Impact of COVID-19 Pandemic on Indian Economy

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Abstract:- The outbreak of the Covid-19 pandemic is a shock to the Indian economy. The economy was already in a uncertainty state before Covid-19 struck. With the extended country-wide lockdown, global economic downturn and related interruption of demand and supply chains, the economy is likely to face a delayed period of slowdown. In this paper we describe the Covid-19 impact on Indian economy, evaluate the impact of the shock on various segments of the economy.

Keywords:- Covid-19, pandemic, economic downturn, manufacturing, Aviation Industry, Export, Import, financial institutions and E-Commerce.

Introduction:-

The World Health Organization (WHO) has declared that the new corona virus outbreak is a public health emergency of international concern, officials announced on Thursday, 30th January, 2020. WHO proposed calling the disease "2019-nCoV acute respiratory disease". The 2019 novel corona virus (2019- NCV) originating in Wuhan, China, has spread to 24 more countries alarming public health authorities across the world. More than 4,900 people have died and over 132,000 have been infected globally, according to the WHO on 13 march,2020.

Objectives:-

1. To understand and study the impact of covid-19 on Indian economy.
2. To know the impact of covid-19 on different sectors.
3. To know the challenges for different sectors in Indian economy

Research Methodology:-

Research can be defined as a systematic search for information on a particular topic. Research is an academic activity and such the term should be used in a technical sense. A design a specification of method and procedures for acquiring the information needed, structurally to solve the problems.

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This study is purely based on secondary data. I have referred the reports mostly published in March and April months to understand the impact of COVID-19 on Indian economy and various sectors. Also, I have studied few research papers and News articles which publish in these two months.

Impact on Indian Economy:-

India's real GDP growth slow down to its lowest in over six years in 3Q 2019-2020, and the outbreak of the COVID-19 caused fresh challenges. Steps taken to contain its spread, such as the nationwide lockdown have brought economic activity to a near-standstill, with impacts on both consumption and investment. While Indian businesses, barring a few sectors, can possibly insulate themselves from the global supply chain disruptions caused by the outbreak due to relatively lower reliance on intermediate imports, their exports to COVID-19 infected nations could take a hit. In sum, the three major contributors to GDP -- private consumption, investment and external trade -- will all get affected.

The trade impact of the corona virus epidemic for India is estimated to be about 348 million dollars. According to Asian Development Bank (ADB) the Covid- 19 outbreak could cost the Indian economy between $387 million and $29.9 billion in personal consumption losses . For India, the trade impact is estimated to be the most for the chemicals sector at 129 million dollars, textiles and apparel at 64 million dollars, automotive sector at 34 million dollars, electrical machinery at 12 million dollars, leather products at 13 million dollars, metals and metal products at 27 million dollars and wood products and furniture at 15 million dollars.

Sector wise impact on Indian industry:-

Aviation Industry:-

Aviation is among the worst-affected sectors amidst the Covid-19 crisis that has taken the scale of a pandemic. India as the fourth largest aviation market in the world is expected to see big fallout in its international business but its strong domestic market is expected to help faster recovery if the pandemic is controlled. Nearly 600 international flights to and from India were canceled for varying periods. Around 90 domestic flights have been canceled, leading to a sharp drop in airline fares, even on popular local routes.

- ✓ The Centre for Asia Pacific Aviation (CAPA) has assessed that the Indian aviation industry will post staggering losses worth nearly $4bn this year..
- ✓ The World Travel and Tourism Council has projected that travel could fall by 25% in 2020 putting to risk 12-14% of the jobs in the sector. This translates into 50 million jobs at risk, globally.

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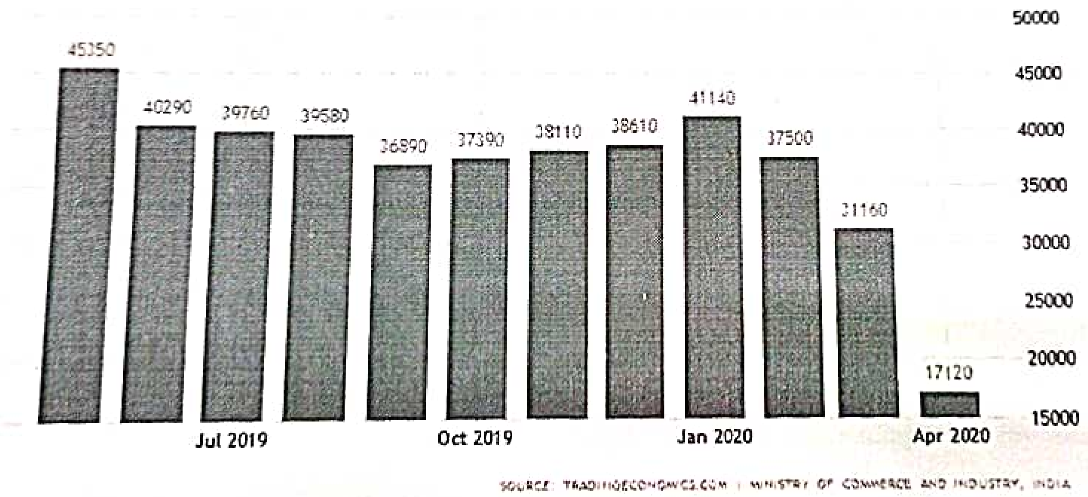
- ✓ As per the report by the International Air Transport Association (IATA), the Covid-19 crisis is expected to impact over 29 lakh jobs in India's aviation sector.
- ✓ The revenue impact for airlines operating to and from the Indian market would be USD 11.221 billion (over Rs 85,000 crore). This refers to the fall in passenger revenue compared to 2019.
- ✓ International Air Transport Association (IATA) estimates passenger revenue losses of up to USD252 billion in FY21

Export and Import:-

Imports to India slumped 58.65 percent over a year earlier to an over eleven-year low of USD 17.12 billion in April 2020, due to lower purchases of gold (-99.92 percent); petroleum products (-55.01 percent); coal, coke & briquettes (-43.82 percent); electronic goods (-59.06 percent); iron & steel (-47.93 percent); and organic & inorganic chemicals (-28.73 percent).



Exports from India plunged 60.28 percent over a year earlier to USD 10.36 billion in April 2020 its lowest level since November 2006, mainly due to lower sales of gems & jewelry (-98.74 percent), engineering goods (-64.76 percent), electronic goods (-71.04 percent), petroleum products (66.22 percent), and organic & inorganic chemicals (41.93 percent).

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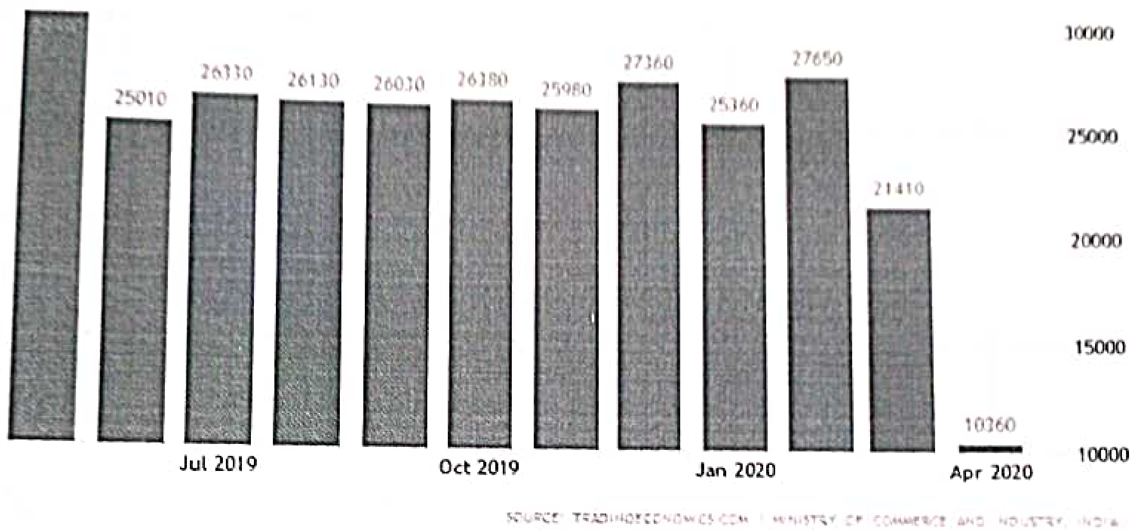
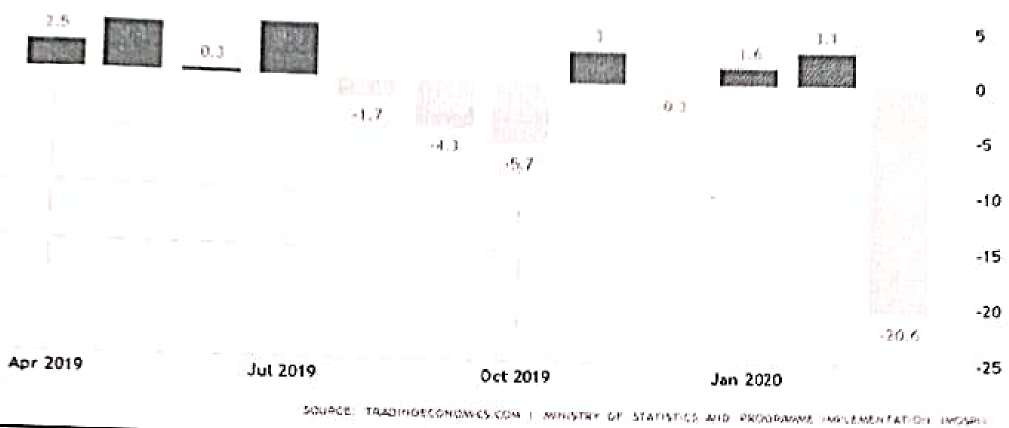


Manufacturing Industry:-

The ongoing lockdown has put a lot of strain on the manufacturing industry, which contributes almost 20% of the GDP. Of this, 50% is contributed by the auto industry. Even prior to the lockdown, the auto industry was not in a great shape, with sales down by more than 15% and production cuts of the order of 5 to 10% or more. Manufacturing industry has been hit in many ways due to the Corona effect.

This indicates that manufacturing in India has stopped, except for the rice milling sector where production has reportedly dropped by half. In several sectors, including automotive components, MSMEs were already experiencing a pre-lockdown decline in business, due to a stagnating economy and market demand and the disruption of international supply chains due to the lockdown in China.

India Manufacturing Purchasing Managers' Index (PMI) fell to 27.4 in April, from 51.8 in March, reflecting the sharpest deterioration in business conditions across the sector.



India, manufacturing production accounts for 75.5 percent of industrial output and around 18 percent of GDP. Manufacturing directly employs 12 percent of the population.

Ecommerce:-

- The Covid-19 pandemic has put an adverse impact on the retail sector across the country, with consumer retail witnessing a big drop in sales by 46-55 percent due to the fall in the number of customers per store from March 17 to 25,
- India's retail sector, consisting of 70 million small, medium and big traders with 450 million people, generates a monthly business of around US$70 billion. However, due to the pandemic, the retail trade has reportedly lost a huge US$30 billion in the last fortnight alone.
- e-commerce sector in India lost US$400 million in a week due to Covid-19.

Financial service and Banking Industry:-

Insurance:-

Life insurance business in India is likely to contract in 2020, with growth declining 0.9% in 2020, compared to 8.8% growth recorded in 2019, due to the outbreak of covid-19 and the subsequent lockdown.

- Insurance Regulatory Development Authority of India or IrDA, in April, new business premium declined 32.6% to 6,728 crore as against 9,928 crore for the same period of last year.
- In March, new business premium collection had declined 32% to 25,409 crore as compared to 37,459 crore in March 2019.

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- Life insurers reported decline of 32.6% in new business premium in April 2020 against the same period last year,"
- Web aggregators such as Policy bazaar have reported 20% growth in sales of life insurance products in March 2020.
- For April, state-run Life Insurance Corp. of India (LIC) saw its new business premium dipping by 32% to 3,582 crore as compared to 5,268 crore a year ago.
- Private life insurers too witnessed a whopping 33.3% fall in new business premium for April at 3,146 crore as against 4,714 crore in April 2019.
- Among large private insurers, HDFC Life Insurance Co.'s new business premium dropped 53% to 669 crore, while ICICI Prudential Life Insurance saw it plunging by around 60% to 256 crore.

Mutual Fund:-

- Inflow into equity mutual funds in April fell to a four month low of Rs.6,411.88 crore, which is down 47.33% from March.
- Debt funds, which saw an outflow of 1.94 trillion in March, received overall inflows of 43,431.55 crore, primarily into liquid schemes, corporate bond funds, banking and PSU funds, overnight funds and gilt funds in April.
- Other debt fund categories that saw outflows, include medium duration funds (6,363.53 crore), short duration funds (2,309.05 crore), money market funds (1,210.35 crore), low duration funds (6,841.07 crore) and ultra-short duration funds (3,419.32 crore).
- Debt fund redemptions slowed after the Reserve Bank of India announced a 50,000 crore credit support for mutual funds,
- Net inflows into equity mutual funds slowed sharply as the prolonged nationwide lockdown threatens to leave a deep impact on business and the economy.
- Equity-linked savings schemes (ELSS), hit a four-month low of 6,411.88 crore in April, down 47.3% from the previous month, but was still 28.5% higher than a year ago.
- Redemptions in equity schemes eased off in April to 8,104.46 crore, down 54.8% from March, while it is down 37.1% from the year-ago period.

Banking Industry:-

The financial sector faces an attrition of loan growth and higher credit costs as it prepares for a rise in bad debt from retail and corporate borrowers — and with India's lockdown extended again, the economic impact could make worse.

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- Increase in loan loss charges and declines in revenue will hurt banks profitability which will lead to a deterioration of capitalization.
- The Reserve Bank of India (RBI) allowed all the banks to hold EMIs for a period of 3 months. The development has come as the government's relief measures amid corona virus lockdown in the country which has affected business and may lead to economic slowdown both national and globally.
- The RBI has also reduced repo rate by a massive 75 basis points to 4.4 per cent and reverse repo rate by 90 basis points to 4 per cent as corona virus relief package.
- As part of the COVID-19 economic package, the government has announced a series of loan schemes, some backed by government guarantees to small industrial units and non-banking finance companies (NBFCs). These include a Rs 3 lakh crore economic package for micro, small and medium enterprises (MSMEs), Rs 75,000 crore of loans to NBFCs (of which Rs 30,000 crore is a three-month loan scheme fully backed by the government), Rs 5,000 crore for street vendors and Rs 2 lakh crore concessional credit to farmers. Of the Rs 20 lakh crore packages, the direct spending is only about one percentage of GDP, the rest include loans through various banking channels and development institutions.

Impact on Stock Market:-

- On 23 March 2020, stock markets in India post worst losses in history. SENSEX fell 4000 points (13.15%) and NSE NIFTY fell 1150 points (12.98%). However, on 25 March, one day after a complete 21-day lock-down was announced by the Prime Minister, SENSEX posted its biggest gains in 11 years, adding a value of 4.7 lakh crore (US$66 billion) crore for investors. On 8 April, following positive indication from the Wall Street that the pandemic may have reached its peak in the US, the stock markets in India rose steeply once again. By 29 April, Nifty held the 9500 mark.
- On 23 march 2020, The benchmark equity indices on the BSE and National Stock Exchange (NSE) registered their worst single-day fall in history after they settled around 13 per cent lower on Monday amid lockdowns and curfew across the country .
- Both the frontline indices had hit their 10 per cent lows during the early morning deals triggering a circuit breaker, following which the trade was suspended for a period of 45 minutes. After the trade resumed, the indices extended their losses and slipped as much as per cent in the last hour of trade.
- This is the second time during this month that trading was halted because of fears over the spread of corona virus which has threatened to bring world economies to a halt.

Findings :-

- This study reveals that Due to the measures adopted to prevent the spread of the Coronavirus Disease 2019 (Covid-19), especially social distancing and lockdown, non-essential expenditures are being postponed. This is causing aggregate demand to collapse across the India.
- The Indian economy was grappling with its own issues and COVID-19 made the matters worse. India's GDP has been on a consistent decline after peaking out at 7.9 in Q4 of FY 2018 to 4.5 in Q2 of FY 2020.
- The financial sector faces an attrition of loan growth and higher credit costs as it prepares for a rise in bad debt from retail and corporate borrowers — and with India's lockdown extended again, the economic impact could make worse.
- It shows that the industry was facing demand problems, due to which business houses were reluctant to undertake capex plans, unemployment was at its peak and exports which were consistently down for several months.

Suggestion:-

- I would like to suggest that the Industries, citizens and the government should work together on the combination of path to quick recovery, contained contagion and stimulus packages, to minimize this damage and avoid its sustained worsening in future that all the packages announced so far can substantially reduce the damage, but need many more to come to completely nullify the damages over time.
- MSMEs should be provided concessional working capital loan, equivalent to one to three month's (based upon the extent of disruption) average turnover of last year. To support them, when the supply chains have been impacted globally, MSMEs should also be provided concessional finance at a rate of 5% for three months through SIDBI. The interest payment for such financing can be adjusted over the next three years as part of GST.
- A large number of people will stand to lose their jobs especially in the retail, hospitality, travel, construction sector the government can consider giving incentives for employers to keep the workers, while the corona virus problem tides over.

Conclusion:-

Covid-19 has posed an unprecedented challenge for India. Given the large size of the population, the unstable situation of the economy, especially of the financial sector in the pre-Covid-19 period, and the economy's dependence on informal labour, lockdowns and other social distancing measures would be hugely disruptive. The central and state governments have recognized the challenge and have responded but this response should be just the beginning. Policy makers need to be prepared to scale up the response as the events unfold so as to minimize the impact of the shock on both the formal and informal sectors in order to avoid long-term damage to the economy.

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