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Impact of Covid-19 on Indian Economy

Dr. R. Selvi[1] and Dr. Saraswati H Bammanal[2]

Associate Professor, Department of Studies in Economics[1,2]

Davangere University, Davangere, Tholahunase, Karnataka, India[1]

RTES Arts Science and Commerce Degree College, Ranebennur, Karnataka, India[2]

rselvikannan43@gmail.com[1] and drsaravini11@gmail.com[2]

Abstract: *It has been more than two years since the COVID-19 pandemic penetrated the deepest core of human civilization and made us realize the power of mother nature. In India, after the first wave, we thought that we had gained control of the situation but the second and third wave found us wanting for basic necessities such as oxygen and medical supplies. It might appear that the second wave is on its way out with daily cases coming down to under 60,000 from the peaks of nearly 4 lakh cases, but we have lost over 3.8 lakh precious lives to COVID-19 already. With the hope that the situation will significantly improve on the medical side, it is time to assess the impact of the second wave on macroeconomics. We hope as the economic activity resumes, the situation will get better gradually. It may take some time to normalise, as consumer behaviour, shopping and spending pattern will change when the social distancing norms get a relaxation under the vigilance & supervision of the administration. As per the data released by the 'Centre for Monitoring Indian Economy', the Unemployment rate crossed 8% in April 2021. In December 2020, the unemployment rate was 9.1%, in February 2020, it became 6.9%. Just as the unemployment rate was falling, the second wave of Covid-19 is reversing the recovery. 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 minimize the impact of the shock on both the formal and informal sectors and pave the way for a sustained recovery.*

Keywords: Covid- 19, Sustain, Civilisation, Unemployment, Effective, Crucial

I. INTRODUCTION

Ever since the first outbreak of corona virus (covid19) in Wuhan, China, the world has changed in more ways than one. Apart from the devastating effects of the pandemic, the death toll and struggling healthcare systems, the virus has left the economies world-wide staggering and even drowning in many parts of the world. The government's approach in dealing with the two waves has been different. The response to the second wave has been localised and driven by the states while in the first wave we went for a national lockdown. I attribute this to the economic compulsions of the hard-hit central government and progressive spread of the virus. The second wave started in the west with Maharashtra, went up North and now is peaking in the south of the country. This spread journey makes a national lockdown economically suboptimal. While some of the effects of Covid on the economy are short term, many can have lasting impacts. The lockdowns have hugely impacted the supply-chain management and sent the GDP and import-export cycle plummeting. There are three major areas of impact for Indian businesses which are linkages, supply chain and macroeconomic factors. This is indeed the worst recession since the Great Depression in the 1930s. Although the majorly affected sectors include travel and tourism, logistics, auto, metals, drugs and pharmaceuticals and retail, among others, education as we know it, has completely changed and is impacted too. To understand the economic impact of the second wave, let's remind ourselves of the first wave and its impact on the economy. In the first wave, we went through a prolonged national lockdown and a significantly lower number of peak cases. Manufacturing and the urban economy had come to a grinding halt while the rural economy continued to move because of less strict lockdowns. As a result, agriculture, which is the primary driver of our rural economy providing employment to 58% of our population, continued to grow. Agriculture further benefited from good monsoon and cheaper and higher availability of labor. Reflecting on the GDP figures, our agricultural economy grew by 3.4% while the overall economy contracted with 7.7% in FY21. The first wave was primarily urban in its spread. Urban areas reported more cases than rural areas for the first five months of the spread. In the second wave rural areas started reporting more cases than urban ones from the second month itself. An analysis of more than 50 most severely hit districts, 26 were in rural areas. Rural areas in the state of Maharashtra, Andhra Pradesh and Kerala were the worst impacted. The situation was further aggravated, due to the inadequacy of medical infrastructure in the rural areas and the rush of patients from villages and smaller towns to urban centers.

II. Literature Review:

The answer would depend largely on the extent of spread within India. So far, India is among the Asian economies that are not deeply impacted. With the number of Covid-19 cases nearing 2 lakhs and the death toll topping 7,800, the impact of the virus on global sentiment, economic and otherwise, has been immense. While new afflictions have been declining in China – the epicentre of the outbreak – since the end of February, it is spreading fast outside. New cases outside China now surpasses those in China, with Italy, Iran and South Korea being the worst affected. With more than 160 countries reporting confirmed cases of Covid-19, its implications on the global economy is more threatening than envisaged a month ago.

III. Methodology

The study is empirical in nature and relies completely on secondary data regarding the indigenous healthcare system in India. The current information has been taken from various online portals, Website, Journals and Newspaper.

IV. Result And Discussion

4.1 Agriculture

The second wave has seen stricter and longer lockdowns in the rural parts of the country. Due to the lockdowns, APMC Mandis have been closed for operations or have taken such steps voluntarily. Specifically, APMC Mandis in Gujarat, Rajasthan and Maharashtra were closed during the peak harvesting season. Farmers were not prepared for the ensuing chaos. As the Mandis have still not opened fully, crops are rotting in the fields. Due to the closure of Mandis, vegetable vendors, and processing industries have also been hit. We can see the contrasting impact of the first and the second wave in the agriculture wage growth data. The average wage growth for the agriculture sector for the period of November 2020 to March 2021 has reduced to 2.9 percent (2nd wave) from 8.5 percent in April to August 2020.

4.2 Manufacturing

Manufacturing was at the receiving end in both the first and the second wave. To control the coronavirus spread, most of the manufacturing sector had to work at a lesser capacity or shut down. Non-essentials manufacturing was hit for longer and with more severe restrictions. The fear of prolonged lockdowns led to migration back to villages. In addition, the global and local supply chains had also not fully normalized after the first wave. This has meant higher cost of procuring raw materials for both small and large industries. As per the IHS Markit India Manufacturing Purchasing Managers' Index (PMI) in May 2021, PMI slumped to 50.8 from 57.5 reported in February. It is at a ten-month low.

4.3 Services

The services sector in the last two decades has become the bedrock of the Indian economy contributing to more than half of the GDP. But, our services and knowledge-based industries have been built on the manufacturing industry premise of the 18th century i.e. proximity and discipline of workers to the factory is critical in getting good output. We apply the same philosophy for our software engineers and tele calling workforce. With the internet revolution this premise has proven to be an unnecessary legacy of the past. Now the workforce can be decentralized and anyone can work from anywhere till the time there is 4G internet. I do believe that COVID will prove a positive disruption for the services sector in the long run.

The first wave required a steep learning curve for the organizations to develop infrastructure and processes for remote working. For the employees, first wave lockdowns were a new paradigm and it took them some time to adjust to work from home and be productive. Prolonged lockdown and unlocking phases during the first wave ensured that both the employer and employee got into a rhythm and the productivity started reaching pre-covid levels. The second wave disrupted this rhythm. But the impact of the second wave has been localized and centered around groups of people with typical disruptions costing 3-4 weeks of productivity. My assessment is that the services sector will be the least hit from wave 2 from an output standpoint.

V. RISING UNEMPLOYMENT HITS POORER HOUSEHOLDS

Rising unemployment has emerged as the biggest economic concern during the second Covid-19 wave as it has mostly affected the informal economy and poorer households. India Today TV has reported many accounts of families struggling to make ends meet during the second wave. While no nationwide lockdown was announced this time, the local restrictions imposed across states have had an equally devastating impact on small businesses and their employees. Data suggests that the pace of employment increased sharply in May as smaller firms trimmed jobs at the fastest rate since October last year. Mumbai-based think tank Centre for Monitoring Indian Economy had earlier confirmed that one crore Indians have lost jobs during the second wave and the numbers are still rising. The second wave has also led to a sharp rise in spending towards healthcare and 97 per cent of households in the country have been left with lower savings. Given the current situation, states may take some more time to completely unlock key economic activities. This could lead to further loss of employment and income among poorer households The first wave of the coronavirus pandemic had pushed many people below the poverty level and the second wave could make the situation worse, given the money people had to spend on healthcare.

5.1 Education and E-learning

While the world that we live in has been evolving with time and technology, a few things have always been primarily 'old school', pun intended. Education and the way it's imparted has always relied mostly on the traditional methods of classroom learning and teaching albeit with a comfortable integration of technology where and when required. An integral approach was the most preferred, but the devastating effects of the pandemic has left educational institutions and educators with an immediate need to step up and change the way education is delivered to the students. The imperative nature of quality of education is something no one can compromise on and educational institutions in our country have seamlessly transitioned into e-learning and online teaching with the unanimous goal of students' progress and uninterrupted learning.

It would not be an exaggeration if one were to say that we embarked on e-learning within a very short time. The efforts of the educators who adapted to technology, video lessons and live classes online cannot be understated. With limited resources but enough passion, educators across the world have been striving hard and will continue to do to deliver quality lessons and education.

5.2 Aviation and Tourism

One of the biggest hit industries, this sector has a high probability of suffering most from the recession without the direct intervention from the government. Since people are unlikely to travel for leisure for months to come, it will impact the inflow of tourists in all the countries drastically reducing the money flow in this sector.

5.3 Restaurant Services

The National Restaurant Association of India (NRAI) which represent the majority of Indian restaurants had advised its members to shut down them dine-in services when the lockdown began which majorly impacted the dine-ins, pubs, cafes and also food delivery platforms such as Swiggy and Zomato which faced drop of 60% in revenue.

5.4 Raw Materials and Electronic Parts

Nearly 55% of electronics imported by India originate from China. These imports have dropped to 40% due to the pandemic and hence Indian government came up with the promotion of Atmanirbhar or indigenous production in a bid to reduce dependency. The lockdown has also resulted in reduced exports of raw materials like organic chemicals, cotton, mineral fuels resulting in substantial trade deficit for India.

5.5 Pharmaceutical Industry

With a major percentage of Active Pharmaceutical Ingredients (API) having to be imported from China, the economic toll on this industry is of major concern. With Covid spreading rapidly, the demand for medication has become primary and a major reduction in import of APIs adversely affects the manufacturing of drugs which will inevitably lead to a surge in drug prices.

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5.6 Auto Sector

Due to falling demands, income levels and global recession, the manufacturing the auto parts and automobiles have taken a major hit. With continuing lockdown, a downward slide of this sector is expected.

5.7 Textiles Industry

Due to the halting of operation of textile factories in China, the export of raw materials such as cotton, other fabric, yarn from India has been majorly affected. The raw material unavailability, depletion in work force and working capital constraints has resulted in reduced demands and purchasing capacities.

5.8 IT industry

The dependence of the IT sector on many of the above-mentioned sectors such as manufacturing, retail, hospitality, communication etc. has resulted in major impacts on purchasing ability and investing patterns on IT services. This has impacted the requirement of additional work-force and inflow of revenue in this sector.

5.9 Silver Lining

As we tread through this difficult period, each industry is striving to sustain and deliver. At REVA University, our goal has always been quality of education and the progress of our students. In a situation where classroom learning is rendered impossible, our faculty has been working tirelessly in bringing quality education to students by integrating the state-of-the-art technology in the learning and teaching process. We have also been focusing on the Virtual counseling sessions for parents and students and addressing their concerns. Time again for us to rethink and revisit our education system as we face the unprecedented disruption caused by the COVID-19 pandemic. As I keep saying our youth have been the most affected and higher education has been impacted in so many ways. REVA has no doubt aligned to online teaching and support and ensured learning was engaging; however, the greater challenge is yet to come. As the lockdown gets lifted in a phased manner, the onus of running education institutions and ensuring safety and security of students will reach an unprecedented high. This transition time will need all our synergies towards revisiting our value proposition and ensuring that we have the right strategies to deliver what we mean. While the nation is fighting hard against Covid and the health risks, the economic packages and the measures in pipeline to revive the economy and the most affected sectors are the hopes that we thrive on to crawl out of this major crisis that we are all in.

When the Covid-19 virus spread throughout the world, several countries imposed lockdowns to prevent further spread. As a result, several businesses faced losses and hence many people lost their jobs. And those who still have jobs were paid less. India too went through this phase and that hit the economy badly. Because of this, even when there is a second wave of Covid-19 in India at present, a countrywide lockdown was not imposed. Instead, 'micro-containment zones' will be locked to prevent further spread. So, it is expected that this time economy will not be affected severely. Due to increased unemployment and low salaries, many people did not have much money. There was decreased spending on non-essential items. So, consumption fell, and as a result, an economic slowdown occurred.

Global supply chains got disrupted due to restrictions on imports and exports in the initial months of the Covid-19 pandemic. This affected India too as we are dependent on other countries for many goods such as pharmaceutical ingredients, electronic components etc. Due to the dearth of raw materials, Indian manufacturing companies had to halt production. Now, India is diversifying its imports and is reducing its reliance on China for raw materials. When the lockdown was imposed in India in the initial months of the Covid-19 pandemic, migrant workers went back to their hometown. Migrant workers' crisis affected their lives and the economy badly. At present, as India is facing a second wave of Covid, several migrant workers went to their hometowns again. But the Indian government gave assurance that there will be no lockdown this time. Almost all the sectors were negatively affected due to the covid-19 pandemic, especially the tourism sector, aviation sector & MSME (Micro, Small and Medium Enterprises) sector were hit badly. 'International Monetary Fund' (IMF) revised India's growth projection for FY22 from 12.5% to 11.5%. But as India is fighting with Covid second wave, the growth forecast may be downgraded. In the year 2020, the Indian government brought 'Atma nirbhar bharat abhiyan' (self-reliant India) with a 20 lakh crore rupees' package to revive the economy. The gig economy improved during the Covid pandemic because several companies adopted gig work. Moreover, due to the loss of jobs, many people opted for gig work. Some sectors such as hand sanitiser manufacturing companies, pharmaceutical companies saw positive growth.

5.10 Government Takes Steps

Government of India has taken many steps to support the Indian economy and industry. Here are the key steps:

In March 2020, the Government announced a Rs 1.70 lakh Crore-Pradhan Mantri Garib Kalyan Yojana (PMGKP) to protect the poor and vulnerable from the impact of the pandemic.

In 2020, the Union government released the 'Aatmanirbhar Bharat' package to boost the economy and the overall stimulus was estimated to be worth around Rs 27.1 lakh crore.

Government and the RBI also came out with a series of packages in a phased manner totalling around Rs 30 lakh crore, which is 15 per cent of the national GDP.

To boost consumption during the festival season, in October 2020, Government announced measures that were worth close to Rs 73,000 crore to stimulate consumer spending.

Aatmanirbhar Bharat Abhiyaan 3.0 unveiled in November 2020, ahead of Diwali, was worth Rs 2.65 lakh crore. Of the total amount, the maximum of Rs 1.45 lakh crore was allocated to give a boost to manufacturing activites.

In June 2021, Finance Minister Nirmala Sitharaman announced some fresh relief measures for the economy, the first such package after the second COVID-19 wave, focusing largely on extending loan guarantees and concessional credit for pandemic-hit sectors and investments to ramp up healthcare capacities. The government pegged the total financial implications of the package, which included some changes earlier supports, at 6,28,993 crore. Ms. Sitharaman announced an expansion of the existing Emergency Credit Line Guarantee Scheme (ECLGS) by 1.5 lakh crore. She also announced a new 7,500 crore scheme to guarantee loans upto 1.25 lakh to small borrowers through micro-finance institutions.

The second wave highlights:

The second wave of the Covid-19 pandemic has taken a vicious toll on India's health, but the economic toll has also been heavy, though nothing like the carnage seen in the first quarter of the last fiscal year, when GDP growth crashed 23.9 per cent in response to the Centre's no-notice lockdown. India's GDP shrank 7.3 per cent in 2020-21 (in real terms adjusted for inflation). This is the worst performance of the Indian economy in any year since Independence. Almost all the sectors have been adversely affected as domestic demand and exports sharply plummeted with some notable exceptions where high growth was observed. A major concern of the second wave is that the virus has spread into India's hinterland and could wreak havoc in villages, towns and small cities. Lockdowns may help break the chain of transmission, however they will just postpone another surge unless the gap period is utilized to vaccinate the people.As of now, the country's GDP growth is likely to be below the expected 10 per cent.

To complicate the situation further, the wholesale price-based inflation shot up to an all-time high of 10.49 per cent in April, on rising prices of food items, crude oil and manufactured goods, and experts believe that the uptrend is likely to continue. This is the fourth straight month of uptick seen in the wholesale price index (WPI)-based inflation. In March, 2021, it was 7.39 per cent. Centre's flagship welfare schemes have kept pace despite slowdown. Schemes like MGNREGA, Ujjwala, NSAP and PM Awas Yojana have seen a big jump in both physical and financial achievements in FY21 as additional succour was provided by the Centre to people affected by Covid-19. Merchandise exports surged a record 196 per cent year-on-year in April as the country had witnessed a Covid-induced lockdown throughout April last year. However, what comes as a pleasant surprise is that even in absolute terms, exports in April stood at $30.6 billion, up almost 18 per cent from the same month in 2019 (before the pandemic struck).

In these times, the suffering of the common man can't be penned in words. As mentioned before the wholesale price-based inflation has jumped to double digits. There has been a sudden surge in prices of edible oil and pulses. In the past few weeks, tur prices in retail markets have been over Rs 7,000 per quintal, which is almost Rs 1,000 more than its 2020-21 MSP. Urad prices are ruling even higher, at around Rs 8,000 per quintal. The market price of moong is also near its MSP of Rs 7,196 per quintal. To keep retail prices from rising further, the central government on Saturday allowed free import of tur, urad and moong. The move, following a gap of three years, comes weeks before the beginning of sowing for the kharif season.

Fuel prices in India continued to inch towards the Rs 100-mark. The spike in diesel prices have contributed to a growth in freight rates across ways of transport. High transport cost leads to increase in higher inflation, impacting industry. High fuel prices will have an impact not only on people but also on the automotive sector - a large source of employment in the country - as vehicle sales may see a sharp drop. A contraction in demand will impact lakhs of MSMEs that supply goods to

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the sector. The public transportation sector is already mulling a hike in rates in view of rising operational costs. Firming international crude oil rates and extremely high taxes levied on fuel are the key reasons behind the latest round of petrol and diesel price hike in the country. The biggest reason behind higher fuel prices in the country is the high rate of central and state taxes. Even when international crude oil prices plummeted in 2020 due to lower demand, Indians kept paying higher rates for petrol and diesel due to the various taxes levied. At the moment, Indians pay one of the highest taxes on fuel in the world. This pandemic has taught many money management lessons. It hurts the most when your loved ones fall sick and the financial strain to ensure that they get the best medical care makes the hurt a double whammy. This blow, at a time when a large section of the working population has witnessed pay cuts and job losses too, adds to the pressure. As if these were not enough, work from home and focus on hygiene and wellness have simultaneously increased routine monthly expenses for many families. Most Indian corporates expect the ongoing pandemic to influence the direction of their business strategy over the next three years. What is striking about the trends in high-frequency unemployment rates is their volatility throughout the Covid-19 period save those during absolute lockdown. The volatility has some implications for the labour market and earnings. This confuses people as to whether to enter the labour market or not. This could rather lead to 'discouragement effect' in the sense that people might be dropping out of the labour force far more speedily than they did before. Also, they disrupt the earnings of workers which would have led to two effects, dis-savings (exhaustion of the cash reserves and may be pawning of small assets) and resorting to fresh borrowing which could be weaker and thereby they may end up paying usurious interest rates. As informal sectors were impacted in terms of job losses, the lower strata of society and daily wage workers faced the greatest impact due to social distancing as well as reduced household income.

We are all aware of the flurry of activity at the start of the current financial year: interest rates on small savings schemes, of which the post office schemes are a part, were reduced drastically through a government notification, on March 31. The very next day, the order was withdrawn and the erstwhile rates were maintained. As per a historical decision of the government, the rate of interest on small savings schemes are aligned with the government security (G-Sec) rates of similar maturity with a spread of 25 basis points (bps), with certain exceptions but there is a huge gap in existing interest rates in comparison to the general existing formula. Currently the Post Office Savings Deposit rate is at four per cent, whereas interest rates on many small saving instruments are higher, like in National Savings Certificate (NSC), Kisan Vikas Patra (KVP), Term Deposits, etc. The next review is due on June 30. In case the rates are revised downwards, it is advisable to lock in at the currently available rates, where applicable, by June 30.

"The prospects for the Indian economy, though impacted by the second wave, remain resilient, backed by the prospects of another bumper rabi crop, the gathering momentum of activity in several sectors of the economy till March, especially housing, road construction, and services activity in construction, freight transportation, and information technology (IT),' RBI said in its annual report. We will continue to see a surge in the gig economy across all sectors. Furthermore, organisations will be tempted to move away from legacy models of hiring by choosing performance over pedigree. Our growing reliance on collaborative tools and technologies, such as artificial intelligence, machine learning, and cloud computing, will yield new skill sets and roles in the coming years.

The Overall Impact on GDP

On May 31, the Indian government released the data for GDP that during the financial year 2020-21, GDP contracted by 7.3 percent. It is the most severe contraction from the time India got its independence. The reasons behind this trajectory are obvious – lockdown leading to the closing of business units, increasing unemployment rate and a significant decline in domestic consumption.

For the current financial year, the Reserve Bank of India has anticipated growth of 10.5 percent. But the rating agencies across the globe have downgraded it due to the impact of the second wave of COVID-19. Moody's initially projected 13.7 percent of growth for FY 2021-22, but later lowered it to 9.3 percent. The same goes with S&P Global Rating. They have lowered the 11 percent growth to 9.8 percent in case of moderate impact of the second wave, but for a worst-case scenario, it would be 8.2 percent. The ideas around a third wave are not helping the situation at all.

To summarize on the macroeconomic numbers of GDP, I expect a less severe impact of the second wave due to less strict, localized lockdowns and practically a lesser number of days in reaching the peak number of infections. Agriculture will see a deeper cut from the second wave compared to the first wave where it grew. Our hopes of economic revival are pinned to us having an express vaccination drive, which takes away the fear of a third wave and a revival of consumer confidence and spending.

VI. 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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