise impact of Covid-19 on Indian economy and Industry.
- To examine the various kind of policy support is needed and policy announced during Covid-19

PRESENT STATUS OF COVID-19 IN INDIA

India recorded the first case of the disease on January 30, 2020. Since then the cases have increased steadily and significantly. At the time of writing of this chapter (September 1st week, 2020), India has recorded the second highest Covid-19 caseload in the world after the United States with more than a million confirmed cases and more than 25,000deaths.The doubling rate has steadily gone up to around 18-22 days and the daily new confirmed cases are around 40,000-50,000. However, as shown in figure 1 the growth in active cases is lower than the growth in total cases implying a relatively high recovery rate which has continued to improve. In order to curb the spread of the virus, the government of India announced a nationwide lock-down starting March 25, 2020 which continued for about two months. All non-essential services and businesses, including retail establishments, educational institutions, places of religious worship, across the country stayed closed during this period and all means of travel were stopped, aside from some inter-state transport permitted towards end April and early May to let migrant workers, stranded pilgrims, tourists and students return to their native places At the time this was the most far-reaching measure undertaken by any government in response to the pandemic and till date remains the world's biggest lock-down in context of this disease.

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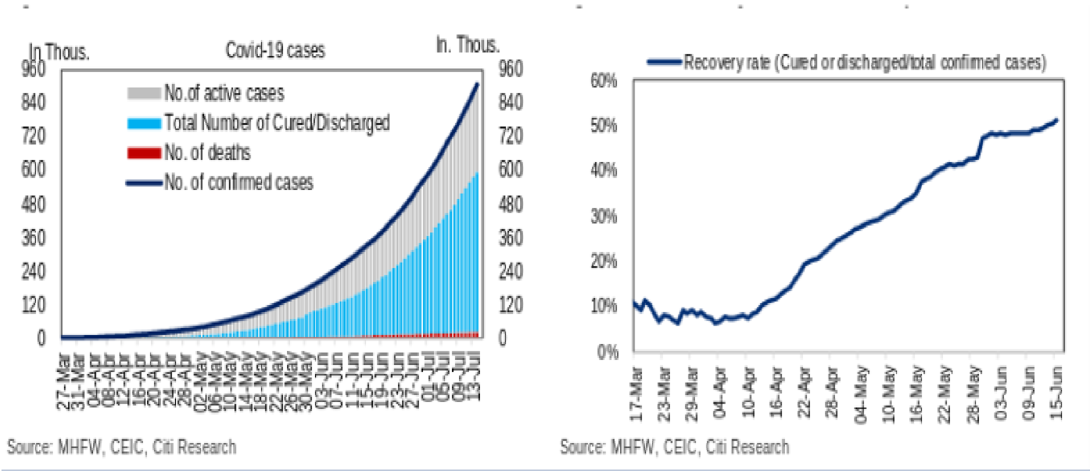
Figure 1: Confirmed Covid-19 cases in India



Subsequently from end May early June onward the lock-down was gradually relaxed in a phased manner but continued in high-risk zones or ‘containment’ areas. This was required given the uneven spread of the pandemic across the country with some states like Delhi, Gujarat, Maharashtra, Tamil Nadu, West Bengal etc reporting higher than average confirmed cases and also given the tremendous hardship that the nationwide lock-down had begun imposing on the overall economy. With the continued surge in cases, after an initial phase of relaxations in June, the nationwide lock-down was extended till July 31 albeit in a less strict manner compared to the lock-down of March 24.

Measured relaxations have been permitted in areas outside the ‘containment or high-risk zones’ including opening of non-essential establishments, and businesses. Domestic flights have been allowed subject to the guidelines issued by the government to ensure safe travel of the passengers amidst the pandemic. However restrictions on educational institutions, places of public gathering such as shopping malls, gymnasiums, swimming pools, cinema theatres, entertainment parks, places of religious worship, operation of metro train services etc continue. While vehicular movement within states is allowed there remains in place a night-curfew period in almost all states. The re-imposition of the lock-down has delayed any chance of economic recovery that was anticipated once the first phase of ‘unlocking’ had begun in June.

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PANDEMIC IMPACT ON INDIAN ECONOMY

The shock is playing out in almost a similar manner in all countries of the world in terms of demand and supply disruptions and the consequent economic slowdown. In case of India however the problem might be more acute and longer lasting owing to the state the economy was in, in the pre-Covid-19 period. By the time the first Covid-19 case was reported in India, the economy had deteriorated significantly after years of feeble performance. The countrywide lockdown has brought nearly all economic activities to an abrupt halt. 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. Three major components of aggregate demand-consumption, investment, and exports are likely to stay subdued for a prolonged period of time.

The trade impact of the corona virus epidemic for India is estimated to be about 348 million dollars and the country figures among the top 15 economies most affected as slowdown of manufacturing in China disrupts world trade, according to a UN report. Whereas according to Asian Development Bank (ADB) the Covid-19 outbreak could cost the Indian economy between $387 million and $29.9 billion in personal consumption losses (https://www.livemint.com/). For India, the trade impact is estimated to be the most for the chemicals sector at 129 million dollars, textiles and apparel at 64 million dollars, automotive sector at 34 million dollars, electrical machinery at 12 million dollars, leather products at 13 million dollars, metals and metal products at 27 million dollars and wood products and furniture at 15 million dollars. China has seen a dramatic reduction in its manufacturing Purchasing Managers Index (PMI) to 37.5, its lowest reading since 2004.

This drop implies a 2 per cent reduction in output on an annual basis. This has come as a direct consequence of the spread of corona virus (COVID-19) (The Hindu). When we see the China’s Share in total import to India, India’s total electronic imports account for 45% of China. It is evident that around one-third of machinery and almost two-fifths of organic chemicals that India purchases from the world come from China. For automotive parts and fertilisers China’s share in India’s import is more than 25%. Around 65 to 70% of active pharmaceutical ingredients and around 90% of certain mobile phones come from China to India.

SECTOR-WISE IMPACT ON INDIAN INDUSTRY

Chemical Industry: Some chemical plants have been shut down in China. So there will be restrictions on shipments/logistics. It was found that 20% of the production has been impacted due to the disruption in raw material supply. China is a major supplier of Indigo that is required for denim. Business in India is likely to get affected so people securing their supplies. However, it is an opportunity. US and EU will try and diversify their markets.

Auto Industry: Its impact on Indian companies will vary and depend upon the extent of the business with China. China's business no doubt is affected. However, current levels of the inventory seem to be sufficient for the Indian industry. If the shutdown in China continues then it is expected to result in an 8-10% contraction of Indian auto manufacturing in 2020.

Electronics Industry: The major supplier is China in electronics being a final product or raw material used in the electronic industry. India's electronic industry may face supply disruptions, production, reduction impact on product prices due to heavy dependence on electronics component supply directly or indirectly and local manufacturing.

Foreign Trade: China has been India's largest source of imports since 2004-05, shows data from the Centre for Monitoring Indian Economy (CMIE) database. In 2018-19, the latest period for which annual data is available, it had a share of 13.7% in India's total imports. Any major disruption in the Chinese economy can disrupt these imports and hence both production processes and supply of consumer goods in India.

Effect on Poultry: The poultry industry in different parts of the country has been hit hard amid rumours that the novel corona virus can transmitted through consumption of chicken, the prices of which have fallen considerably as a result. About two crore people employed in the poultry industry across the country have been impacted. People were avoiding consumption of meat, fish, chicken, and egg etc. Due to the fall in demand, wholesale price of chicken had dropped by as much as 70 per cent.

VARIOUS KIND OF POLICY SUPPORT IS NEEDED DURING COVID-19

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. Against the background of a weak economy, the twin shocks of Covid-19 and lockdown are operating at two levels: Creating supply-side disruptions and Triggering reduction in aggregate demand. The need of the hour is policy actions to deal with both supply-and demand-side problems. The supply side has been reeling under three pre-existing shocks: (i) demonetisation of 2016, (ii) goods and services tax (GST) since 2017, and (iii) slowdown in credit growth. The pandemic is creating additional disruptions due to the following factors**:**

- **Mass exodus of migrant workers from urban areas:** Many firms will not be able to find the required number of workers, and hence production will be constrained even if they do not face a demand shortage. This will be acute in sectors such as construction, logistics (last-mile delivery of goods), unskilled manufacturing, etc., where large numbers of migrant workers are employed.
- **Non-availability of financing:** Finance is the backbone of business. The banking sector, especially public sector banks (PSBs), has been operating under high levels of risk aversion. The future prospects of borrowers have become more uncertain in the ongoing crisis. This will further affect credit availability. Bond markets have also become risk averse. Credit spreads on corporate bonds are the highest since 2009.
- **Restrictions on International Trade:** The pandemic has disrupted global supply chains. To the extent that international transport of goods is adversely affected, importing firms will face supply constraints**.**
- **Logistics Issues:** The lockdown has imposed restrictions on intra-and inter-state movements. This has made transportation of raw materials and finished goods difficult even within the national boundaries. In other words, all factors of production are facing disruptions –capital, labour, and raw materials. In addition, marketing has been disrupted, retail stores are closed and e-commerce is also not operating smoothly. The gradual relaxation of lockdown will release some pent-up demand, but the supply-side disruptions are unlikely to get resolved soon. This in turn will exacerbate the demand shortage.

For example, firms have fixed expenses such as rent, wages, inventory maintenance, etc., but a large number of them are earning no revenues. If they do not receive financing to tide over this crisis, they will be forced to downsize their businesses or even shut shop. This will add to unemployment and aggravate the demand problem. Hence, authorities need to figure out ways to offer funding to the firms who need it, to help them stay solvent.

ANALYSIS OF POLICIES ANNOUNCED IN INDIA

Policy package for informal sector workers on March 26, 2020 the Finance Minister announced a Rs. 1.7 lakh crore package largely aimed at providing a safety net for those who have been worse affected by the Covid-19 lockdown i.e. the unorganised sector workers, especially daily wage workers, and urban and rural poor.

Atmanirbhar Package: In May 2ndweek the Finance Minister announced a comprehensive economic relief package called the "Atmanirbhar (self-sufficient) package", which had three components: (i) monetary actions, (ii) fiscal actions, and (iii) economic reforms.

Careful assessment of the package announced by the Indian government therefore shows that given the widespread demand destruction, the package will fall short and may need to be enhanced. The fiscal initiatives only address the financing constraints on the supply side, that too inadequately.

In the first phase, there was no common strategy in the region. Instead, there could have been greater coordination between ASEAN Member States and East Asian countries to mitigate and isolate the movement of workers and tourists from China, even though some economies had not yet experienced infection. At this stage, more information could have been shared with businesses and workers. Efforts could have been made to manage the movement of people and to stockpile the necessary healthcare and medical equipment. During this phase, there could have been more healthcare mitigation (hospital isolation and observation for identified cases and treatment of critical cases) and social isolation (identification (testing), isolation (managed social distancing and self-isolation) and implementation (enforcement)), which, although costly to business, would have had benefits for human well-being and reducing fatalities in the longer term. Proper policy reactions could have reduced the economic impact and, when supported by regional coordination, would have been likely to shorten the gap between the initial stopping point and the new starting point at the regional level as well.

In the second phase, assuming no or limited policy action in the first stage, the effects of the pandemic become significant in several countries. The interregional effects, including through GVC, also become important. At this stage, learning from the case of China, policy responses could still have been effective in reducing the growth of infections. The following are the key policy responses:

- Greater isolation is required at the border, through regional coordination, because to reduce the chance of community transmission domestically.

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- Isolation of some foreign and domestic workers would be valuable. At the same time, there will be a need to move resources, including critical medical and healthcare workers, to countries where they are more in demand and valuable.
- The economic impact is now larger and demands stronger fiscal packages.
- At this stage, shocks in terms of unemployment and corporate bankruptcies become more likely. Experience of the region in managing financial crises is valuable.

In the third phase, most of the regional countries will experience the pandemic shock, assuming the action in the second stage is not significant. Each country is likely to experience a different pandemic curve due to population demographics, urban densities, healthcare facilities and rural–urban migration dynamics. GVC will now be largely shut down, directly affecting the procurement of medical and health equipment and services as well as basic food. During this phase, we should anticipate the impacts of the pandemic shock on the economic shock, with massive unemployment, large corporate bankruptcies and greater financial fragility. In this phase, the likelihood of economic crisis is high, even if it is possible to maintain the caseload within the capacity of the health system. The economic cost of the pandemic shock as well as the economic shock (unemployment and financial crisis) will be high. The social and human costs (e.g. individuals experiencing depression from unemployment and home isolation, and the human cost of death) will be especially large. The policy response includes the following:

- We need to provide heavy relief packages to support the basic liability of the domestic population.
- We expect a significant shift and coordinated fiscal policy to support the economic recovery.
- At this stage, the probability and expectation of a financial crisis will be high. A larger fiscal stimulus will mitigate both the economic and pending financial crisis.

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 pre-Covid-19 period, and the economy's dependence on informal labour, lockdowns and other social distancing measures are turning out to be hugely disruptive. The central and state governments have recognized the challenge and have responded but this response should be just the beginning. The eventual damage to the economy is likely to be significantly worse than the current estimates. On the demand side, the government needs to balance the income support required with the need to ensure the fiscal situation does not spin out of control. The balance struck so far seems to be a reasonable one but the government needs to find a greater scope for supporting the incomes of the poor. Involvement of the state and local governments may also be crucial in the effective implementation of further fiscal initiatives. 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 sustained 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.

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