

## **Analytical Study of Impact of Covid-19 on Indian Economy**

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### **Abstract:**

The Covid-19 is an unprecedented shock to the whole world. This pandemic is taking heavy toll of not only of human lives globally but has also triggered a deep economic distress. This is the first time when all countries in the world are facing economic slowdown at the same point of time. The present research paper is an attempt to assess the potential impact of this shock on various sectors of the economy, paper also discusses about the policy measures that needs to be taken both in short term and long term to in order to get over this severe economic shock.

### **Introduction:**

Novel Corona Disease which originated in Wuhan, China has spread over the globe now. All countries in world are fighting two wars one is against the **COVID-19 pandemic** and another is economic crisis. So far, the world has gone through several epidemics like AIDS, Severe Acute Respiratory Syndrome (SARS), Middle East Respiratory Syndrome (MERS), Ebola, etc. In the past, India has had to deal with diseases such as the small pox, plague and polio. All of these individually have been pretty severe episodes. However the Covid-19 turn out to be the most dangerous and serious health crisis in our history of mankind. World Health Organization has declared COVID-19 as global health emergency. To prevent the spread of this deadly disease almost all of countries have declared lockdown. Economic activities around the world has come to a halt abruptly which is adversely affecting the economy. On April 9<sup>th</sup>, the Chief of International Monetary Fund, K. 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 this pandemic.

### **Impact of Corona Pandemic on Indian Economy:**

Even before Corona, financial condition Indian economy was worsening for several quarters and the pandemic has made the condition worst now. Since March 25<sup>th</sup> country is in lock down and businesses are facing uncertain future. India's unemployment rate is at 27.1 % the highest ever. Most credit rating agencies have cut down India's GDP forecast from their earlier predictions.

Closing national borders has brought international trade and commerce to an abrupt halt. All these factors are severely disrupting supply mechanisms and distribution chains in almost all sectors of economy. In addition to this people have changed their life style by spending less on non-essential items which has resulted in a complete collapse of consumption demand. So, as both demand and supply shocks are hitting the Indian economy at a time. The disruption of demand and supply forces are likely to continue even after the lockdown is lifted. The longer the crisis lasts, the more difficult it will be for firms to stay afloat.

**Impact of COVID-19 on various sectors:**

**Poultry Industry:** Due to rumors in different parts of the country that the novel coronavirus can be transmitted through consumption of chicken, people are avoiding consumption of meat, fish, chicken, and egg etc. As a result the prices have fallen and about two crore people employed in the poultry industry across the country have been impacted. Due to the fall in demand, wholesale price of chicken had dropped by as much as 70 per cent.

**Aviation Industry:** Before the COVID-19 pandemic, factors that contributed to significant market growth of aviation industry includes increasing global economic activities, increasing disposable income, new travel trends, etc. But, due to this pandemic, the governments all across the globe are denying visa for foreigners, international boundaries are sealed which has adversely affected aviation industry.

**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.

**Chemical Industry:** Most chemical industries depend China for supply of raw material. But, as chemical plants in China are closed for a while now. Due to disruption in raw material supply, it has been found that 20% of production of chemical industry in India has been come down. 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.

**Impact on Formal and Informal Sector:**

Only few big firms will be able to tide over this lock down. But a majority of firms will struggle to survive, as they have to pay salaries of workers even though production activity is not taking place. Due to persistent fall in revenues these firms will end up defaulting on their loans and may also end up in the bankruptcy.

On the other hand many firms in the informal sector are forced to shut down. 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 were hit the hardest by the Covid-19 pandemic and the consequent lockdown. Due to loss of jobs of workers in the informal sectors, reverse migration is taking place. More than 50 million migrant workers have returned to their native villages. Most of these migrants are now out of work as businesses and establishments have shut down. In the absence of money, jobs, and any food, savings, or shelter in large cities, they are desperate to reach their villages. Few migrants died on the way due to exertion and lack of food. Even after the lockdown is relaxed, it will take

some time for the economy to pick up this will further aggravate the future uncertainty for informal workers. Beside this, hospitality, textiles, electricity, mining, food product companies automobile sector are among the worst hit sectors. Estimated loss of automobile sector is around Rs. 2300 crores per day, real estate sector is incurring huge loss of about Rs. 30000 crores per day. Travel and tourism accounts for five per cent of total employment in India (nearly 20 million jobs). Hotels and restaurants account for another 4 million jobs. Millions of jobs and livelihoods are at stake and it needs urgent policy actions.

### **Policy Recommendations:**

To combat the impact of COVID-19 a large stimulus to economy is needed this can trigger a virtuous growth cycle by raising marginal propensities to spend. But there are many limitations to this since during the lockdown Government had to lose Rs 10,000 crore in taxes for every day. So, keeping in mind all the constraints, some temporary, targeted measures can be taken as follows:

#### **1. Agriculture:**

Farmers, agricultural labourers, workers in supply chains have to be protected from the covid disease. Measures like social distancing in harvest operations, procurement, marketing, packaging etc. will help in less spreading of the pandemic. It is important to have continued markets for farmers. Farmers with perishable products need help as they face more problems. Government should have smooth procurement operations for wheat and other crops. Some of the states have already announced their plans on procurement. Small farmers in poultry and milk activities need more help as they are facing problems due to the pandemic

#### **2. Businesses and Firms:**

Due to lockdown all economic activities have come to an abrupt end. Governments can support businesses by reducing the tax compliance burden is critical; especially for small businesses, providing wage subsidies directly to workers through digital payments will ensure that the workforce is recorded and registered, enabling the government to reach out to them, now and in the future. It will assist businesses to retain workers at a time of stressed cash flow. Businesses need funding to tide over the crisis. Not only should there be a moratorium on loans, but the government also needs to ensure the provision of working capital at low interest rates to start-ups, and small and medium businesses. Interest rate subventions should be targeted to MSMEs and the most affected sectors, and should be given on some conditions like not cutting down salaries of workers who are employed in the firm, up-skilling and re-structuring over time. As firms are not getting any revenue are afraid of running out of cash and are hoarding liquidity. Since banks now only make risk-based lending, a government credit guarantee would be necessary for banks to undertake wider liquidity infusion. Even so, alternative direct liquidity channels may have to be established to reach those starved of funds.

Once the pandemic is under control, the government must foster investments in infrastructure – this is one of the fastest and most direct ways to create jobs. Transfers payments should

only be to low income groups, combining tax and Aadhaar databases. A joint effort from both the state and central governments is critical.

Finally, despite a deepening deficit, we cannot lose sight of the fact that our education and skill training systems are in desperate need of an overhaul. These will demand greater funds, but the first priority must be to improve access to good-quality education for children who are losing out right now. Children are not in school during the lockdown. While the middle- and upper-class have access to distance learning, those from disadvantaged households do not. So, this sets the children from disadvantaged backgrounds even further behind in their trajectories.

Overall, devising a credible, system wide, stabilization package would benefit from being executed in a timely fashion so it can influence the pace of recovery and help avoid severe damage to livelihoods, the economy, the financial sector, and society. The crisis along with some difficulties also gives directions for the positive change e.g. encouraging the digital economy, larger share of distance work this will help to economise on fuel — the import of which has been India's weakness and will also reduce pollution, Supply chains can be incentivized to shift from China. With the appropriate policy measures this challenge can be turned into opportunity to change the world for better.

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