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IMPACT OF COVID -19 ON INDIAN ECONOMY

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Abstract

COVID-19 has been predicted to be worse than the Great Depression of 1930. Pessimism hangs heavily throughout. When people hear the name Covid, they are afraid. COVID-19 halted social and economic activity. This study aims to examine the impact on affected sectors such as aviation, tourism, retail, capital markets, MSMEs, and oil. International and internal mobility is restricted, and the income generated by travel and tourism, which contributes 9.2% of GDP, will significantly affect the GDP growth rate.

The rupee is steadily weakening. MSMEs will face a severe financial shortage. During the crisis, there was a horrific mass departure of this floating population of refugees on foot, despite a nationwide lockdown. Their primary concerns were job loss, daily rationing, and the lack of a social safety net. India must reconsider its development model and make it more inclusive.

Keywords: Covid-19, Indian economy, GDP

Introduction

This research analyzes the economic consequences of the Covid-19 epidemic in India. Even before the epidemic, the Indian economy saw a slowing of economic development and historic rises in unemployment and poverty. As a result, India's ability to deal with a new catastrophe was limited when the epidemic struck in March 2020.

The economic crisis that occurred after March 2020 touched all sectors of the Indian economy. In agriculture, producers faced disrupted supply chains, a shortage of market outlets, low demand, and dropping output prices. Micro and small businesses were particularly hard hit in the sector. The crisis resulted in the loss of at least 15 million jobs.

The COVID-19 pandemic has had a massive impact on nations, particularly the statewide lockdowns that have halted social and economic activity. A world that was always buzzing

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with activity has become silent, and all resources have been devoted to confronting the unprecedented catastrophe. The virus has had a multi-sectoral impact since nations' economic activity has halted. What is startling and noteworthy is the World Health Organization's (WHO) 2019 warning about the world's inability to combat a worldwide epidemic. According to a 2019 joint research by the WHO and the World Bank, such a pandemic might cost between 2.2% and 4.8% of global GDP.

The COVID-19 pandemic has had a significant impact on the manufacturing and service sectors, including hospitality, tours and travels, healthcare, retail, banks, hotels, real estate, education, health, IT, recreation, media, and others. While lockdowns and social distancing result in productivity loss, they also cause a sharp decline in market demand for goods and services, resulting in a collapse.

Since the outbreak of the COVID-19 viral pandemic, analysts and specialists throughout the world have been racing to forecast more severe economic problems for the global economy. With each passing day, the fresh projections paint a bleaker image than the preceding one. On April 2, 2020, the UN anticipated a 1% fall in the global economy, compared to the earlier expectation of 2.5% growth. The expected net effect is around 3.5%. The figure shows that the global economy was worth $80 trillion in 2017.

World GDP (2017)

Since the outbreak of the COVID-19 viral pandemic, analysts and specialists throughout the world have been racing to forecast more severe economic problems for the global economy. With each passing day, the fresh projections paint a bleaker image than the preceding one. On April 2, 2020, the UN anticipated a 1% fall in the global economy, compared to the earlier expectation of 2.5% growth. The expected net effect is around 3.5%. Figure at below depicts the world economy's size in 2017: $80 trillion.

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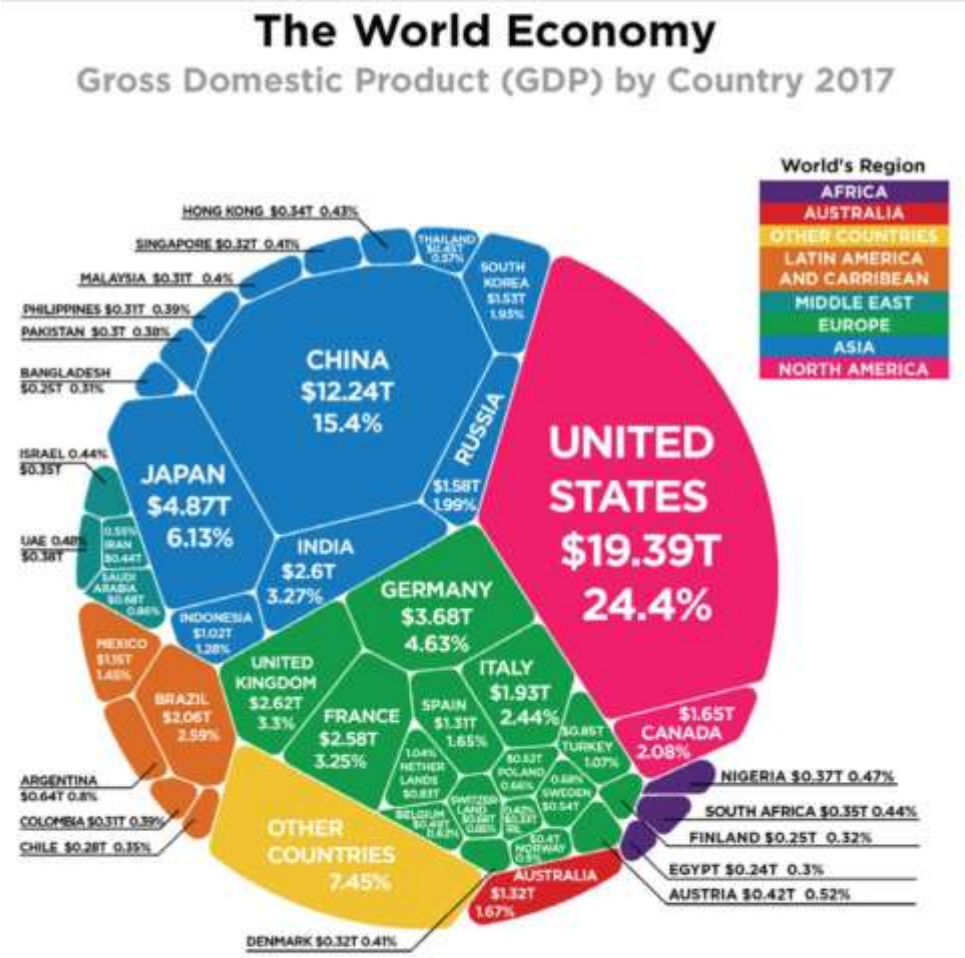
World GDP (2017)



Source: https: howmuch.net/articles/the-world-economy-ppp-2018
The world bank-https://databank.worldbank.worldbank.org

A 3.5% impact on the $80 trillion global economy is $2.8 trillion, the exact amount of India's total economy in 2018-2019, the world's fifth largest (India Today, 2019). The vicious loop that leads to economic disaster has begun to accelerate. Lower consumption, lower demand, decreasing prices, supply cutbacks, job cuts, lower expenditure, and lower consumption—all the pieces appear to fit together perfectly.

Sectoral Impacts of COVID-19 Pandemic in India

Effects on Tourism, Aviation, and Retail

Globally, the tourist industry has been hit the most by the COVID problem. According to estimates from the World Tourism Organization (UNWTO) (2020), foreign visitor arrivals will decline by 20-30%. These statistics, however, are based on current conditions and may

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grow or decrease in the future. Millions of individuals working in industry are going to lose their employment. In India, the travel and tourism business is thriving and contributes significantly to the economy.

Tourism is one of the world's largest economic industries. It is the world's third-largest export sector (after fuels and chemicals), accounting for 7% of total trade in 2019.

The COVID-19 epidemic has had a significant influence on the tourism industry, affecting economies, livelihoods, public services, and opportunities across all continents. Every aspect of its extensive value chain has been touched. Up to 100 million direct tourist jobs are at risk, as are tourism-related sectors such as labor-intensive housing and food services, which employ 144 million people globally. Small enterprises (representing 80% of worldwide tourism) are especially susceptible.

The aviation sector in India now provides US$72 billion to the country's GDP. Foreign tourist arrivals were decreased in the first quarter. The shutdown will significantly influence arrivals in the second quarter. If we assume a modest 25% drop in the aviation sector's contribution, it will equal to 18 billion. In 2019, railways contributed $27.13 billion to the GDP. A 21-day lockdown period will reduce income by US$1.56 billion.

The Indian retail business was worth US$790 billion in fiscal year 2019. It represents for more than ten percent of the country's GDP and around eight percent of employment. Online shopping has grown rapidly in recent years, with industry predictions indicating a 30% increase in online retail by 2020 (National Investment Promotion and Facilitation Agency, 2020). A month-long retail closure will have an impact on second-quarter sales. In the retail sector, reduced demand tends to return quickly, allowing the industry to recover its losses once the lockdown is lifted. Online retail was active in several regions of the country throughout the shutdown, which will help offset some of the industry's losses.

Effect on GDP

GDP contraction: The epidemic caused a drop in India's GDP as lockdowns hampered economic activity across industries. In the fiscal year 2020-21, India's GDP dropped by around 7.3%, the first full-year loss in decades.

While the COVID-19 epidemic is still spreading and showing little indications of control as of April 15, 2020, its negative impact on the country's economic development will most likely be severe. The UN warns that the coronavirus pandemic is predicted to have a severe unfavourable influence on the world economy, and most importantly, India's GDP growth for the current economy is projected to decrease to 4.8%.

The Economic Survey 2019-2020 offered early projections for real GDP growth in 2019-2020 of 5.0 percent, as shown in the below Table, compared to a growth rate of 6.8 percent in 2018-19. In 2019-2020, the nominal GDP is expected to reach □204,400 billion, representing

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a 7.5% increase from the provisional projection of □190,100 billion in 2018-2019. (Economic Survey, 2020, page 100). On February 28, 2020, the National Statistical Office reduced GDP growth projections from 8% to 7.1% in the first quarter, 7% to 6.2% in the second quarter, and 6.6 %S to 5.6% in the third quarter.

Growth of GVA and GDP at constant prices (2011-2012) Percentage				
	2017-18 First RE	2018-19 PE	2019-20 1St AE	Percentage points change in growth rate in 2019-20 over 2018-19 (increase (+)/Decrease (-))
GVA at basic prices	6.9	6.6	4.9	-1.7
Agriculture and allied sectors	5	2.9	2.8	-0.1
Industry	5.9	6.9	2.5	-4.4
Mining and quarrying	5.1	1.3	1.5	-0.2
Manufacturing	5.9	6.9	2	-5
Electricity, Gas, Water, supply and other utility services	8.6	7	5.4	-1.6
Construction	5.6	8.7	3.2	-5.6
Services	8.1	7.5	6.9	-0.7
Trade, Hotel, Transport, Communication, and services related to broadcasting	7.8	6.9	5.9	-1
Financial, real estate and professional services	6.2	7.4	6.4	-1.1
Public administration, defence and other services	11.9	8.6	9.1	-0.5

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GDP at market prices	7.2	6.8	5	-1.8
Source: National Statistic Office, year 2020.				
Notes: RE-Revised estimates, PE-provisional estimates and AE-advanced estimates.				

Impact on Migratory Labour

According to the International Labour Organization (ILO), the coronavirus epidemic is 'the largest global calamity since World War II'. Approximately 400 million individuals (76.2% of the entire workforce) in India's informal sector are at risk of sinking farther into poverty because of the virus's terrible implications. As half of the globe is under lockdown, 195 million full-time jobs will be lost, accounting for 6.7% of global working hours. Many work in low-wage, low-skilled employment where a sudden loss of income is disastrous (International Labour Organization, 2020).

Seasonal workforce migration is a common occurrence in rural India. Millions of people migrate from rural regions to industry, cities, and farms. Major migratory routes in India extend from Uttar Pradesh and Bihar to Punjab, Haryana, Maharashtra, and Gujarat. Newer corridors are being built connecting Odisha, West Bengal, and the North East to Karnataka and Andhra Pradesh, Rajasthan to Gujarat, Madhya Pradesh to Gujarat and Maharashtra, and Tamil Nadu to Kerala. These migrant labourers work in construction (40 million), domestic work (20 million), textiles (11 million), brick kilns (10 million), transportation, mining, and agriculture (IIPS, 2001). During the lockdown, 92.5 percent of workers lost one to four weeks of employment.

According to a study conducted by Jan Sahas of 3196 migrant workers in northern and central India between March 27 and March 29, 80% of migrant workers were concerned that they would run out of food before the lockdown ended on April 14 and would not be able to return to work. According to the poll, 55% of migrant workers earn between □200 and □400 per day, while 39% earn between □400 and □600, which is lower than the minimum wage. Only 4% of workers earn □600 or over, which is close to the minimum wage rate. They labour in oppressive conditions, are frequently in debt, and have few savings of their own. According to the report, 49.2 percent of these workers do not receive rations, while 39.4 percent have rations that last roughly two weeks.

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Impact of Covid -19 on migrant people

According to the International Labour Organization (ILO), the coronavirus epidemic is 'the largest global calamity since World War II'. Approximately 400 million individuals (76.2% of the entire workforce) in India's informal sector are at risk of sinking farther into poverty because of the virus's terrible implications. Lockdowns across half of the world will result in the loss of 195 million full-time employees or 6.7% of total working hours globally. Low-paid, low-skilled occupations sometimes result in catastrophic income loss. (International Labour Organisation, 2020). These migrant workers are employed in the construction sector (40 million), domestic work (20 million), textile (11 million), brick kiln work (10 million), transportation, mining, and agriculture (IIPS, 2001).

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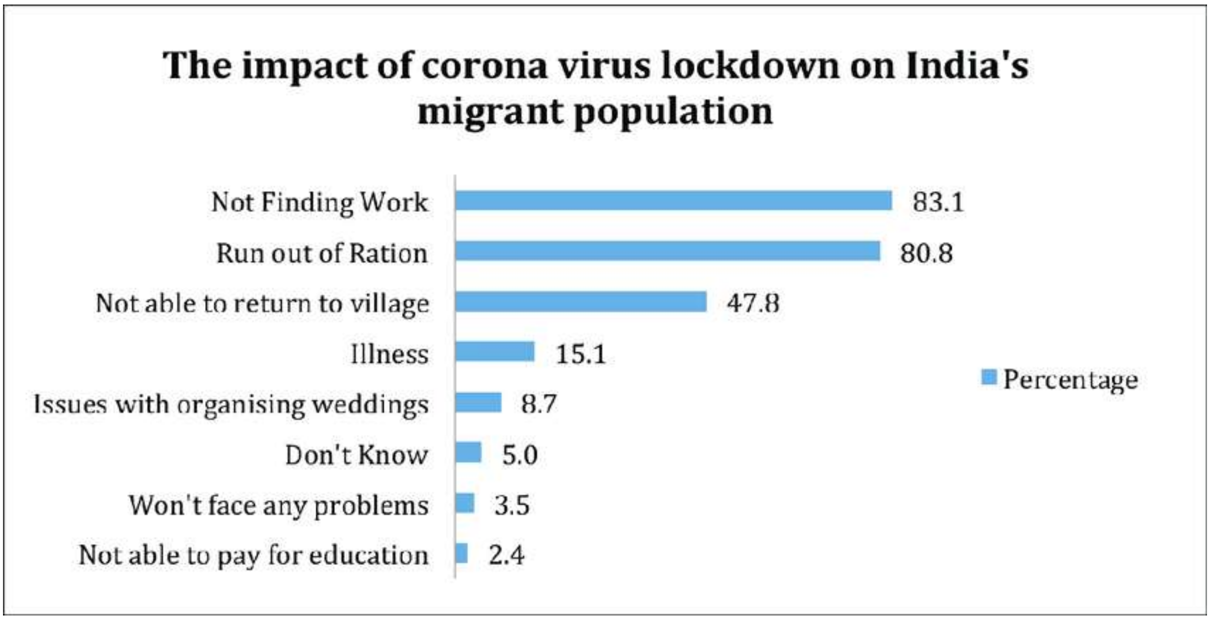

Source: Jan Sahas Survey (2020).

The bottom level of the triangle

More than 50 percent of India's daily wage and migrant population gets just Rs200-400 ($2.6-5.2) per day, substantially lower than the mandated minimum wage of Rs 692, Rs 629, and Rs571 for skilled, semi-skilled, and unskilled workers, accordingly.

The Consequences for Capital Markets, Global Oil Market, and Their Impact on India

Fears about the coronavirus have sent shockwaves across global financial markets. Indian financial markets anticipate a movement of cash to Western capital markets as a result of

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global rate reduction and stock market declines. NSDL data shows that Foreign Portfolio Investors (FPIs) withdrew □247.76 billion from equities markets and □140.50 billion from debt markets in just 13 days, from March 1 to 13, 2020. The capital markets will be extremely volatile during the next six months due to the quick flow of cash from one market to another throughout the world.

An unprecedented reduction in oil demand has lowered crude oil prices to an 18-year low of US$22 per barrel in March, down from US$65 per barrel in January. According to some calculations, every US$5 drop in crude oil prices saves India between $7 and $8 billion. A drop in crude oil prices might reduce India's current account deficit, which was 1.55% of GDP in 2019-2020 (Economic Survey, 2020). However, capital outflows from India may outweigh the potential savings in the current account deficit. The INR to USD average exchange rate has been □70.4 per US dollar, but it is already approaching the psychological barrier of □75 per US dollar. If capital outflows from India continue, the rupee (INR) might fall.

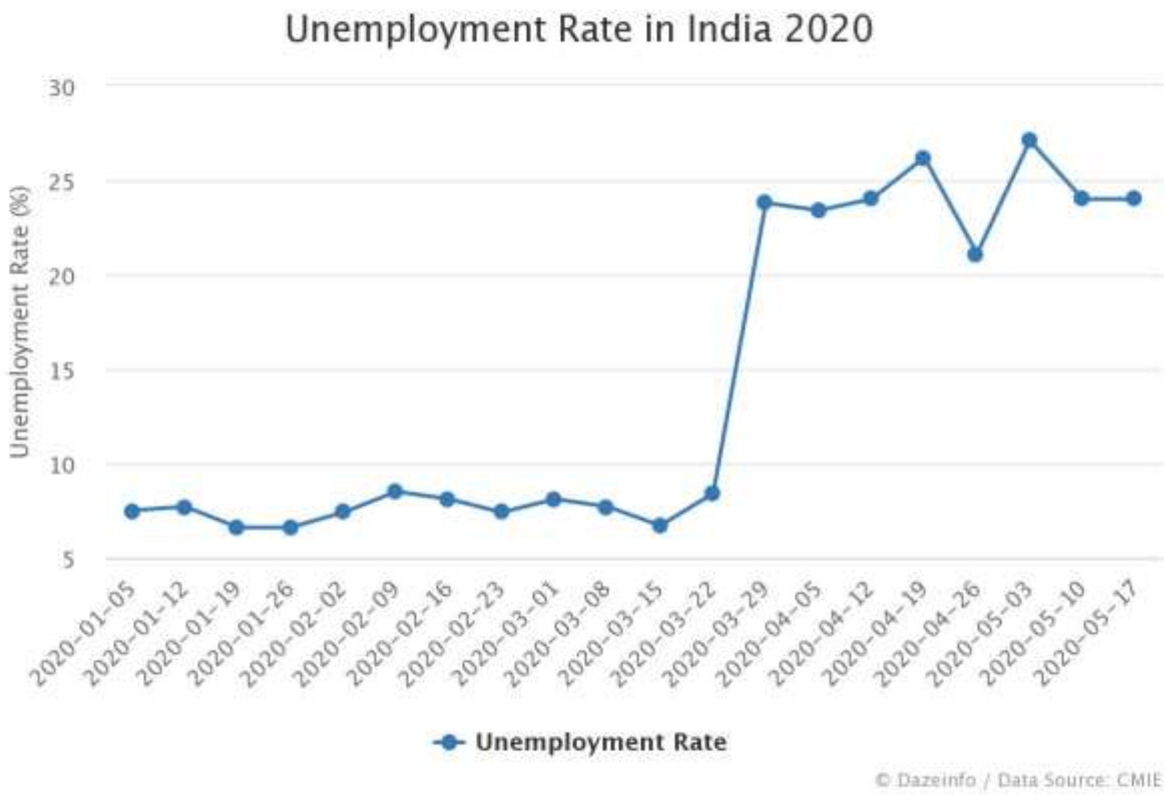
Impact on the Stock Market

The World Health Organization (WHO) classified Covid-19 (coronavirus outbreak) a 'pandemic' on Wednesday, March 11, 2020. The Indian stock market saw significant losses the next day, March 12. The Sensex plunged by 2,919 points, or 8.2%, to settle at 32,778, while the Nifty sank 900 points, closing below 9,590. This was mostly attributable to a net outflow of foreign institutional investments (FII).

Foreign investors withdrew around □34,000 crore from Indian equities and bonds in March, resulting in a stock market meltdown (The Hindu, March 13, 2020). Since September 2019, foreign institutional investors (FIIs) have been net purchasers of Indian equity. Foreign investors have been net sellers since the latter week of February due to travel and official event restrictions imposed by India and other nations, causing investor concerns.

Unemployment

Lockdowns and limitations led to significant job losses and revenue disruptions, notably in industries such as hospitality, tourism, manufacturing, and retail. Millions of migratory workers were affected, with many losing their employment and struggling to return to their home states. The graph below shows the weekly distribution of India's unemployment rate in 2021. Despite certain relaxations in the COVID-19 lockdown, India's unemployment rate rose to an all-time high of 27.11% in May 2020, up from 7.51% in January 2020. However, in mid-August, the country breathed a sigh of relief when the jobless rate fell to 9.1%.



Sources: Centre for Monitoring Indian Economy (CMIE)

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Impact on Start-Ups and Micro, Small and Medium Enterprises

Small and medium-sized businesses (SMEs) experienced significant hurdles because of supply chain disruptions, decreased demand, and financial restrictions. Many businesses were forced to close permanently, resulting in job losses, and reduced economic activity.

Micro, Small, and Medium Enterprises, which have produced more than 90% of all employment in India, employing over 114 million people and contributing 30% of GDP (Radhika Pandey, 2020), face a serious cash shortage if the lockdown is extended for another 8 weeks. Many of these MSMEs have debt commitments and monthly EMIs to repay. Many of them may just evaporate if their cash flow is disrupted because of the shutdown, with fixed expenses looming over them. They require a suspension of loan payments. The RBI disbursed cash to non-banking financial entities, some of which provide loans to MSMEs.

Furthermore, the transit of perishable commodities is impeded, causing these enterprises to suffer significant losses. India cannot achieve meaningful and sustainable progress without a robust MSME sector. The COVID-19 crisis will also test the resiliency of Indian start-ups. Start-ups must rely on cross-border fundraising. Several entrepreneurs are seeing their

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operations grind to a standstill. Receivables are spiralling, and they must implement hard cost-cutting measures in their businesses. The government will have to make cash accessible to this industry, as venture capital firms may take longer to arrive and assist due to constrained global financial flows.

The lack of a comprehensive dataset on MSME units and their employment patterns would compound the challenges of focused aid delivery in this crisis. In the absence of a dedicated census for this sector in the last 13 years - the fourth and final census on Indian MSMEs was conducted in 2006-07 - information about these businesses is currently scattered across datasets such as the Udyog Aadhaar Memorandum (UAM), MSME Databank, and the Goods and Services Tax Network (GSTN). The first two datasets comprise self-certified, voluntary information submitted by firms wishing to register on these portals, whereas the GSTN requires registration only for enterprises with a revenue of more than Rs. 4 million. In June 2019, the RBI Expert Committee on MSMEs underlined the lack of credible (and up-to-date) information on this critical sector of the economy.

The crisis has expedited the use of digital technology in a variety of industries, including e-commerce, remote employment, education, and healthcare, as firms and individuals adjust to the new normal.

The likelihood of a global recession caused by COVID-19 in 2020 and 2021 is quite significant since it has been noticed worldwide that the shutdown of all economic activities—production, consumption, and trade—to control the spread of COVID-19 is imminent. The nature of the shutdown is distinct in the instance of COVID-19 due to a supply shock, a demand shock, and a market shock. The economy's recovery is determined by the time and size of government support, the level of corporate debt, and how enterprises and markets deal with weaker demand. Government support to those most in need (mostly the informal sector, migrants, and marginalized populations) is a key measure for saving many lives.

Effects on the Stock Market

The Indian stock market underwent a rapid change due to the COVID-19 pandemic. The Indian stock market suffered from rapid short-term fluctuations and long-term development changes. Here is an analysis of the major influences:
The BSE Sensex plummeted from over 41,000 points in January 2020 to less than 26,000 points in March 2020. Similarly, the NSE Nifty fell from more than 12,000 points to roughly 7,500 points in the same period.

Drastic drop: As with other parts of the globe, when the virus first appeared and nations enforced their first lockdowns in early 2020, there was a huge reduction on shares traded at BSE NSE. Around 40% decline was experienced by Nifty 50 and Sensex which are primary indices reflecting general stock prices in India. This indicated widespread uncertainty among people as well as business owners concerning how they would get through such difficult times economically.

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By industry: The consequences were not felt equally in every sector. Traveling companies' bases such as airlines suffered the most while those related to hospitality also witnessed huge losses due to grounded flights hotels without guests and so on.

Conclusion

The rapidly spreading COVID-19 epidemic has disrupted the world's growing economy in unanticipated and unclear ways. However, it highlighted that the present slump appears to be fundamentally different from previous recessions that rocked the country's economic order. While governments, conglomerates, organizations, and multinationals continue to comprehend the scope of the pandemic, it is undeniably urgent to plan for a more sustainable, structurally viable future for living and working. While the unusual scenario has caused significant economic harm, particularly during lockdowns, the country will need to work its way through it by implementing budgetary measures. The national government perceives the need to defend both lives and livelihoods.

Economic activity must begin gradually following the screening of the labour force. The industry should adopt strict preventative measures to protect the health of its personnel. While the government should provide enough policies and reforms to save the economy, the industry, civic society, and communities all have an equal part in sustaining the balance.

The norms of social distancing, avoiding, or cancelling meetings, and using masks and sanitizers should be followed until the infection is eradicated. During this period, the economy is inextricably linked to human social behaviour, therefore the duty to restore economic activity does not rest only with the government.

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