

Impact of Covid-19 Pandemic on the Indian Economy

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Abstract:

The world is at present undergoing a pandemic of an infectious disease called coronavirus disease 2019, or COVID-19. COVID-19 is caused by the severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2) and is part of a large family of coronaviruses (CoV). The Indian economy has been experiencing significant slowdown over the past few quarters. The economy was already in an indeterminate kind of state before Covid-19 struck. With the extended country-wide lockdown Indian economy paralysed and the affiliated disruption of demand and supply chains, the economy is likely to face a protracted period of slowdown. In the third quarter of the current fiscal, the economy grew at a six-year low rate of 4.7%. The epidemic has now come up with fresh challenges for the Indian economy now, causing severe unsettling impact on both demand and supply side elements which has the potential to spoil India's growth story. The objective of this paper is to demonstrate that even a contained outburst of such epidemic could significantly impact the Indian economy in the short run.

Key Words: Pandemic, infectious diseases, economy

1. Introduction:

Infectious disease eruptions can contain a high human and economic cost through illness and death. But, as with Spanish influenza in 1918-19, the plague outbreak in Surat, India, in 1994, severe acute respiratory syndrome (SARS) in East Asia in 2003, dengue outbreak in India in 2006 or Indian swine flu outbreak in 2015, they can also create severe economic disturbances even if there is a little morbidity rate. Such disruptions are commonly the result of uncoordinated and frightened efforts by individuals to avoid the infection, of preventive activity. These circumstances might be avoided by making greater investment in public health infrastructure in all economies but specifically in least developed economies where health care systems are under developed and population density is too high.

The COVID-19 epidemic (formerly 2019-nCoV) was caused by the SARS-CoV-2 virus. This outbreak was prompted in December 2019 in Wuhan city in Hubei province of China. COVID19 continues to spread all over the world. Initially the epicentre of the outbreak was China with reported cases either in China or those who travelled from China. World Health Organization (WHO) has declared a public health emergency of international apprehension to coordinate international responses to the disease. Global financial markets have also been responsive to the changes and global stock indices have plunged. Amidst the global turbulence, in an initial assessment, the World bank expects India to slow down in 2020-21 to 1.5% -2.8% compared to 4.8% in 2019-20. This is likely to be reviewed in upcoming weeks. The impact on the Indian economy could be substantial if the virus continues its reach in the country which will have a longer lasting effect.

2. Literature review:

There are many ways through which these types of infectious diseases outbreak influence the economy. There are only a few studies of economic costs of large-scale outbreaks of communicable diseases to date, Schoenbaum (1987) is an example of an early analysis of the economic impact of influenza. The HIV/AIDS virus affects households, businesses and governments - through changed resource of decisions of labour supply; Examples of economic analysis based on this approach include Meltzer, Cox and Fukuda (1999), which develops financial estimates of the direct and indirect costs of an influenza epidemic in the United States. Efficiency of labour and household incomes; increased business costs and inevitable investment in staff development & their training by firms; and increased public spending on health care and support of disabled and children orphaned by AIDS, by the public sector (Haacker, 2004). The distress aspect was influential in the world's response to SARS – a coronavirus not previously detected in humans (Shannon and Willoughby, 2004; Peiris et al., 2004). It is also reflected in the response to COVID-19.

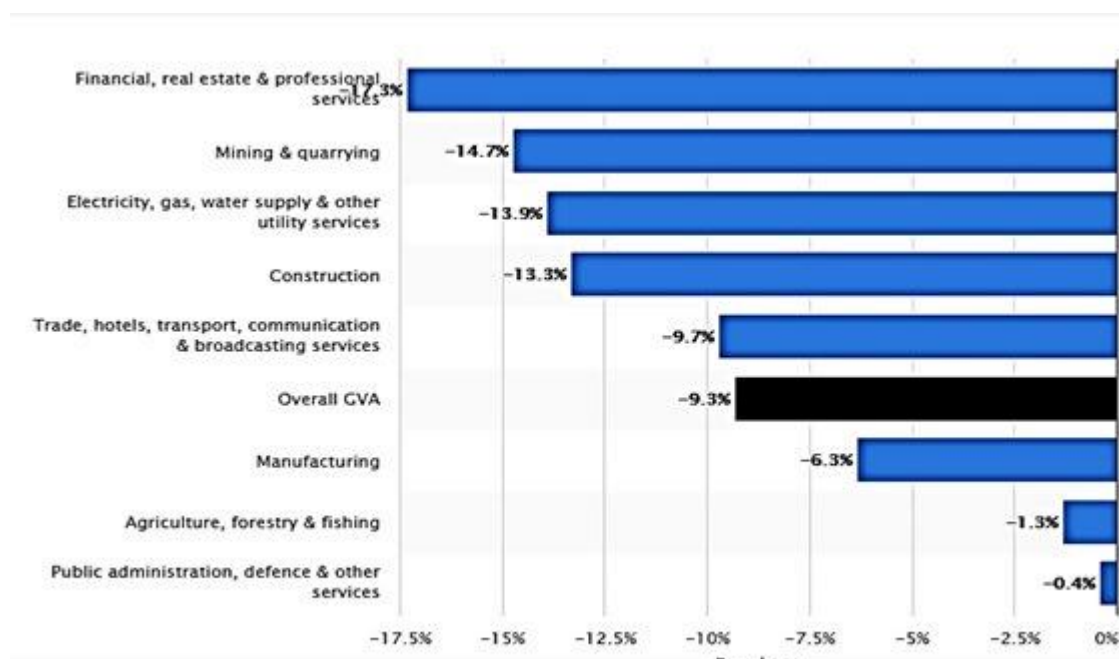
3. Overview:

Steps taken to contain the spread of COVID- 19, the country went into lockdown on March 25, 2020, the largest in the world, restricting 1.3 billion people, extended until May 3, 2020. This have brought down all the economic activities at its standstill & could impact both consumption& investment. The impact on economy can be understood through demand & supply:

3.1 Demand Side Impact - Tourism, Hospitality and Aviation are amongst the biggest hit sectors that are facing the maximum impact of the current crisis. Closing of shopping complexes has affected the retail sector by impacting consumption of both essential and discretionary items.

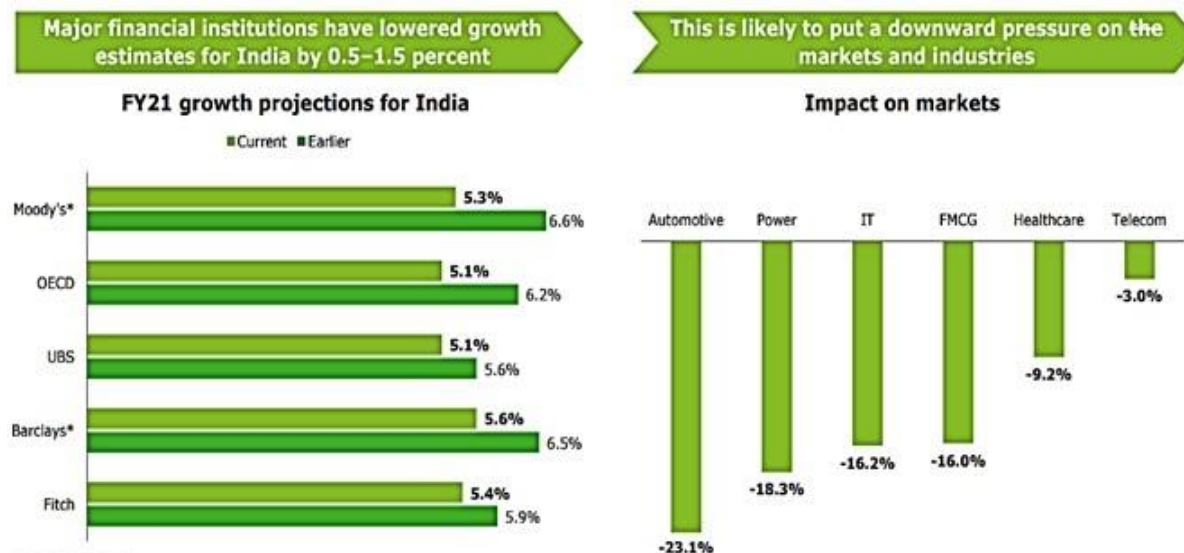
3.2 Supply Side Impact - On the supply side, shutdown of factories and the subsequent delay in supply of goods from other countries those who are already hit hard by the epidemic has affected many Indian manufacturing sectors which source their raw materials and finished goods requirements. Some sectors like automobiles, pharmaceuticals, electronics, chemical products etc. are facing the shortages.

Estimated impact from the coronavirus (COVID-19) on India between April and June 2020, by sector GVA



Source: Statista 2020

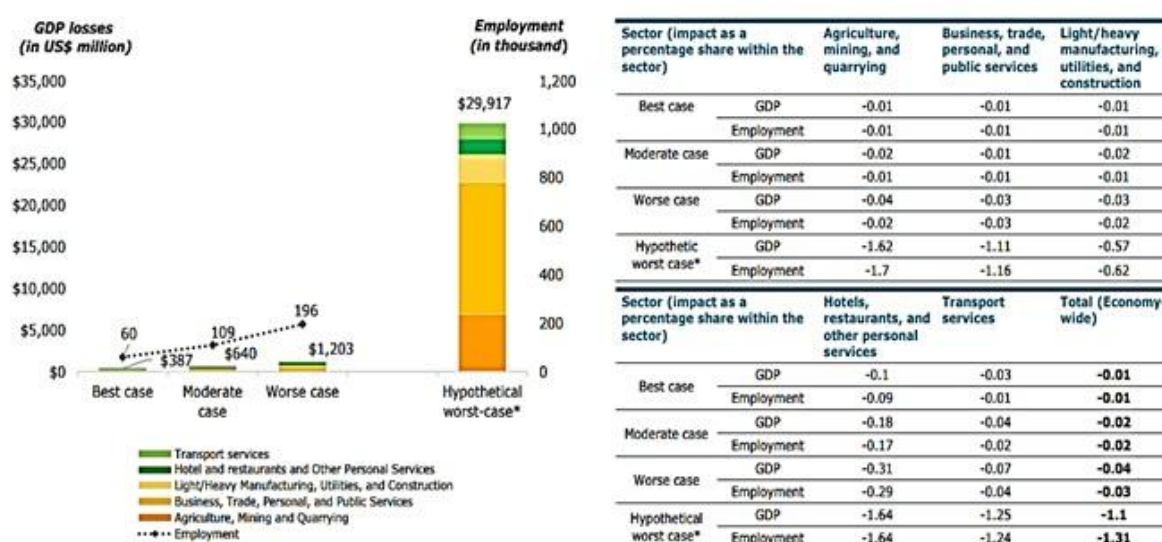
Finance and real estate and professional services was estimated to be hardest hit by the coronavirus (COVID-19) epidemic in India between April and June 2020 compared to the same period in 2019. The overall impact of COVID-19 on the country's economy during this period was estimated GVA loss of over nine percent. These estimates came after the government's aid package announcement of 1.7 trillion rupees.



Note*: FY20 projections Source: MoSPI, Commerce Ministry, “Indian economy braces for coronavirus-induced shock as curbs set to pull down growth”, Mint, 15 March 2020

This global shock comes at a particularly inopportune time for India, as the economy was already on a very concerning downward trajectory since the turn of FY 2018-19. More specifically, on a quarterly basis,

The Asian Development Bank (ADB) presents the following **four scenarios** of COVID-19's impact on Indian economy and employment



Note*: The "Worst case" scenario is hypothetical, presenting the impact if a significant outbreak occurs in a country, and should NOT be interpreted as a judgment on the likelihood of an outbreak occurring their Source: ADB, Deloitte analysis

4. India's Growth Projections Revised Down:

According to CLSA report, pharmaceuticals, chemicals, and electronics businesses may face supply-chain issues and prices will rise by 10%. The report also says that India could also be a beneficiary of positive flows since it appears to be the minimum impact on some markets. Some commodities like metals, oil companies, could witness the impact of lower global demand which makes the impact on commodity prices.

According to CII, GDP of India could fall below 5% in FY 2021 if policy action is not taken urgently. It is said that the government should come up with strong incentive package to the extent of 1% of GDP to the deprived people, which would help them monetarily and also manage consumer demand.

FICCI survey showed 53% of Indian businesses have already signalled a marked impact of COVID-19 on business operations.

Fitch Ratings - Fitch has also cut its forecast for India's economic growth to 4.9% for 2019-20 from 5.1% projected earlier, as it expects weak domestic demand and supply chain interruptions due to the coronavirus epidemic to affect the manufacturing activities unfavourably.

Moody's- Moody's Investors Service has revised down its growth forecast for India to 5.3% for 2020 from its earlier estimate of 5.4% made in February.

S&P Global Ratings – S&P has lowered India's economic growth forecast to 5.2% for 2020 as against 5.7% projected earlier.

5. Segmental impact:

The consumers are likely to shorten their spending which would meaningfully influence the sector's growth further. However, if the supply and logistics distractions are minimized, a quick recovery in categories such as food and beverage and FMCG products can be expected post the situation settles.

Food and beverage: The lockdown situation have led to consumers keeping essential products at home which creates the greater demand initially. Further, quick recovery for F&B products is expected after this situation settles. Consumers' consideration to hygiene and their awareness to improve their immunity is expected to surge, prompting consumer demand that can only be met with upgraded materials, techniques, and equipment

Retail: Demand during the pandemic is expected to boost sales at smaller stores that can host smaller crowds at a time. However, supermarket chains have ensured supply of products at regular prices. Due to the pandemic 's impact on consumer behaviour and habits, "online-sales" are expected to observe a significant increase in demand. The online–offline service integration is expected to increase. The high probability of the virus spreading in India could result in a massive impact on the consumer products and retail sectors.

Auto Industry:The current levels of the inventory look to be adequatefor the Indian manufacturing businesses. With the rapid spread of the COVID-19 outbreak across the world, global auto industry and consumption is likely to be squeezedmeaningfully. This is likely to also pose challenges to export-oriented ancillary component manufacturers.

Fast moving consumer goods (FMCG): In the immediate outcome of declaring the lockdown, the demand and consumption of FMCG and household products increased immenselydue to panic buying by consumers and companies had to increase production. However, with the implementation of the lockdown and industries are facing an immense disturbance in dealing with supply chain, there is a significant slowdown in progress of these products.

Agriculture & Food Processing: Agriculture and associated activities sector is likely to be unfavourably hit by the Coronavirus epidemic. The social media also has been responsiblefor spreading incorrect information by connecting Coronavirus infection to consumption of meat and poultry products. This has caused massivedisruption in demand for poultry products and the prices realized by farmers have crashed to Rs 10-15 per kg – whilst the production cost of about Rs 70 - 80 per kg.

Aviation: It is amongst the worst affected sector amidst the Covid-19 pandemic. According to the International Air Transport Association, internationally airlinesmayincur losses in passenger revenues of up to US\$ 113 billion due to thepandemic. Air tariffs have also suffering fromthe pressure due to nearly 30% drop in bookings to virus affected localities.

Education –As the covid-19 disease spreading across the country, the State governments have ordered closure of schools and educational institutes until the lockdown, there may be a

possibility of extension in case the disease is not controlled. As such, the schools may already switch to online mode of teaching during this epidemic.

Transport & Logistics: Due to the coronavirus epidemic is making a huge impact on transport and logistics sector as well. The transport sector revenues are affected and are likely to be further make an impact with the cumbersome economic activities due to the urban lockdown across the country, combined with the supply disruptions caused globally.

6. Conclusions and Policy Implications

A government has instructed the employers to not terminate or cut wages, particularly that of casual or contractual workers, and low-paid workers to also take paid sick leave and unemployment allowance through insurance cover. Indian government announced Rs 1.70 Lakh Crore relief package under Pradhan Mantri Garib Kalyan Yojana for the poor to help them fight the battle against Corona Virus

- Government to contribute to both employees' and employers' share in the Employees' employees' Provident Fund
- RBI relaxes lending norms for banks, pushes cash into the system, decreased interest rates, and allows moratorium for three months
- Extend the coverage of Ayushman Bharat and other applicable insurance schemes to COVID-19 if not already included
- Squeezed the existing customs duty for select components, which are essential for manufacturing testing kits, ventilators etc.

The effects of this pandemic discussed here are roughly of the same size as those of a major recession. While for select sectors, the work from home culture is posturing implementation challenges as it has a direct relation on the business operations. The manufacturing units are facing the issues in implementing the work from culture because they need the workers at production site physically and services sector like banking and IT where lot of confidential data is used and remote working can enhance security threat. Hence companies operating in these sectors are facing challenges to implement work from home facility without compromising with their day to day operations. A range of policy majors & implications will be required both in the short term to tackle with this epidemic in coming period of time.

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