

COVID-19: Impact on Economic Sectors in India

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ABSTRACT

COVID-19: Impact on Economic Sector in India has been hugely disruptive. World Bank and credit rating agencies have downgraded India's growth for Financial Year 2021 with the lowest figures India has seen in three decades since India's former Chief Economic Advisor to the Government of India has said that India should prepare for a negative growth rate in Financial Year 21 and that the country would need a 70 lakh crore (US\$980 billion) stimulus to overcome the contraction. However, the International Monetary Fund projection for India for the Financial Year 2021-22 of 1.9% GDP growth is the highest among G-20 nations. Within a month unemployment rose from 6.7% on 15 March to 26% on 19 April. During the lockdown, an estimated 140 million (140 million) people lost employment. More than 45% of households across the nation have reported an income drop as compared to the previous year. Indian Government extended the date lockdown to 31st May, 2020.

Introduction

Recently an industry survey that is jointly conducted by industry body Ficci and tax consultancy Dhruva advisors and took responses from about 380 companies across the sectors. It is said that businesses are grappling with "tremendous uncertainty" about their future. According to the survey, COVID-19 is having a 'deep impact' on Indian businesses, over the coming month's jobs are at high risk because firms are looking for some reduction in manpower. Further, it is added that already COVID-19 crisis has caused an unprecedented collapse in economic activities over the last few weeks.

The present situation is having a "high to very high" level impact on their business according to almost 72 per cent respondents. Further, 70 per cent of the surveyed firms are expecting a degrowth sales in the Financial Year 2020-21. Ficci said in a statement, "The survey clearly highlights that unless a substantive economic package is announced by the government immediately, we could see a permanent impairment of a large section of the industry, which may lose the opportunity to come back to life again." The survey found:

- In respect to the approved expansion plans, around 61 per cent of the respondents expect to postpone such expansions for a period of up to 6 or 12 months, while 33 per cent expect it to for more than 12 months. Surveyed firms of around 60 per cent have postponed their fund-raising plans for the next 6-12 months. Also, nearly 25 per cent of the firms have decided the same.

Surveyed firms around 43 per cent have reported that they do not predict an impact on exports. Further, 34 per cent said that exports would take a hit by more than 10 per cent.

According to Du & Bradstreet, COVID-19 no doubt disrupted human lives and global supply chain but the pandemic is a severe demand shock which has offset the green shoots of recovery of the Indian economy that was visible towards the end of 2019 and early 2020.

The revised **Gross Domestic Product (GDP)** estimates for India downwards by 0.2 percentage points for the Financial Year 2020 to 4.8 per cent and by 0.5 per cent for the Financial Year 2021 to 6 per cent. Further, it is stated that the extent of the actual impact will depend upon the severity and duration of the outbreak. There are three major channels of impact for Indian businesses according to the report namely linkages, supply chain and macroeconomic factors. The data of the Dun & Bradstreet shows that at least 6,606 Indian entities have legal linkages with companies in countries with a large number of confirmed COVID-19 cases. And business activity in the foreign markets is slow which implies a negative impact on the top line of these companies. Sectors that would be much affected includes logistics, auto, tourism, metals, drugs, pharmaceuticals, electronic goods, MSMEs and retail among others

Further, according to the World Bank's assessment, India is expected to grow 1.5 per cent to 2.8 per cent. And IMF projected a GDP growth of 1.9 per cent for India in 2020 because the global economy is affected by the COVID pandemic, the worst recession since the Great Depression in the 1930s. Also, we can't ignore that the lockdown and pandemic hit several sectors including MSME, hospitality, civil aviation, agriculture and allied sector. According to **KPMG**, the lockdown in India will have a sizeable impact on the economy

mainly on consumption which is the biggest component of GDP. Reduction in the urban transaction can lead to a steep fall in the consumption of non-essential goods. It can be severe if disruption causes by the 21-day lockdown and affect the availability of essential commodities. **In terms of trade**, China is the world's largest exporter and second-largest importer. It accounts for 13% of world exports and 11% of world imports.

Up to a large extent, it will impact the Indian industry. **In imports**, the dependence of India on China is huge. Of the top 20 products (at the two-digit of HS Code) that India imports from the world, China accounts for a significant share in most

of them. India's total **electronic imports** account for 45% of China. Around one-third of machinery and almost two-fifths of **organic chemicals** that India purchases from the world come from China? For automotive parts and fertilisers China's share in India's import is more than 25%. Around 65 to 70% of active **pharmaceutical** ingredients and around 90% of certain **mobile phones** come from China to India. Therefore, we can say that due to the current outbreak of corona virus in China, the import dependence on China will have a significant impact on the Indian industry.

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