

Impact of Covid19 on Indian Economy

Riya Sharma¹, Dr.Ambica Prakash Mani²

¹Assistant Professor and Research Scholar, Department of Commerce, Graphic Era Deemed to be University Dehradun Uttarakhand India

²Associate Professor, Department of Commerce Graphic Era Deemed to be University Dehradun Uttarakhand India

Email: ²ambicamani9@gmail.com

Abstract: *This paper aims to study the impact of Covid19 pandemic on India's gross domestic product with a focus on adversely effected sectors. It explores the economic conditions witnessed by the country in wake of lock-down forced by the pandemic conditions. It also aims to present a comparison of some economies of Asia during pandemic times. The impact witnessed varies from mild to harsh across sectors during the first wave of Covid19 when lock down conditions were imposed across nation .Gradually the economy started recovering as lockdowns were lifted up followed by government relief packages. The government announced one of the most generous relief package to counter the tough conditions. Broadly the package focused on 4Ls: land, labor, liquidity and laws. The package intended to provide relief to various sectors like industries, medium sector, laborers, MSMEs and cottage industry. Strengthening the health infrastructure, the study suggests steps to avoid future waves of pandemic.*

Keywords: Covid-19, economic conditions, relief package,

1. INTRODUCTION

Corona Virus has spread across the globe exponentially transforming a health crisis to an economic crisis crumbling away shareholder's wealth worth Rs 11.4 trillion. Covid19 has adversely effected most developed nations like USA, United States and Germany which was bound to impact Indian economy not only because of domestic slow down but also due to international recession. The pandemic brought the Indian economy at standstill. On March 24 2020, Prime Minister Narendra Modi imposed national lock down in India to control the spread of virus. However, the phases of lockdown did not help much to contain the virus, as the number of cases increased at a fast rate. In India over 10.5 million Covid-19 cases have been reported as of January 2021 with 151 thousand deaths and more than ten million recoveries. As per the Ministry of statistics India's growth in the fourth quarter dipped to 1.6%. A steep downfall of 2.6 percent is recorded in gross domestic product falling from 6.8 percent in 2018-19 to 4.2 percent in 2019-20.

The spread of corona virus brought a series of lockdown that increased social distancing resulting in global recession. Further extensions divided the nation in to red, orange and green zone. Red zones were designated hotspot of covid19 cases where no relaxations in economic

activities were given followed by some relaxations in orange and green zone. In order to gain economic momentum lockdowns were gradually lifted however they left a multi sectoral impact on the economy. Closure of production activities, slow down in demand, ban on international travel, restrictions on aviation and tourism industry have exerted downward pressure on the economy. Producers have been badly hit due to shut down of industries and huge migration of workforce. The infrastructural activities that act as a backbone in developmental process of nation came at standstill. Closure of construction work and migration of workforce has badly hit the cement production industries. On the other hand, the consumer's demand has fallen due to the fall in the disposable income. But as every coin has two sides, some industries notably expanded during Covid19 which includes pharmaceuticals, agriculture and telecom. These sectors have shown outbound growth and expansion in a phase of six months. The pharmaceutical companies have set a historical growth benchmark. India has a tremendous growth potential in different sectors which was brought at stake due to the pandemic however the government of India made due efforts to cushion the impact of pandemic especially on the migrant workers, poor backward section of the society, small scale and cottage industries. The announcement of financial package equivalent to 13% of India's GDP brought a sign of relief. The economic package with an aim to revive India from financial shock and transform the nation from importer to a global exporter. It aims to cover land, labor, liquidity, farmers, entrepreneurs, migrant workers and industry sector. As per the Economic survey 2021, 42.1 million beneficiaries have been directly benefitted under the Pradhan Mantri Garib Kalyan Yojana. The another critical sector for India is health infrastructure for which the government has proposed to an increase the expenditure by 130% for fiscal year 2020-21. Vaccination and health infrastructure are the two key factors that India needs to strengthen and prepare self to avoid future covid19 waves and strengthen the path of economic development.

The study is based on secondary sources and the key contributions of this work are underlined as follows.

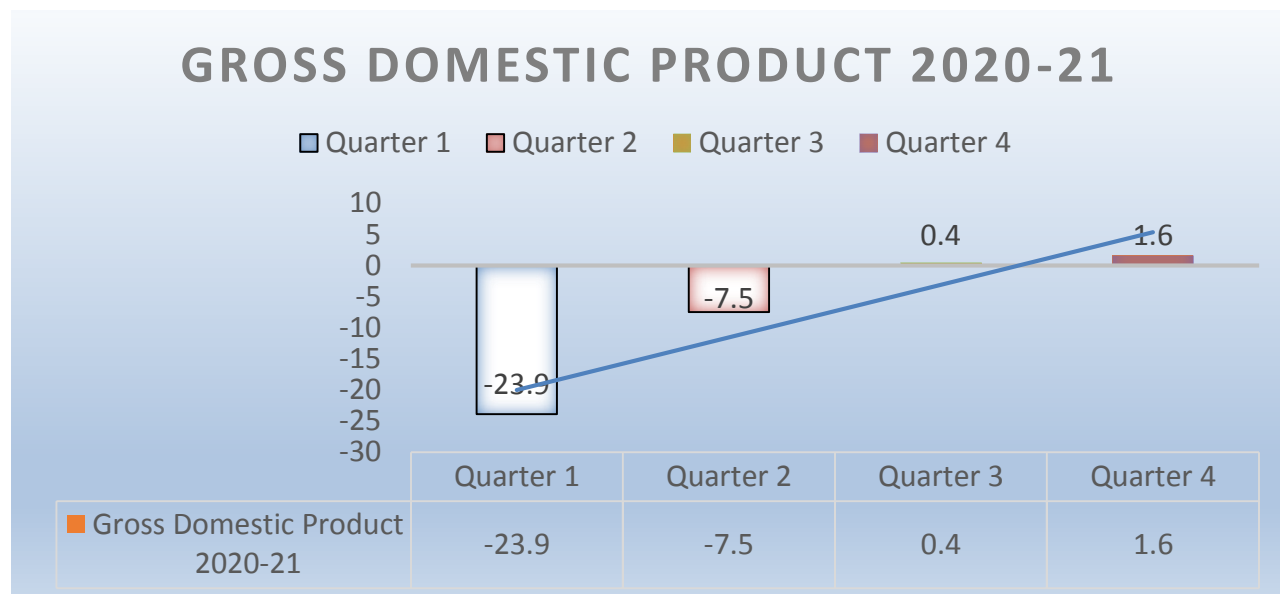
- To study the impact of Covid19 on India's Gross Domestic Product
- To comparatively study the impact of pandemic on neighboring countries of India
- To explore the sectors adversely effected in India due to pandemic

Followed by a conclusion where the study highlights the core challenges ahead of Indian economy and ways to combat the stated challenges with vaccination and health infrastructure as a key to end the suffering for the nation.

Impact of Covid19 on Gross Domestic Product

According to World Economic Forum report India's Gross Domestic Product(GDP) growth has been worst effected among the South Asian countries. According to National Statistical Office report the economy witnessed an annual contraction of 7.3%. Figure 1 depicts the quarterly gross domestic product of India. As per the report of Ministry of statistics India's GDP in the first quarter of 2020-21 contracted 23.9% at 26.90 lakh crore as against 35.35 crore in Q1 of 2019-20. The major reason for the drastic fall of GDP was the multiple lockdowns imposed in order to contain the spread of virus. Economic activities were completely shut down. As the number of cases started falling the lockdowns were lifted up in a phased manner. The construction and industrial activities gradually started picking up pace resulting in a positive GDP in quarter 3. As

all the lockdowns were completely lifted up Indian economy in the fourth quarter showed an overall increase of 1.6%. As per sector wise distribution industrial sector was worst hit due to Covid19. The construction, mining and infrastructural projects suffered the most due to heavy migration of labor force to remote areas.



(Source: Ministry of Statistics and Programme implementation)

Comparative analysis of South Asian countries

Economic consequences of Covid19 have proved to be greater than the healthcare challenges in the South Asian countries. Figure 1 depicts the growth projections of developed and developing economies across the globe. It highlights that except China all the world economies faced economic downturn due to pandemic in 2020. As per World Economic Outlook report' October2020 Indian economy is worst hit among all the south Asian countries. India's economy is contracted 7.3 percent in 2020 before bounding back to an expected positive rate in 2021. Economies like Bhutan and Myanmar being smaller in size have still managed to maintain GDP at the positive end. The growth rate of developing economies has been precarious. From debt crisis to income inequality, economies have taken tolls on terrorist attacks as well. Continuous rise in corona virus cases, overburdened health system, severely affected tourism and aviation sector, dependence on external finance and remittances have been the major reasons for contraction of South Asian economics

Impact of Covid19 on disposable income and consumption expenditure

Disposable income refers to the residual personal income after discharging all income tax obligations. The financial distress is indicated with a slump in disposable income to 0.8 times in 2019-20 which is likely to dip to negative in 2020-21. The provision for food and shelter has always been a challenge to the mankind. Lockdown made the survival worse as it led to not only cutting down of salaries but also laying off workers from jobs. India is a consumption driven economy. All the components of aggregate demand witnessed a downfall except government consumption expenditure that provided a persistent support to the economy. As per RBI annual

report 2020 private final consumption expenditure constitutes of 57.2 per cent of aggregate demand which is recorded lowest in a decade. Among rural indicators, 40 per cent of casual laborers are employed in construction sector which was completely halted during lockdown. The urban indicators highlighted a contraction in passenger car sales, consumer durables and air passenger traffic resulting in grounding of aviation sector.

Travel Industry

The outbreak of corona virus forced the governments to impose travel restrictions indefinitely suspending international and national travel options. Sectors like tourism, hospitality, aviation are critically victimized which will take years to revive back. A decline of about 75% in international bookings and 20% in domestic travel has been recorded. States relying on tourism for livelihood have been worse hit due to fall in the number of tourist visit. Spinning under the pandemic blow it is estimated approximately 30% of domestic operators may shut down their business permanently. From rickshaw pullers to airlines have lost the source of income making it difficult for operational survival. Halt in travel and transportation has declined the sale of commercial vehicles by about 11 percent. In order to revive back tourism industry government will have to come up with subsidized consumer holiday packages to kick start the hibernated business model.

Government Initiative to combat Covid19

Government of India introduced an economic package worth 20 lakh crore in Indian rupee on 13th May 2019. The relief package that is almost 10% of the economy, intended to provide stimulus to the badly battered economy due to lockdown conditions that started in the country from 25th March 20 till May'20 when some relief was given. The economic package was one of the most substantial financial package aimed at providing tax breaks for small business along with incentives to the manufacturing sector. Bold reforms were introduced for cottage industries, MSME sector, migrant laborers and industrialist to push the economy towards self-reliance. The largest contribution is made towards Indian farmers and women account holders of Pradhan Mantri Jan Dhan Yojana. A package worth Rs 1.70 lakh crore was introduced under Pradhan Mantri Garib Kalyan Yojana to support the nation during Covid-19 times. Free food grains to the poor and cash to the deprived section of the society like poor women and elderly was provided. Interest rate cuts by RBI and liquidity boosting measured a total of 3.2 percent of the GDP. Another set of benefit was from Reserve Bank of India worth Rs 8.01 crore. The state government borrowing limits have been increased to 5% from 3% injecting Rs. 4.28 lakh crore to the state governments. This will improve the ease of doing business. A new PSE policy has been announced with plans to privatize the public sector undertakings except the strategic sectors as notified by the government. Merger, acquisitions and privatization of enterprises under a holding company will be promoted to minimize wasteful administrative cost. The special economic package expected to generate wealth equivalent to 13 percent of GDP is likely to cost only 1 percent to the government. The huge difference is between benefits and cost is due to the non-material benefits in the form of bank guarantees and relaxations. In order to boost domestic industry and manufacturing sector in terms of attracting investments, special relief packages for micro, small and medium sector were announced. Another part of the package was about easy access to land and labor reforms to lure companies towards our country that had left

China in wake of pandemic.

The Road Ahead

The present economic scenario brings a shift in the business landscape. New principles like self-reliance, localization, innovation will help the business houses in treading a new path. Government is focusing on building a strong health infrastructure to combat uncertainties of future. Industrialization and skill development will be a driving force on the path of helping in development. International companies have identified potential in Indian economy and are motivated to invest and set up industries across the country. Work from home is the new mantra for big corporate houses across sectors. This is helping in reducing the number of work force in the offices and also providing convenience of escaping from problems like traffic congestions. The current economic downturn is different from economic recession as it is immediate and short lived. With recent down turn seen in the number of covid19 infections after second wave and increase in the recovery rate the conditions have started looking positive for the economy. The introduction of the Covid19 vaccines is enhancing the sentiments of the people and the signs of revival are witnessed across all sectors of the economy. In order to contain the spread of virus vaccination drive needs to run on large scale. Awareness about benefits of vaccination among the masses needs to be spread with the help of camps and mass media. The health infrastructure needs to strengthen specially to prepare the nation for future waves of pandemic. The virus is no more confined to old aged population and is expected to effect the younger generations in the future. A big challenge lies ahead of nation where it needs to take care of orphan children who lost the lives of their parents and have no one to look upon. The cases of orphan children rising is an alarm for the government as it might give rise to the child trafficking sleeping cells. The government needs to handle this challenge with utmost sensitivity and care. The virus is changing its variant as it continues to spread and force human life to stay behind the walls. The post Covid19 syndrome is another challenge that India needs to tackle by developing facilities of counseling for Covid19 recovered patients. There is a need to bring an overall development in the economy that may help in taking quantum jumps and not make mere leaps of incremental gains to overcome pandemic economic shock and becoming a vibrant demography accompanied by strong demand and supply.

2. REFERENCES

- [1] <https://thewire.in/economy/coronavirus-covid-19-economic-effect>
- [2] <https://www.mckinsey.com/business-functions/marketing-and-sales/our-insights/a-global-view-of-how-consumer-behavior-is-changing-amid-covid-19>
- [3] <https://m.rbi.org.in/Scripts/AnnualReportPublications.aspx?Id=1286>
- [4] <https://www.mondaq.com/india/operational-impacts-and-strategy/936014/coronavirus-covid-19-and-indian-economy>
- [5] <http://www.businessworld.in/article/Impact-Of-Covid-19-On-Indian-Economy/30-12-2020-359595/>
- [6] <https://www.statista.com/statistics/1103120/india-estimated-impact-on-gdp-growth-by-coronavirus-epidemic/>
- [7] https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3562570https://pib.gov.in/PressReleas

- [ePage.aspx?PRID=1650021https://www.imf.org/en/Publications/WEO/Issues/2020/09/30/world-economic-outlook-october-2020](https://www.imf.org/en/Publications/WEO/Issues/2020/09/30/world-economic-outlook-october-2020)
- [8] <https://www.moneycontrol.com/news/business/markets/these-10-sectors-are-likely-to-benefit-the-most-from-atmanirbhar-3-0-stimulus-package-6127631.html>
- [9] <https://infomineo.com/covid-19-impacted-travel-tourism-industry/>
- [10] <https://onlinelibrary.wiley.com/doi/full/10.1111/exsy.12677>
- [11] <https://www.statista.com/statistics/1111510/india-coronavirus-impact-on-household-income/>
- [12] <https://www.financialexpress.com/lifestyle/travel-tourism/impact-of-covid-19-on-travel-and-tourism-sector-and-how-seis-can-bring-relief/2230559/>