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IMPACT OF COVID 19 ON INDIAN ECONOMY

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Introduction:

In March, 2020, COVID-19 was declared a pandemic by the World Health Organization (WHO) after when it spread over all continents and affecting more than 220 countries. In the initial stages of the pandemic, due to lack of preparedness, the developed nations in North America and Western European region were affected badly, with more than 70 per cent of the total cases and total deaths. In Emerging Market Developing Economies (EMDEs) such as Brazil, India, Mexico, Russia and Turkey, covid-19 spread quickly, costing many lives.

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In India, the first case of coronavirus was reported in Kerala on January 30, 2020. During the first-wave, the cumulative number of COVID-19 cases started rising progressively from the month of May 2020, and peaked in mid-September 2020 with 11.12 lakh active cases on 17th September, 2020 and 97,860 daily new cases on 16th September, 2020. India was quite prompt in response to spread of covid-19 and Government imposed a stringent nation-wide lockdown during the initial phase of the pandemic in March-April, 2020. Like most other countries, India also faced two COVID-19 waves: first in 2020 and second in 2021. The country faced a massive surge in COVID-19 cases in May 2021. The pandemic is not new for India, the Plague (1896 to 1939) and Spanish flu (1918) in the past caused million deaths. India's effort to combat COVID-19 virus was applauded over the globe. However, the lockdown came at an economic cost that had a cascading impact on all the sections of society, especially unorganized sector.

The COVID-19 adversely impacted lives, livelihoods, and the economy in India. Rising uncertainty has reduced consumer and business confidence. Also, India was already having an economic slowdown during the three years preceding the pandemic. Due to lack of demand, the trade investment graph was already going down before pandemic and when lockdown was imposed, trade and investment was completely hit. Economic activities came to a halt and economic growth registered a historic low rate of -23%. It has been two years since COVID-19 hit India, and yet factories and offices are temporarily closed, so the production of goods and services have declined. Supply chains have been severely disrupted. Concurrently, autonomous to the supply shock, demand has also shrunk. As economic units were shut down, people lost jobs and sources of income

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which led to fall in aggregate effective demand.

Thus, in this article we will try to identify the damages done by coronavirus on different sectors of Indian economy and also highlight the steps that should be taken by businesses for sustainable growth.

OBJECTIVES OF THE STUDY

- To study the impact of COVID 19 on GDP and GVA of India.
- To study the demand & supply side impact.
- To study the sector wise impact on different sectors of Indian economy.

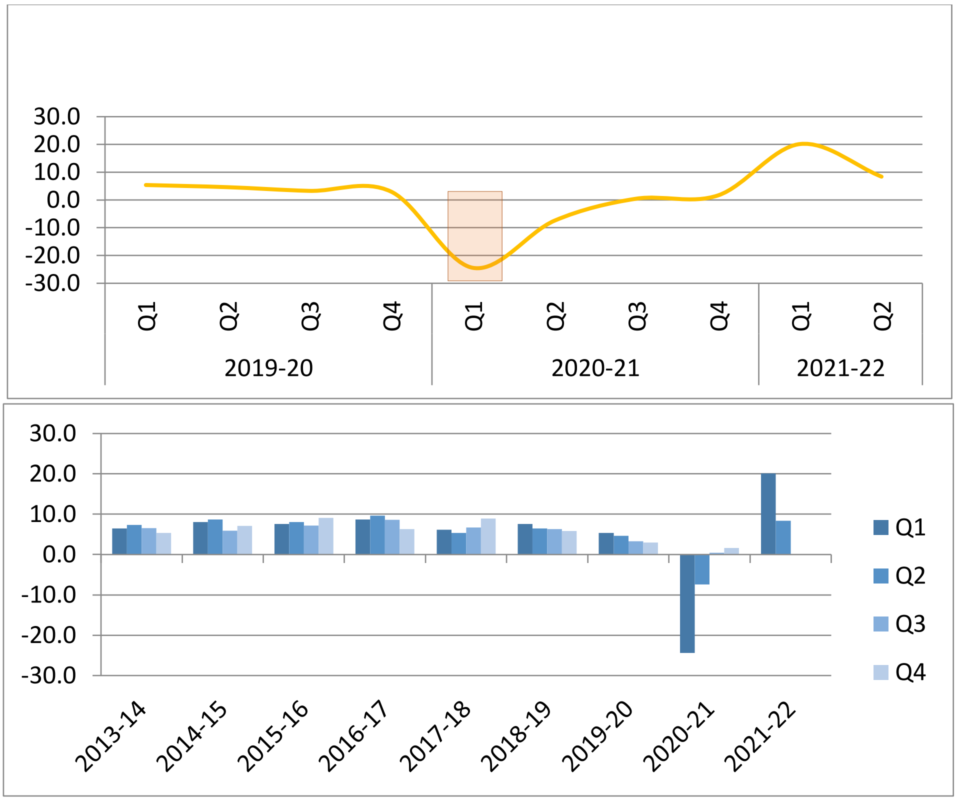
Methodology

The present Research Paper is using Secondary Data by collecting Information from various sources like RBI reports, MOSPI, CMIE etc.

Impact on the Indian Economy

India's real GDP was steadily declining in the pre-Covid era, and the spread of the pandemic had an even worse effect. The economy shrank sharply, down 23.9% in the first quarter of 2020 and 7.5% in the second quarter of FY 2020-21(Economic Survey, 2020-21). Since then, some fundamental frequencies have shown a V-shaped recovery.

Figure 1: GDP Growth (Constant Price)



Source: NSO, MOSPI

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Sectoral Trend

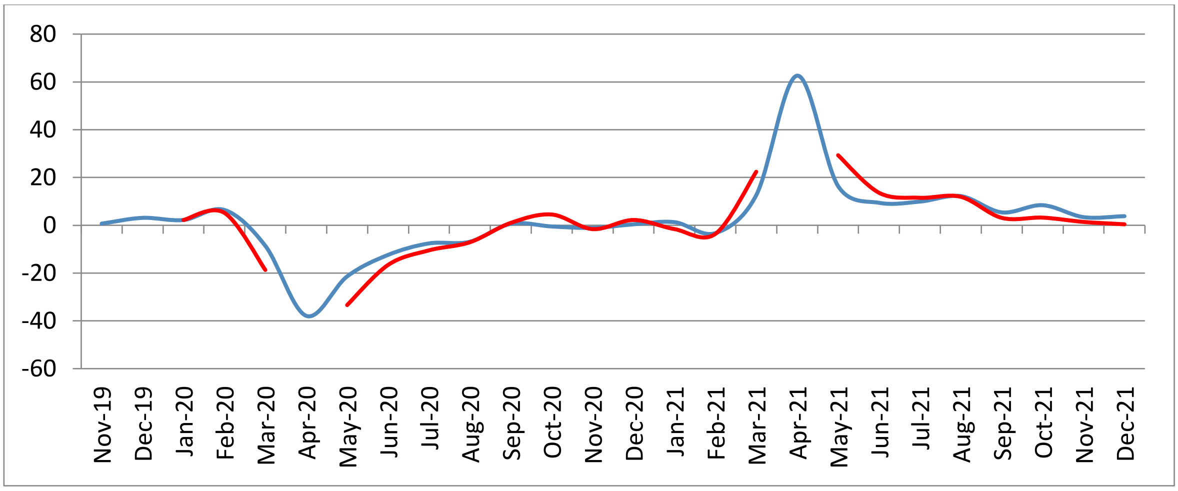
Agricultural Sector

The agriculture sector is critical as about 54.6 per cent of the total workforce in the country is still engaged in agricultural and allied sector activities (Census 2011). The growth of agriculture is also important as it helps to create rural demand. During pandemic, India's agriculture sector remained unaffected to some extent and the performance of output was quite strong which shows its resilience to sustain growth. In the pre covid-19 period, agricultural GDP experienced an average growth rate of 3.3% per year in the six-year period 2014-15 to 2019-20 with intermittent fluctuations. Agricultural and allied sector activities which accounts for approximately 17.8 per cent of the country's Gross Value Added (GVA at current prices) for the year 2019-20 and 18.8 per cent for 2021- 22, registering a growth of 3.6 per cent in 2020-21 and 3.9 per cent in 2021-22. The provisional estimates of the National Statistical Office (NSO) show that GDP growth in agriculture has increased from 2.4% in FY19 to 4% in FY20. It also performed relatively better at 3.5% in Q3 of FY20. Agriculture got affected to some extent due to lockdown as it affected supply chains through several channels like input distribution, harvesting, procurement, transportation, marketing etc. Also, the closure of restaurants, factories, transport bottlenecks, etc. reduced the demand for fresh produce, poultry and fisheries products, affecting producers and suppliers.

Industrial Sector

In secondary sector, IIP growth contracted immediately after the lockdown and reached its historical low in April-2020. The calibrated and gradual unlocking process led to the resumption of economic activities translating into positive growth in IIP and the improvement has been broad-based in both the core and non-core components of the IIP. The eight-core index recorded its all-time low growth of (-) 37.9 in April 2020. But after that, trajectory of growth of the eight-core industries has been improving since May-2020.

Figure 2: Eight Core Industries and IIP



Source: DPIIT

During second wave of coronavirus, there was partial lockdown in the country. Partial lockdown coupled with supportive policy initiatives that included easing supply side bottlenecks through easy access to credit especially, emergency credit line guarantee scheme to MSMEs; production-linked incentives (PLI) scheme for 14 champion sectors and other relief measures and relaxations helped the industrial growth to recover. Continued policy support towards industries by the government in the form of Atmanirbhar Bharat Abhiyan has also led to a faster recovery of the industrial sector. The growth of the industrial sector, in first quarter of 2021-22 was 22.9 percent vis-a-vis the corresponding period of 2020-21.

The manufacturing sector recorded a growth of (-) 1.7 per cent in November-2020 as against a growth of 3.0 per cent in November-2019, and the electricity sector recorded a growth of 3.5 per cent in November-2020 as against a contraction of 5.0 per cent in November-2019. As per the RBI report on corporate performance, demand conditions in the manufacturing sector moved to the path of recovery with a softer contraction due to pandemic led country-wide lockdown.

The automobile sector faced shortage of spare parts which is usually imported from China, where the pandemic-induced lockdown resulted in the shutting down of production at original equipment manufacturers and therefore negatively affected production of auto spare parts in micro, small and medium-sized industries. Lockdown also led to disruption of the entire value chain of major industries in India. The reduction in demand for passenger vehicles also contributed to the loss of revenue in automobile sector. As a result of lockdown, all transportation systems had been shut down, supply chains had been disrupted and workers were not able to come to the construction site even from home. Therefore, work in the construction fields had stopped and the construction workers also faced extreme uncertainty. The lack of timely execution contributed to cost overruns, significant delays and even the cancellation of projects.

The MSME sector employs more than 11 crores people, contributing roughly 30 per cent to the GDP, and shares half of the country's exports helping in building a stronger and a self-reliant India. This sector was one of the worst hit sectors during the nation-wide lockdown. Electronic component import from China decreased due to coronavirus and lockdown. Due to the lack of imported raw materials in lockdown time, the production of textile industries was declining day by day. There are also some positive impacts on MSMEs due to COVID-19 like great opportunity to produce hand sanitizers, face mask and packed products home delivery.

The textile & apparel industry sector is the second-largest employment generator in the country, next only to agriculture. It also got deeply affected by the lockdown, but it has shown a remarkable recovery, positively contributing to growth, as reflected by IIP, of 3.6 percent during April-October 2020.

During 2020-21, total pharma export US$ 24.4 billion against the total pharma import of US$7.0 billion, generated trade surplus of US$17.5 billion. Price competitiveness and good quality enabled Indian medicine producers to be dominant players in the world market, and hence, thereby making India, the "Pharmacy of the world". FDI in the pharmaceutical sector has seen a sudden spurt in 2020-21 vis-a-vis the previous year showing a 200 percent increase. The positive speculation regarding the growth of pharma industry with respect to the pandemic attracted many foreign investors, mainly on account of investments to meet COVID-19 related demands for therapeutics and vaccines.

Services sector

Services sector's significance in the Indian economy has been steady, with the sector now accounting for over 54 per cent of the economy. In the first half of the financial year 2020-21, the growth in the services sector contracted by almost 16 per cent. The upturn in Services' GVA seen with the trend in high frequency indicators such as Purchasing Managers Index (PMI) Services Index. PMI fell to its lowest level of 5.4 in April, 2020, recovered sharply in October 2020. It dropped again for three consecutive months (May, June and July, 2021) due to the second wave of Covid-19. After August 2021, easing of restrictions helped PMI index of Services to grow once again and it recorded a strongest jump in over 10 years to 58.4 in October 2021.

Due to COVID-19 pandemic and the subsequent lockdown and social distancing measures have had a significant impact on the contact-intensive services sector, particularly sub-sectors such as tourism, aviation, and hospitality. As per the World Tourism Barometer of the United Nation's World Tourism Organization (December, 2020 edition), there was a drop of 72% in international arrivals. The tourism sector for India underwent a slowdown in 2018 and 2019 before declining sharply in 2020. In terms of growth, the FTAs growth rate declined from 14 per cent in 2017 to 5.2 per cent in 2018 and further to 3.5 per cent in 2019.

The share of Software & Engineering services in the IT-BPM sector, which grew consistently each year, saw a slight decline to 20.78 per cent in 2020-21. BPM services share remained at 19.8 per cent, while growth rate of Hardware services improved slightly to 8.3 per cent. During 2020-21, exports revenues grew by 1.93 per cent to reach US$ 149.1 billion.

During 2020, terminal operators, authorities, and intermodal transport providers followed strict COVID-19 protocols to prevent its spread. This slowed port operations. The Covid-19 pandemic related restrictions on international trade in 2020 have led to a smaller flow of containers in active shipping. The prolonged partial closure of ports across the world created a glut of containers in some ports and abject shortage in others. At the same time, because of widespread manufacturing delays, not enough containers were manufactured. As the global economy began to recover since early 2021, the containers which were stuck at various storage points are not being sent back into service fast enough. This has resulted in a skewed demand-supply for shipping containers, leading to very high shipping rates. Cargo traffic at India's ports decreased by 5.4 per cent during 2020-21, i.e., from 1,317.73 MT in 2019-20 to 1,246.86 MT. Port traffic registered a growth of 10.16 per cent during April-November, 2021 over the same period.

Travel restrictions, in the early half of 2021, hit the movement of Indian airlines and railways leading to a sharp fall in air and rail passenger traffic. Domestic passenger traffic (both air and rail) had started to recover gradually from August 2020 on a monthly basis but fell again in April-May 2021 due to the disruptions caused

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by second wave of Covid-19. According to monthly data, air passenger traffic is now gradually reaching the pre-pandemic levels. Railway passenger traffic, on the other hand, is still much below the pre-pandemic levels. The freight traffic (rail, air and port) had fallen sharply due to the complete lockdown in March 2020. But when lockdown was eased and the economy gradually opened up from June 2020, freight traffic statistics also started to improve. It registered strong growth during April- June, 2021, reflecting the rebound from the low base during the same period last year. The impact of second covid wave on these indicators was much less as compared to that during the full lockdown in March-May 2020.

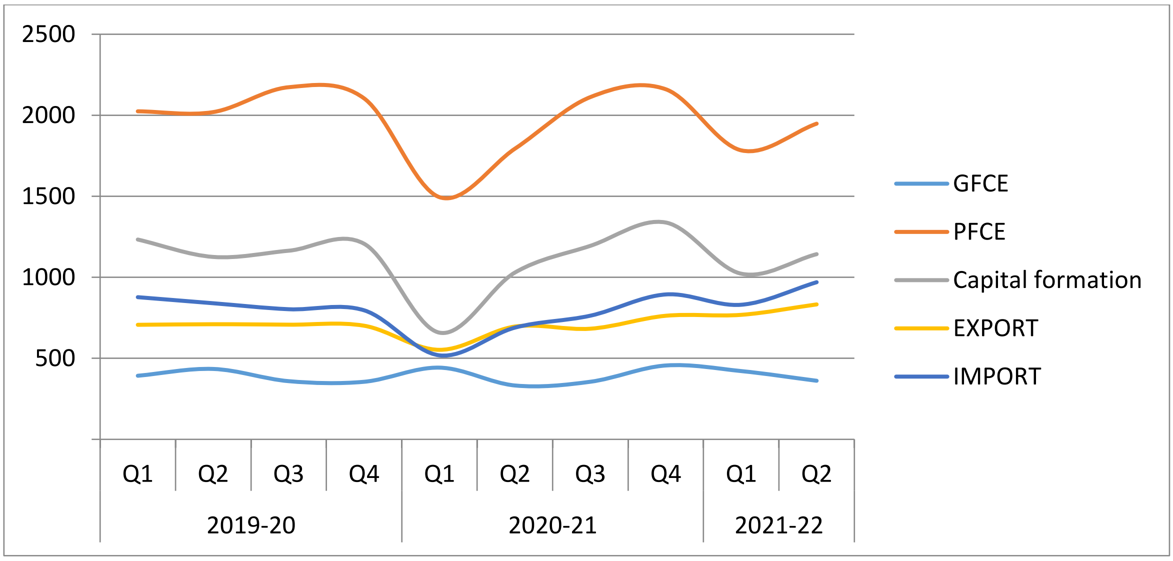
The expenditure on social services like education, health and other social sectors by Centre and States combined, increased from 6.2 to 8.8 per cent of GDP during the period 2014-15 to 2020-21.

Impact on demand and supply

India saw the sharp decline in economic output among major economies during pandemic. It also saw inflation climb in the same period. Complete lockdown disrupted domestic supply chains more than it disrupted consumer spending. In other words, the aggregate supply shock was much more than the aggregate demand shock. Various data of economic activity suggest that output is now gradually returning to pre-pandemic level. The lockdown caused a high impact on the supply chain industries, which includes manufacturers, wholesalers, and retailers all over the globe. Affected countries were facing challenges related to the supply chain in terms of transportation of essentials.

According to latest advance estimates, full recovery of all components can be seen on the demand side in 2021-22, except for private consumption. Compared to pre-pandemic levels, recovery is most significant in exports, then followed by government consumption and gross fixed capital formation. However, a strong recovery was observed in imports.

Figure 3: Quarterly Estimates of Expenditure at Constant Prices (in thousand)



Source: NSO, MOSPI

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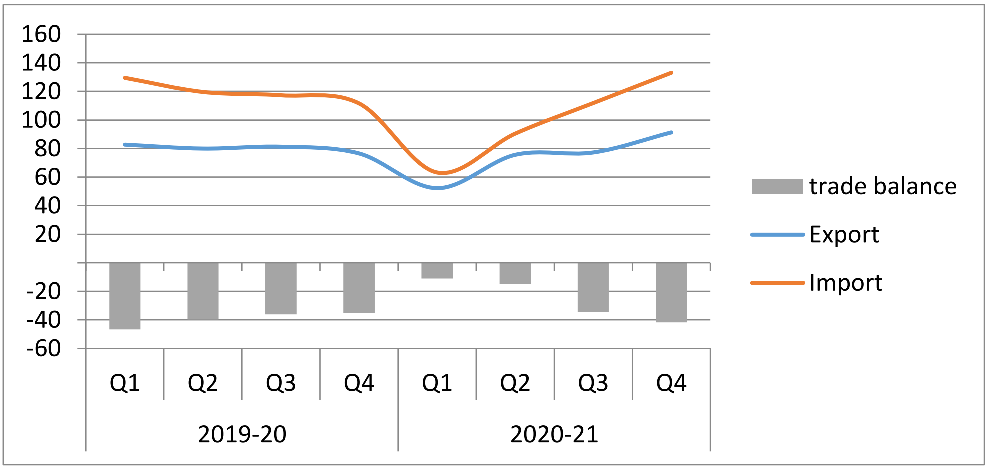
Total consumption grew by 7.0 per cent in 2021-22. Government consumption grew at 7.6 per cent surpassing pre-pandemic levels. Due to a sharp recovery in HFIs like IIP Consumer Durables, Private consumption also improved significantly to recover 97 per cent of corresponding pre-pandemic output level. According to RBI's Consumer Confidence Survey results, there was sustained uptick in consumer sentiments due to the increase in use of online payment systems like UPI, net banking, etc.

Delay in the supply of goods from China due to the shutdown of factories has adversely affected many Indian manufacturing sectors, which depend on China for their raw material and final products. Exports of India have decreased due to the slowdown in production and industrial activity in Asia, US, Europe, China etc.

In FY 2020-21, there was sharp decline in exports and imports of India. The decline in imports outweighed that in exports – leading to smaller trade deficit of US$ 9.8 billion as compared to US$ 49.2 billion in Q1 last year. India registered a trade surplus in the month of June, 2020. After bottoming out in first quarter of FY 21, there was an impressive recovery in merchandise exports, with strong year on year basis and sequential growth, crossing a milestone of US$ 100 billion in Q2 and Q3 of 2021-22.

Figure 4 :India's Merchandised Trade



Source: RBI

Employment

Given the limited data available on interstate migration and employment in the informal sector, it is difficult to determine the number of migrants who lost their jobs and housing during the pandemic and returned home. Due to the significant impact seen during the national lockdown, net EPFO subscription growth declined and turned negative in April / May 2020. Net additional contributions recorded a further decline between November 2020 and the second wave of Covid 19 (April-June 2021). However, in both cases, the magnitude of the decrease was smaller than in April / May 2020. Analysis of the latest EPFO data shows that both new formalization of work and formalization of existing work have significantly accelerated the formalization of the labor market. Indian Railways has operated a special train (Shramik special train) since May 1, 2020, at the request of the state governments to promote migrant workers / stranded passengers.

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During the second wave of COVID-19, the demand for employment of MGNREGS reached 4.59 million in June 2021. According to a state-level analysis, in many immigrant-born states such as West Bengal, Madhya Pradesh, Orissa and Bihar, MGNREGS employment is higher than the corresponding level in 2020 in most months of 2021.

Conclusion

This study reveals that the Covid-19 has affected more or less each sector of the economy. On governments' part, a push is needed in the form of enhancing public investment. On the part of business firms, survival strategies are essential to cope with the current situation. However, in this current pandemic scenario, all companies must be prepared for the uncertainties and challenges posed by the coronavirus. To survive in this difficult time, they need to be proactive and strategic in combating the effects of the coronavirus. They must be aware of the potential for future changes in the business environment and see opportunities to work hard and prosper. India is already below growth expectations for the last two years. The GST collection is also below expected levels. The situation at COVID19 is further exacerbating the country's financial position.

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