Impact of Covid-19 on the Indian Economy

Abstract

Covid-19 has been one of the deadliest pandemics that has ever been witnessed. We are in the midst of a global epidemic which is not only affecting our health but also leading to economic deterioration. Given the nature of the disease, the ways to stop it from spreading requires closure of institutions, and public facilities and restrictions on travel. These actions have led to negative consequences for the Indian economy. This study has inspected the various problems caused due to the covid-19 lockdown and its impact on the Indian economy.

Introduction

Covid-19 has affected several sectors of the Indian market. The pandemic has disrupted economic activity in India. Costs associated with the limiting the spread of and treatment for this disease are unreasonably high. Several institutions and large companies are trying to make medical treatments as well to prevent this painful disease at great speed.

The Covid-19 epidemic severely affected several industries such as the entertainment sector and the retail businesses, the stock market, gold, building materials etc... It has impacted the GDP, inflation rate ,interest rates and has led to a greater unemployment. COVID-19 has now become a global phenomenon threat.

To curb the spread of Covid-19 several restrictions and lockdowns have been imposed. In India, the lockdown was enforced in four phases to prevent the spread of COVID-19. During this time, all places of worship were closed. Social, cultural, entertainment, and religious activities were banned. Work from home was allowed for educational institutions and private firms.Services such as banks, hospitals, medical and grocery stores were allowed to remain open.

Subsequently the lock-down was gradually relaxed in a phased manner but continued in high-risk areas. Measured relaxations have been permitted outside these areas including opening of non-essential stores and industries. Domestic flights have been allowed subject to the restrictions issued by the government to ensure safe travel. However, restrictions on educational institutions, places of public gathering such as shopping malls, gymnasiums, swimming pools, cinema theatres, entertainment parks, places of religious worship, operation of metro train services have not been removed yet. Movement of vehicles and transport within the states was allowed. However there was a night curfew in almost all states.

The lockdown had several impacts on the Indian economy. India's GDP rate was slowing down and unemployment was huge. According to estimates from the Centre for Monitoring Indian Economy, over 122 million people in India lost their jobs in April. The average employment reduced from an estimated 404 million during 2019 to 396 million in March 2020. In April it came down to 282 million. In this study we have tried to analyse the different impacts caused by the covid-19 pandemic on the Indian economy and its recovery.

Review of earlier studies and reports

There have been several epidemics throughout the years. Some of the major ones are plague, spanish flu, swine flu and polio. All of these spread to several parts of the world and had a significant impact on the economy of the world. For example during the plague the economy underwent abrupt and extreme inflation. The prices of goods escalated as it had become tough to produce them. Because of the high death rates, workers became exceedingly scarce. There was an increase in the demand for people to work the land which became a threat to the manorial holdings. Labourers were no longer tied to one master; and they frequently changed their masters. The lords had to make changes in order to make the situation more profitable for the peasants so as to keep them on their land. There was a steep increase in the standard of living. Studies show that the Spanish flu reduced real GDP per capita by around 6 per cent in the typical country over the period 1918–21 and US manufacturing output by 18 percent. According to the researchers, the pandemic lowered real per capita GDP by 6% and private consumption by 8% in the typical nation, similar to the reductions witnessed during the Great Recession of 2008–2009. The flu had a far lesser impact in the United States, with a 1.5 percent reduction in GDP and a 2.1 percent drop in consumption.Because of the drop in economic activity and increasing inflation, actual returns on equities and short-term government bonds had declined. Countries with an average mortality rate of 2%, for example, saw real stock returns fall by 26 percentage points. In the United States, the anticipated decline was only 7 percentage points.Another report on the impact of HIV on the economy was given by Katharina Hauck, senior speaker in wellbeing financial matters, who depicted the joins between HIV and net residential item (GDP) clarifying that HIV influences GDP through numerous pathways. For example, wellbeing consumption and misplaced pay from the disease's mortality adversely influence family pay, diminishing utilization as well as investment funds and speculations in income-generating exercises. This in turn brings down speculation in capital and brings down labor efficiency and GDP. In addition, Hauck pointed out that HIV-infected people may esteem display benefits more than future benefits based on fear of ailment and shorter life anticipation; this might decrease their motivating forces to contribute in instruction, which assists decreases labor efficiency and GDP. Another pathway to consider is that children of HIV-infected people may become vagrants when their guardians pass away, which may decrease ventures in instruction. All these reports show that the onset of a pandemic has a great impact on the economy and it can take several years to recover from the economic depression and the losses caused due to the outbreak of epidemics.

Results and discussion

The Indian economy fell by 7.3 percent in the April-June quarter of the current fiscal year, according to official figures provided by the ministry of statistics and programme implementation. Except for a few vital services and activities, India's $2.9 trillion economy stays closed throughout the shutdown. The shutdown caused a 23.9 percent drop in GDP growth. In 2020-21, India's GDP fell by 7.3 percent. India's GDP growth rate is expected to be less than 10%. For 2020-21, the Controller General of Accounts estimates a gross tax revenue (GTR) of rupees 20 lakh crore and a net tax revenue of rupees 14 lakh crore for the center's fiscal collection. The increase in tax revenue will be 12%, which will benefit the economy. In India, the COVID-19 epidemic has had a primarily negative economic impact. According to the Ministry of Statistics, India's growth slowed to 3.1 percent in the fourth quarter of fiscal year 2020. According to research conducted by the State Bank of India in mid-May, India's GDP contracted by more than 40% in Q1. The contraction will vary depending on a variety of factors such as state and sector. The Ministry of Statistics announced GDP data for Q1 (April to June) FY21 on September 1, 2020, showing a decrease of 24% compared to the same time period the previous year. There was a decline in economic activity from 82.9 on March 22 to 44.7 on April 26.. The Indian economy lost more than 32,000 crore rupees (US $ 4.2 billion) daily within the first 21 days of the lockdown, which was announced in the month of April. During the lockdown period, less than a quarter of India's $ 2.8 trillion economy was operating and up to 53% of businesses in the country were expected to be most affected. Supply chains have been put under pressure due to existing restrictions. India's largest companies such as Larsen & Toubro, Bharat Forge, UltraTech Cement, Grasim Industries, Aditya Birla Group, BHEL and Tata Motors have suspended or significantly reduced operations. Indian stock markets sent their biggest losses to history on March 23, 2020. However, on March 25, one day after the full announcement of 21SENSEX and NIFTY days they posted their biggest profits in 11 years. The Confederation of Indian Industry (CII) estimates that the Indian GDP of FY21 will be between 0.9% and 1.5%. A State Bank of India study predicts a contract of more than 40% of GDP in Q1 FY21. Provincially, total losses due to COVID-19 account for 13.5% of the state's total domestic production. The Department of Statistics released India's GDP estimates of Q4 FY20 by 3.1% while the total GDP of FY20 is 4.2%. The contract that India is expected to see in FY21 will not be the same, instead it will vary according to different terms such as country and industry. The agricultural and government sectors may not be aware of any cuts. On 1 September 2020, the Department of Statistics and Program Implementation released the GDP figures for Q1 FY2021, which showed a 24% reduction.

Summary of key macroeconomic indicators

	India	**Reference group**	**World**
GDP at constant prices 2019 (% change)	4.0%	3.6%	2.8%
GDP at constant prices 2020 (% change)	-7.3%	-2.2%	-3.3%
Unemployment rate 2019 (% of total labour force)	5.3%	5.5%	5.4%

Unemployment rate 2020 (% of total labour force)	7.1%	6.4%	6.5%
Above-the-line additional health sector fiscal measures in response to Covid-19 (% of GDP)	0.4%	0.9%	1.2%
Above-the-line additional non-health sector fiscal measures in response to Covid-19 (% of GDP)	3.0%	2.8%	7.8%

Among the many ways in which Covid-19 has impacted the Indian economy, the most noticeable result is the impact on inflation. The inflation rate did not fall below 6 percent apart from the two months of April and May when the consumer price index was imputed from limited data. The inflation rate has remained higher than the Reserve Bank of India’s (RBI) comfort level of 2-6% for 8 out of the last 12 months. Most recently, in June, the consumer price inflation was at 6.26%.The increase in the inflation rate could be very worrying in the coming months due to the recent rise in global crude oil prices and the increase in petrol and diesel prices along with the bad monsoons though the major part of inflation still remains is the health spending, which has risen as a result of the epidemic. The annual retail inflation rate rose from 4.29% to 5.52% in March. The prices of food items, which account for a major part of the inflation basket, rose by

2.02%. In October, prices of most needed vegetables such as tomatoes, cauliflowers and potatoes had steeply risen in several states.

Another impact of the Covid-19 has been on the stock market and the shares market. After the outbreak, the stock market crashed as BSE Sensex and NSE Nifty fell 38%. It leads to a loss of 27.31% of the total stock market since January. Stocks of other sectors such as hospitality, tourism, and entertainment have been reduced by more than 40% due to transport restrictions. The findings revealed that BSE Sensex saw a one-day fall of 13.2% past the unpredictable fall of April 28, 1992. Nifty also dropped sharply by 29%, surpassing the 1992 disaster.

One of the greatest impacts of the Covid-19 pandemic has been the increase in the unemployment rate. While the statistics provide a picture of India’s economic status, they hide the greater impacts on households and labourers within the nation. There has been a rise in the inequalities on the basis of wealth and salaries. In 2020, the top 1% of the population held 42.5% of the total wealth, while the lower 50% had only 2.5% of the total wealth. After the pandemic, the number of poor in India is said to have increased more than twice the original and the number of people in the middle class to have decreased by one third.While the first reduced income decreased by about 40% lower class families have lost three months' income.The percentage of poor people in the 2nd lowest quintile of pre-Covid-19 consumption jumped from 32% to 60% within a year. Data from India's largest private survey, CMIE's Consumer Pyramids Household Survey or CPHS, shows that per capita spending has fallen below the Gross Domestic Product. GDP acquisition did not follow a return to spending in times of social decrease. The amount spent per person continued to be more than 20% less after the initial closure (August 2020 compared to August 2019) and remained at 15% lesser year-on-year each year towards the end of 2020.The poverty in rural areas, that is the villages and smaller towns increased by 9.3 percent while in the larger cities and metro areas by more than 11.7 percent annually from December 2020 to December 2019.Taking into account the reduction in poverty, it is estimated that more than 230 million people in India have fallen into poverty as a result of the first wave of the pandemic. Tamil Nadu is among the worst-hit with a very high unemployment rate.

Covid-19 has impacted several sectors of the Indian economy. The major sectors that got affected were aviation, tourism, retail businesses, entertainment sector, real estate, automobile, and the unorganised sectors, that is the hawkers and street vendors. Sectors such as the food industry and the medical and the pharmaceutical industries blossomed whereas there was not much impact on the agriculture sector. Studies show that the small traders, salaried workers and wage-labourers category lost more than 90 million jobs in April 2020. While the small traders like hawkers may return to work after the lockdown, the salaried workers will find it difficult to get their jobs back. Even local businesses and entrepreneurs were severely impacted. The average count of entrepreneurs dropped from 78 million in 2019-20 to 60 million in April 2020. The pandemic has put the younger population of India at a huge risk of long term unemployment which has a negative effect on the job prospects and the earnings. While all the states got affected, the joblessness among younger workers in the low-income states of Bihar, Jharkhand and Uttar Pradesh was greater than the other parts of the country. Also rural migrants continued to be unwilling to return to work in the city areas even before the second wave hit because of greater risks in the urban areas and expensive medical facilities. And the second wave, which started around mid-February and ended around July further increased the risks of long-term unemployment by increasing the time period of economic inactivity. Also several states had strict lockdowns during this period which further deteriorated the economic conditions.

The aviation sector was the most affected after nearly 70 percent of the world went into a lockdown to stop the spread of the disease. International flights were banned in most areas. A few domestic flights were working but with only 50 percent of the capacity and several restrictions were imposed. Also only those who had emergencies were allowed to travel. It was hoped that air travel would bounce back in 2021 but with the onset of the new variant and the lockdowns during the months of April, May and June has shattered all possibilities. The next sector that was affected was the one which solely depended on tourism and travel. Travel agencies, local guides, hotels, restaurants severely suffered during this period. The peak traveling period, that is the months from March to June coincided with the lockdown period and the coronavirus peak. States such as Sikkim which are solely dependent on tourists to drive their economy have been facing extreme challenges. Tourism is one of the industries which is extremely dependent on labourers and right now over a hundred million jobs are at a risk. The tourism sector is one of the largest industries and accounts for 6.23 percent of the country"s gross domestic product and provides employment to 8.78 per cent of the population. It manages to generate around 275.5 billion dollars in revenue in fiscal 2018 with an annual growth rate at 9.4 per cent. Cancellation of events like marriages, travel bans, quarantine restrictions have disrupted the economy. Guides, tour operators, vehicle drivers, hotels, restaurants, shops, and other facilities related directly or indirectly to tourism have taken a hit owing to the spread of the virus. Daily wages workers have also been severely impacted, auto drivers, hawkers, hand cart sellers, local shops to name a few. Also the ones whose income depends on the organisations and conducting of events such as birthday parties and marriages like the florists, catering and food services, have also lost their incomes and livelihood. The closing of malls, cinema theatres, gaming centers, gyms, circuses and fun fairs affected those who depended on the entertainment sector. Closing down museums and local stores and banning stage events affected the artists, dancers, comedians and musicians . The epidemic has wreaked havoc on the car industry like it has never been seen before."The pandemic has deepened woes of automobile dealers as the coronavirus pandemic crippling most economic and commercial activities will negatively impact demand for automobiles," said India Ratings and Research. According to a parliamentary panel report that was given to the Rajya Sabha Chairman M Venkaiah Naidu, the automobile industry lost Rs 2,300 crore per day, with an estimated employment loss of approximately 3.45 lakh. Research shows that all of the main original equipment manufacturers (OEMs) have decreased output by 18-20% owing to poor demand and decline, according to the car industry organisations. Due to the aftereffects of the COVID-19 epidemic, 2020 has been a difficult year for the estate, although the last couple of quarters have been better.Residential sales across the country surged by 34% in the September quarter, compared to the June quarter, owing to low borrowing rates, lucrative payment plans, and appealing pricing, according to a JLL research.Consumer perceptions have shifted as a result of the Covid-19 issue. They're resorting to the Indian mentality, saving some money for a catastrophe so they won't be caught off guard. The demand for real estate has not dropped, but investors are becoming more cautious.

Summary and Conclusion

The Covid-19 pandemic has disrupted the Indian economy affecting many sections of the Indian Society. There have been great economic losses, the gross domestic product has decreased and there has been a great rise in the inflation rates. Sectors like aviation, transport, retail businesses, entertainment have been impacted severely. There has been a huge unemployment. The stocket and the shares market have shown great losses. Nevertheless we are on our way to economic recovery and the results have been positive so far. The Gross domestic product (GDP) figures for the first quarter of FY22 have proven that the Indian economy has grown at a rapid pace. There has been a GDP growth of 18-20 percent in the quarter of June and remain optimistic about economic recovery in the coming years as the second wave ends as more Indians get vaccinated. India could even unleash the world's fastest-growing growth this year if it could successfully curb another epidemic. India's economic growth trajectory remains straightforward at the moment. Critical sectors of the economy such as manufacturing, services, industrialization, exports and demand have become fully functional. Work in many sectors including retail, automotive, agriculture and construction has also improved; a few difficult communication areas such as transport, tourism and hospitality show a little lesser growth. Also, the economic impact of the second Covid wave in 2021 was much smaller than the devastation seen in 2020 when it imposed strict closures nationwide. Although the pace of economic recovery was hampered by the second wave, the fact that the borders were not so severe helped to prevent the growth of the growing coalition. Allowing major jobs in the critical sectors has reduced economic damage despite losses in the job and reducing total industrial output. High vaccination rates, rapid resumption of production and strong attacks on the service sector are some of the factors that have kept the economy afloat during the second wave. The economy grew 20.1% in the April-June quarter of the current financial year. Research shows that the industrial output was increased by 11.9 percent, similar to before the pandemic.The Reserve Bank of India (RBI) low interest rate and measures taken by the government have helped reduce the damage.The economy collapsed after two consecutive episodes of sharp crisis - 24.4 percent in Q1FY21 and 7.5 percent in Q2FY21 - in the last financial year but as soon as the government began to remove borders, the economy recovered as the demand for the most important holiday season increased. The economy grew slightly in the third quarter and 1.6% in the fourth quarter. If the third wave does not occur, we hope to see a great economy in the coming months.

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