

# COVID -19 And Indian Economy

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## ABSTRACT

The world has witnessed several epidemics such as the Spanish Flu of 1910, outbreak of HIV/AIDS. In the past, India has had to deal with diseases such as the small pox, plague or polio. All of these individually have been pretty severe episodes. However, COVID – 19, turn out to be biggest health crisis in our history after 2nd world war. The outbreak of COVID -19 is a grave menaces to the entire world affecting millions of people and also unprecedented implication on the global economy. The virus forced the entire world in to lockdown mode & triggered a financial market meltdown. In India, the first case of Corona Virus was reported on January 30, 2020 in Kerala. Taking proactive action, the esteemed Prime Minister announced complete lockdown for 21 days on 24th of March,2020 and thereafter the lockdown was extended up to 30 May 2020s. This paper is an attempt to explain the effect of COVID – 19 pandemic on economy of India.

## 1. Demand and Supply

The lockdown was expected to have a significant adverse effect on the economy. Millions of job & livelihoods were at stake. Everything virtually came to standstill.

Earlier also, before COVID – 19, our economy was already experiencing a slowdown but as on now not only Demand but Supply too has been disrupted.

Demand is going down & down. With the result, companies will not be in a position to sale goods.

Fixed costs continue to remain the same even if production is there or not. Whereas variable cost lowers because of lower production. Usually the demand in any economy is drive by private final consumption, private investments & government expenditure. According to Economic Survey 2020, private final consumption contributed to around 60% of India's GDP. With people cutting down there consumption to their basic essential needs & forgoing their discretionary expenses, the private consumptions has really been reduced to a large extent.

The Private Investment too has witnessed a slowdown mainly because of lower credit flow & secondly because of future uncertainty.

Govt. expenditure, however is expected to provide some relief and adds to GDP growth.

In addition to unprecedented collapse in demand, there will definitely be wide spread disruptions in supply chains due to the:-

- Non – availability of raw material,
- Exodus of millions of migrant laborers from urban areas,
- Slowdown of global trade and shipment & travel related restrictions inspired by nearly all affected companies.

A good numbers of industries are struggling owing to complete disruption of supply chains from China. This will adversely effect the production in all most all domestic industries.

This in turn will have further a spill-over effects on:-

Investment, Employment, Income & consumption these by resulting in pulling down the aggregate growth of the economy.

Such economic shocks of Demand and Supply will impact GDP of the formal as well as informal of the economy.

## 2. Gross Domestic Product (GDP)

It represent the value of all goods & services produced over a specific period of time period. It is used to determine whether an economy is growing or experiencing a recession.

The Coronavirus crisis came at a time when our GDP growth was already slowing down & unemployment was on rise owing to poor economic performance over the last few years. The precarious situation that the economy was in, before getting hit by this shock, will only worsen the situation.

Regarding the status of GDP, different agencies have given various estimates. A few to mention are:-

### 1. Confederation of Indian Industries

Projected Negative GDP - .9 to 1.5%/FY 21

### 2. Moody's Investors Services-

Projected it to be - 2.5% to .2% for year 2020

### 3. Global Rating Agency also:-

Projected Negative - .8 % of FY 21

In this context, Governor of RBI said that India's GDP growth will remain negative for 2020-2021, though some pic up can be expected in 2<sup>nd</sup> half. He also commented that even global economy is heading towards recession.

The Economic growth forecasts will help on changing during the times of uncertainties. The Economic recovery will depend upon how quickly we are able to contain the virus.

## 3. Informal Sector

The informal sector accounts for roughly 90% of the total Employment in the country and contribute 45% of the output.

This sector consists of Contractual works, Daily wagers, Migrant workers and Low Income Household.

As high as 40 million internal migrants were impacted by COVID-19 as per World Bank Report.

Out of these approximately about 23million went to their Villages.

Can the Rural Economy absorb this Huge Number?

No, because Rural Economy is already overburdened, Excessively Dependent on Agriculture and have wide spread Hidden Unemployment.

#### 4. Policy Package for Informal Sector Worker / Relief For The Poor

On March 26,2020 the Finance Minister announced a Rs.1.7 lakh Crore package largely aimed at providing a safety net for those who have been worse affected by the COVID-19 lockdown i.e. the unorganized sector workers, especially daily wages workers and urban & rural poor. 'The PradhanMantriGaribKalyanYojana' contain the following components:-

- Free Additional5kg wheat or rice per person for 3months.
- 1 kg free pulses per household for 3 months.
- Free LPG for Ujjwala beneficiaries for 3 months.
- Rs.2000 to 87 million farmers under PM KisanYojana in 10days.
- Increase in MGNREGA wages to Rs.202 from Rs. 102/-
- Rs.500 per month to 200 million female
- Ex – gratia of Rs.1000 to poor senior citizens, widows & disabled.
- Rs.20 lakh collateral free loans to 63lakh women self Help Groups.
- Govt. to contribute EPF to companies with less than 100 workers.
- Non – refundable advances of 75% or 3 months wages form PF account.
- States to use 31 crore from construction workers welfare fund.
- States to use district mineral fund for medical activities.
- One Nation, one Ration Card
- Rental Accommodation.
- Murdayojanaloan.
- Street vendor.
- Affordable Housing.
- Additional Capital emergency fund through NABARD for small & marginal farmers.

The above measures are in the right direction in the same that they can reduce the pain of the informal sector workers & the poor people in the immediate short term period.

#### 5. Impact on Financial Institutions :-

Because of slowdown in the economic activities, the financial Institutions are facing two major issues :- 1. Liquidity and 2. A Credit Crunch.

It appears that during lockdown that Banks was not interested to increase their asset size/ loan portfolio & rather their main focus was on the Management of bad debt crisis/ NPA's only .

To ensure that there is no additional adverse impact of Corona Virus on the Financial Institutions, the RBI came

forward & introduced some measures to pump more liquidity in the Banking system through its :-

- (a) Long term Repo Operations & reduction in its Reverse Repo Rate.
- (b) Moratorium on Term Loan Installments for 6months.
- (c) Reduced CRR by 100 basis. 1.37 lakh crore across the banking system.
- (d) Special Finance of Rs.50000 crore to NABARD, SIDBI & NHB to counter the Economic Impact of Pandemic.
- (e) Relaxed the classification norms.

#### 6. MSMEs

MSME forms the backbone of the Indian Economy as these contributes 30% of India' GDP and employs around 50% of the India's workforce. And generating% of India's exports.

Micro small or medium enterprise is the sector which even before COVID – 19 was already under huge distress- firstly because of demonetization, poorly implemented GST and prolonged economic slow down & now finally the biggest blow to MSMEs is COVID-19 which has to aggregates the crisis in this sector.

According to survey covering 5000 MSMEs conducted by All India Manufactures Organization (AIMO) has revealed that 71% of the businesses was not able to pay salaries in March. The survey further pointed out a good number of MSMEs can go towards closure. While others are struggling for stability as Sales 7 revenues remain at a halt due to lockdown.

In addition they were suffering from non – availability of credit and high NPA's.

Lockdown has further aggravated the slight of MSMEs who are grappling with problems like cash flow, low liquidity & lack of workforce.

To save MSMEs from further deterioration the Govt. of India announced Rs. Three lakh crore collateral free automatic loans to those sector out of the Atmanirbhar Bharat Abhiyan Financial Package of Rs.20lakh crore, which is 10% of our GDP.

It is a move that will enable 45lakh units to restart their work & save jobs.

Loans will be for a period of 4 years principal repayment will start after 12 months

2. Subordinate debt provision of Rs.20000 crore for 2 lakh stressed MSMEs.

3. The Govt. will allot Rs.4000 crore for partial guarantee support to Banks.

4. Definition of MSME Revised.

The move will allow these units to aim for expansion without losing benefits.

5.Global tenders will be disallowed up to Rs.200 crore for Government contracts.

6. E- Market linkages will be provided.

7. All receivables for Central Govt. and state entities will be cleared in 45 days.

In addition to above on 23 May 2020, the F.M. announced support measures including 20% extra working capital fiancé to Rs.25 crore& sales of up to Rs.100 crore provided they have not defaulted on loan repayments.It is expected that these relief measures will prove very useful for micro, small and medium enterprises.

## 7. Real Estate Sector happens to be the 2nd largest Employment Sector after Agriculture.

This sector employs around 52 million people & contribute nearly 7% to GDP of the nation.

Like other sectors, Corona Virus has very badly affected this sector too.

As per the PGM report, India's Real Estate Sector is estimated to face losses of as much as of Rs.1 lakh crore by the end of current financial year.

Now how COVID-19 Affected this Sector :-

1. Projects Delayed, constructed work stopped.
2. Due to demand & supply disruptions, there is no demand for real estate to in the market .there is uncertainty and people have deferred their plans to invest in the estate. Experts however feel that there is going to be no change in the prices. Rather prices of raw materials will increase as these are being inputs from china. Developers have also delayed project launches. Govt took various steps to revive the real estate sector.

## 8. Now regulators need to play a crucial role to revive this sector.

Govt of India issued the necessary Instructions -

1) Under the provisions of RERA(real estate regulating agency) to automatically Extend the completion date or revised / extended completion date for all real estate projects under rera for a period of 6 months, where the completion date expires on or after 25th of march 2020.

2)Regulatory authorities may further extend this by another 3 months , the situation, so demands.

## Travel & tourism industry.

This sector employs 12.75% of the country's work force over 87 million people were employed in the tourism industry in 2018-19. As per indian association of tour operators . 38 million jobs associated with tourism are at stake. The industry is expected to suffer revenue loss of rs. 90,000 crore in 2020-21.It has also been projected that economy can lose revenue of Rs 5 trillion in the next year. The hotel industry is very capital intensive and also has very high fixed costs. But not included for the self reliant package.

## Still how to bounce back ?

- ✓ Go local
- ✓ Focus on local day trips.
- ✓ Agri tourism can be developed
- ✓ big discount on room rates
- ✓ A flexible cancellation of rebooting policy.
- ✓ Special focus on guest health, safety parameters
- ✓ Restructuring of loans is another option with this sector to come out of the crises.

## Hospitality sector on Ventilator gasping for breath.

The Covid - 19 has hit the Indian hospitality sector very hard resulting in significantly low demand, negligible bookings & exponential perspective Job losses. Govt.however did not announce any relief package for the sector Under ATAM NIRBHAR Bharat programme. The impact is disastrous. The businesses of hotels are very capital intensive & also have

very high fixed Cost. As for one estimate, India's hotel industry is slated to incur a business loss of Rs. 90,000 cores during this Calendar year, reflecting an erosion of 57 percent as compared to last year.

## Revenue Loss expected in 2020

Hotel Sector organized semi organized unorganized

**Revenue loss Rs.40, 309 Cr.Rs. 8379 Cr. Rs. 41,126 Crore**

## Revenue per available room

Occupancy	Rev par
47.9%	57.8%

The Aviation Sector in India currently contributes \$72 billion to GDP. The International Air Transport Association (IATA) said that corona virus pandemic is expected to impact more than 29 lakh Jobs in the Indian Aviation & dependent industries. Besides above, the Aviation industry also losing over Rs 75-90 Cases daily. A big loss to the economy (ICRA - A Banking & Credit Agency) .Though the Govt. did not announce any Cash bail out or tax Concessions for the Aviation sector a announced intent to improve air Space Management across the country, making India as MRO(MRO-Maintenance, repair & over haul) Hub and privatization of Govt. airports as part of the bail out purchase for the sector.

## Automobile Industry

The Automobile industry supports employment of more than 3.7 Crore people and contributes to 15 percent of GST amounting to Rs. 1.50 lakh Crore every year. The Sector was already facing an unprecedented Challenge with 18 percent degrowth last year . Society of Indian Automobile Manufacturers (SIAM) & it may further decline due to the impact of Covid 19 ranging between 22.6. & 35 % in various industry segments

## What can India gain from Covid-19

The virus has definitely effected Indian Economy but at the same time also has offered many Opportunities. It is a known fact that a good number of countries are in the process of severing their trade relations with China. In view of such, India Stands a chance to attract & set a stage for more foreign investments, being one of the emerging economies of the world with following possible attributes:

- The availability of Work force (at Cheaper Rates) is high in our counting being the second largest populated Country in the world.
- India is the fifth largest economy in the world. according to nominal GDP & 3rd in terms of purchasing power parity.
- Indian products are far more reliable than Chinese products. India has a cheap digital Communication network & has the second highest number (56 Cores) of internet population in the world.
- The Government of India has launched a no. of programmes like Skill Indi , Digital India, Make in India etc. to foster economic growth have created a business friendly environment growth which in the nation.

## 9. Business Survival Strategies

To Survive from this Virus, the organizations need to adopt Certain Strategies a few to mention are as Under:

- Every organization need to understand the present external as well as internal environments for which they should conduct proper analysis of political, Economical, social of technological in addition to analysis at internal level of all the areas thoroughly.
- The organizations Should also conduct SWOT Analysis to correctly identify its strengths, realnesses, opportunities & threats.
- The organizations need to redesign their business model, concentrate on Core business areas, explore new markets, new sales channels etc to find out more opportunities to grow.
- Technology is another vital area which the companies need to focus on artificial intelligence Should be adopted to attenuate the effect of this catastrophe.
- one of the serious impacts of Covid- 19 is disruption of supply chains which need to be stabilized, the organizations need to devise their future Supply Chains.

- Organizations also need to ensure that adequate amount of liquidity is always available. In addition, cash flows must be adequately managed.
- In case of return of migrant labour, the industry has to think for providing better conditions to them. At the moment, Industry needs to see local labour& may have to pay little more.

### Besides above, What can the government to?

- I. More money should be spent on infrastructure development
- II. Public sector financial institutions need to be further capitalised.
- III. Banks be asked to lead more liberally to all the sectors of the economy.

## 10. Conclusion:

The world is in the grip of corona virus. The pandemic outbreak is a global health crises. It is bound to have serious repercussions on the business world. Each business organization need to be proactive and should adopt different strategies to combat the pandemic so as to return back to normality.

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