



# IMPACT OF COVID-19 ON INDIAN ECONOMY

**Sheikh Amin Hussain**

Student , Department of Economics, Govt. Boys Degree College, Anantnag, Jammu & Kashmir, India.

## ABSTRACT

*WHO declared the COVID-19 Pandemic on 12<sup>th</sup> March, 2020. Till this day, this deadly outbreak is ruling all over the world. This outbreak of Covid-19 is an unprecedented shock to the whole world and as well as on Indian economy. The various lockdowns all over the world completely took the world by a standstill pressing a pause button for everything including the world's one of the biggest economies. India's real GDP depleted to its bottom in over six years during 4Q 2019-20. The COVID-19 or Coronavirus Pandemic has revealed many weaknesses in the global system. According to the Ministry of Statistics, the growth rate of India went down to 3.1% due to COVID-19 as stated by the Chief Economic Adviser of Govt. Of India. The Research paper focuses on the impact of this pandemic on the various sectors of Indian Economy. This Paper also provides some recommendations by which this impact (long term or short term) can be reduced.*

**KEYWORDS:** GDP, Pandemic, COVID-19, Government Support, Lockdown.

## 1. INTRODUCTION

COVID-19 is creating destruction for the Indian Economy. Coronavirus induced lockdown is weakening the Country's GDP growth. It is having major disturbances across multiple sectors. India is a country with huge population and has the following income groups- low, middle and high. The major sufferers in the population were migratory and daily wagers. Not only has the economy impacted severely by this outbreak but, the biggest evil that is poverty has also reached a very high point.

According to the UN reports, India's economy is adversely impacted by the slowdown of manufacturing in China and as India is in the top 15 countries, all this has disrupted the world trade as well. Approximately 348 million dollars trade impact is estimated due to this pandemic. Trade economy mainly works on the demand and supply principle, but the sudden stop in the country has lead to an acute shortage of raw materials for industrial sectors because there is no supply of resources due to

restrictions on travel. Consumption is also affected due to unemployment and decrease in incomes. Major affected sectors are tourism and aviation which are facing huge economic crises. According to the Asian Development Bank, it is clearly stated that Indian economy is under great losses due to COVID-19 pandemic. There will be a long-term decrease in business travel due to the emergence of video-conferencing tools, with High Net worth Individuals preferring to travel via private jet as opposed to first-class air travel. Governments, business leaders, and companies will allocate more budgets for investing in healthcare and healthcare products after discovering the gaps in the global system while fighting the coronavirus. More tech start-ups will emerge with creative applications. Central Banks have injected large sums for financial institutions and offered unprecedented exemptions that were not provided before.



**Table 1: Govt. Support to Combat COVID-19**

Country	Government Support
US	Give financial assistance for families of \$1200 for each adult and \$500 for children and \$250 billion to enhance unemployment insurance.
Canada	Provide income support of C\$2000 per month (for up to four months) to those who are unemployed due to COVID 19.
UK	All employers will get 80% government aid for next three months for payment of employee's wages of up-to pound 2500 per month.
Italy	Euro 5 billion top up on salaries supplementation scheme for those employees who have been granted for long leaves plus one-off payments to various other employees.
France	Employees will be granted an allowance of approx 84% of their net wages and 100% for minimum wage workers.
Germany	Employees will have a benefit of Euro 26 billion insurance fund which guarantees employees at least 60% of their basic pay.
Japan	Cash payout of 100,000 yen is expected to be received by all residents.
Australia	Grant wage subsidy to businesses for 6.5% of GDP or an amount of A\$ 130 bn.

Source: Compiled Data

The above Table 1 shows how Government around the world helping employers and employees. It seems that US have provided huge incentives to their citizens by providing \$1200 for each adult. The UK government has announced measures to support the self-employed throughout the crisis, the financial

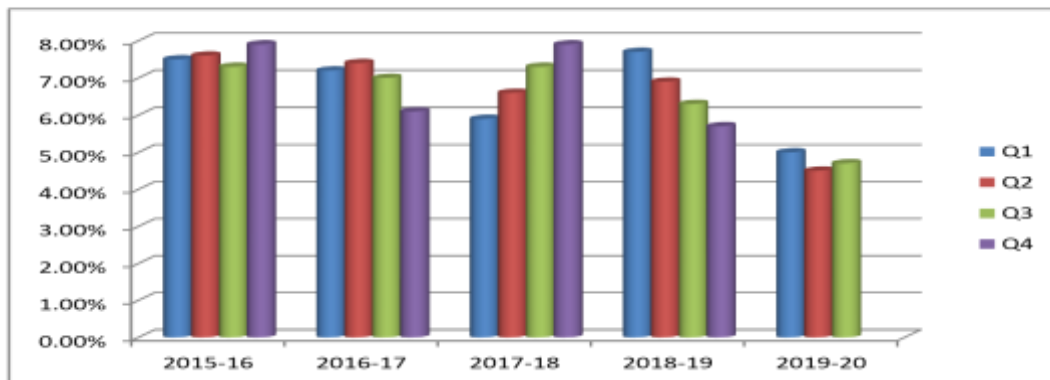
support will not be available until mid-June. In Europe, many employees are granted full pay when they are sick. People on short term or freelance contracts might get partial payments that are less than their usual.

**1.1: IMPACT ON INDIAN ECONOMY**

**Table 2 India GDP Trend**

Year \ Quarter	2015-16	2016-17	2017-18	2018-19	2019-20
Q1	7.5%	7.2%	5.9%	7.7%	5.0%
Q2	7.6%	7.4%	6.6%	6.9%	4.5%
Q3	7.3%	7.0%	7.3%	6.3%	4.7%
Q4	7.9%	6.1%	7.9%	5.7%	

Sources: Ministry of statistics and Programme Implementation (MoSPI)





In the above Figure 1 and Table 2 we can see that India's real GDP was on a continuous downward trend and spread of the pandemic is going to affect it even worse. Government has taken steps to control its spread, such as nationwide restriction for 45 days and a complete lockdown of states. This have brought a situation where there is no economic activity and could impact both consumption and investment. During FY 2015-16 the GDP was 7.5% in Q1 then there was a fall in Q3 which was 7.3%, however it rose to 7.9% in Q4. India's GDP is slow down to 5.00% Q1 financial year 2019-20, this is the lowest in 5 years. Moreover GDP was slipped down to 4.5% in Q2 financial year 2019-20, however it marginally improved to 4.7% in Q3. Few sectors lag themselves from the global chain due to the threat of the deadly virus as a result there is less reliance in intermediate imports. To recapitulate investment, private consumption and external trade, which are the

three major contributors to GDP, may get hit. The Indian Government has pronounced an array of revival packages to overcome the circumstances, eg additional funds for healthcare, food security, sector related incentives and tax incentives. The RBI also on 27<sup>th</sup> Mar announced numerous steps which would make available US\$52 billion (₹374,000 crore) to the country's financial system. On 29<sup>th</sup> Mar central government agreed for the movement of all essential consumables during the lockdown. On 3<sup>rd</sup> Apr the government of India released more funds to states for handling the corona virus totalling to US\$4.0 billion (₹28,379 crore).

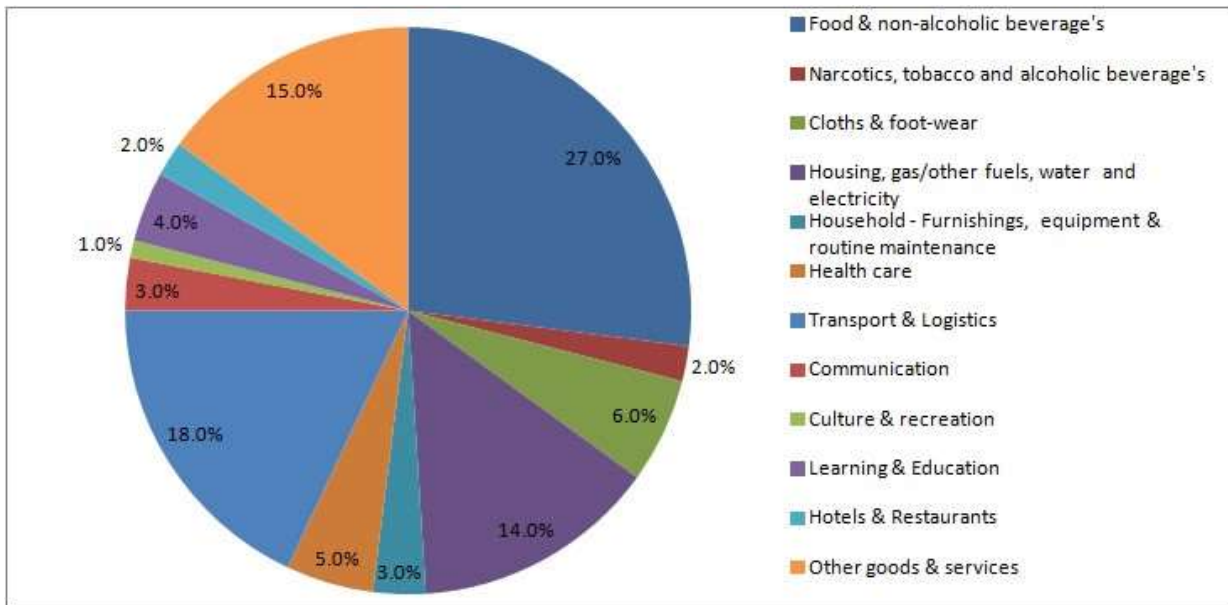
### 1.2: DEMAND SIDE IMPACT

The lockdown is to have an ample impact on the economy, majorly on consumption which is one of the biggest components.

**Table 3: Essential Consumption Expenditure by Sector**

Essential consumption expenditure by sector	% Share
Food & non-alcoholic beverage's	27.0%
Narcotics, tobacco and alcoholic beverage's	2.0%
Cloths & foot-wear	6.0%
Housing, gas/other fuels, water and electricity	14.0%
Household - Furnishings, equipment & routine maintenance	3.0%
Health care	5.0%
Transport & Logistics	18.0%
Communication	3.0%
Culture & recreation	1.0%
Learning & Education	4.0%
Hotels & Restaurants	2.0%
Other goods & services	15.0%

Source:- Ministry of Statistics and Programme Implementation (MoSPI)



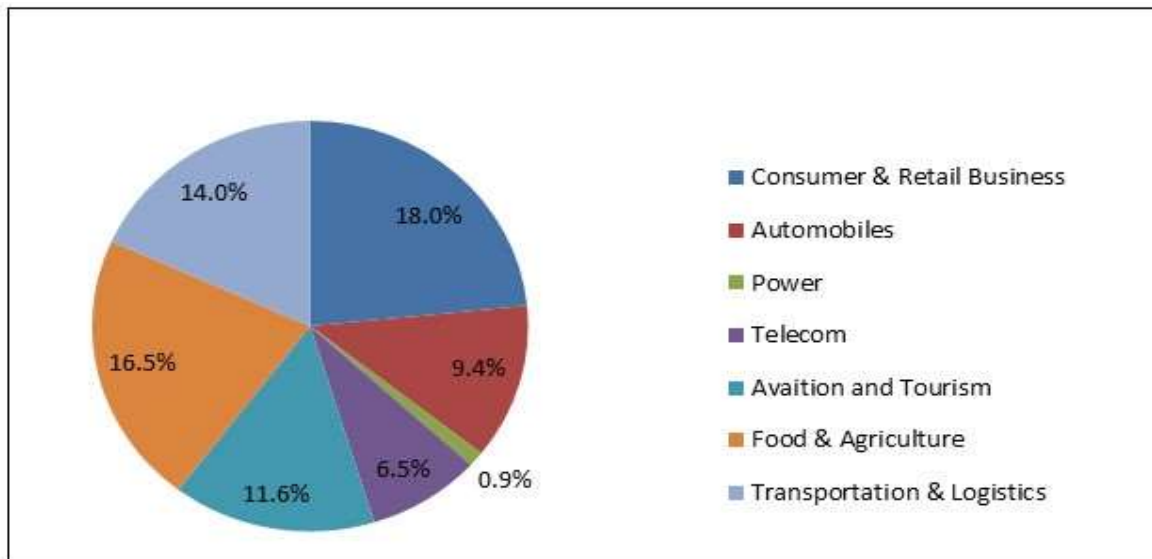
**Figure 1: Essential Consumption Expenditure by Sector**

Source:- MoSPI

The above Figure 2 and Table 3 shows the private consumption. Sudden stop of urban activity has caused slow down in consumption of non-essential goods. The lockdown would severely impact the domestic supply chain and affect the availability of essential commodities.

### 1.3: IMPACT ON DIFFERENT SECTORS

The below Figure 2 shows the major contribution to GDP by different sectors in India.



**Figure 2: Contribution to GDP by Different Sectors**

Source:- Compiled Data

In this Figure 3 shows the contribution to GDP by different sectors. The projected GDP growth of 1.9% by IMF “ International Monetary Fund” for India during financial year 202122 is the maximum among G-20 nations. Just in single month

unemployment percentage rose from 6.7% on 15<sup>th</sup> Mar to 26% on 19<sup>th</sup> Apr. In the above chart it is revealed that consumer and retail business sector has the highest GDP contribution that is 18%. Then comes the food and agriculture sector which is an



essential commodity and it contributes 16.5% GDP. Transportation and logistics sector which is also an essential commodity, it contributes 14% GDP. Telecom is one of the most significant sectors during this pandemic since it helps the employees to work from home, enhances timely communications of businesses, its contribution to GDP is 6.5%.

## RECOMMENDATIONS

- All pending payments to vendors are required to be passed immediately by the Government Departments.
- There is an urgent need to increase overdraft facilities to state governments from the RBI.
- Improvisation in Supply Chain network is a must.
- There is a need to provide income support to low-income families through Direct Benefit Transfer.
- GST waivers or tax incentives will provide relief to retailers.
- Fair and transparent pricing of all relevant transport and logistic services through price caps, etc. Policy support and standardisation of hygienic travel.
- There should be shift towards localization – “Vocal by Local”
- There is a need to shut down shops in many cities, but there should be proper time announcement to open these shops to ensure sufficient accessibility of essential goods to consumers.
- Policies will need to evolve faster than market and policy makers will have to be more responsive and inclusive.

## CONCLUSION

Coronavirus pandemic is a disaster and these are very uncertain to predict. This has many consequences such as changing the mindset of people, challenge for the industry and shake up the world economic order. This is a high time to reset everything as the world order has become standstill for past few months. We are all allowed to rethink, redesign and restructure everything. If we involve in doing the right things, we may be able to fix challenges in new platforms that can face and bear humankind's environmental damage, it may be the pollution, self - centered growth or inequality or concentration of economic power and wealth. Most companies have increases resilience to work remotely and allowing their employees to work from home. While these many measures were already on the track, they have now going to be new normal very soon. Risks to supply chains are significant and will have long term impact. Hence it is important that we improve the capabilities in order to counter the

consequences of unforeseen events. We need quickly restore the profit of business and resume the original state which was destroyed by the risk. One small virus has devastated the world which is beyond imaginable for mankind. The important learning we have learnt so far is the criticality of overall cost control in business and living our livelihood to the minimum.

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