



## The covid-19 epidemic's implications on the Indian economy

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### Abstract

One of those once-in-a-lifetime disasters that affects everyone on the earth and upends our lives is the COVID-19 pandemic. Despite the fact that the virus poses a threat to people's daily lives on several levels, the pandemic, which has claimed millions of lives worldwide, is placing unprecedented pressure on governments to maintain essential social and health services as well as their economy. Following the spread of COVID-19, several countries have shuttered their seaports and airports. Importing and exporting are prohibited activities. This study aims to assess the pandemic's long-term economic effects by calculating its costs using official global and Indian economic statistics. It also looks at the measures the central government and Reserve Bank of India have so far announced to mitigate the shock and provides a number of policy recommendations for different industries. This study also proposes possible political, social, and economic paths for a post-pandemic society.

**Materials and Methods:** This review paper summarizes and tracks the economic development of the COVID-19 pandemic from its inception, synthesizes and evaluates recent data from reliable sources, and gives a comprehensive evaluation.

**Results:** In the short and long run, the epidemic surely harmed many people's economy and living situations. Despite estimates of the destruction's enormity, its exact extent is still unclear. But given the massive uncertainty the pandemic has created, it seems likely that the recovery will be erratic, drawn out, and delayed.

**Conclusions:** Early forecasts of economic growth suggest that there won't be a conventional comeback for the global economy since different countries have distinct short-term recovery paths. Because of the uncertainty and lack of confidence, governments should implement flexible fiscal and monetary policies in order to ensure a fair and long-lasting economic recovery from the COVID-19 pandemic. However, without substantial reforms, economies cannot prosper in the short or long term.

**Keywords:** Covid-19, pandemic, economy, unemployment, informal sector, lockdown, gdp (Gross Domestic Product), labor markets, msme, digital payments, e-commerce, government policy

### Introduction

The worldwide COVID-19 epidemic has affected almost every country and territory. The pandemic was initially identified in December 2019 in Wuhan, China. Countries all throughout the world warned the people to be careful. We're in the middle of the global Covid-19 pandemic, which is generating both economic and health shocks in nations. Hand washing, using face masks, maintaining physical distance, and avoiding big gatherings and crowds have all been part of the public health precautions. Lockdown and homebound strategies have been used to slow the disease's transmission and flatten the curve (Sintema, 2020) <sup>[16]</sup>. Experts in the area claim that coronaviruses, a broad family of viruses, are the cause of ailments ranging from the common cold to more severe disorders including severe acute respiratory syndrome and Middle East respiratory syndrome. A new strain of the coronavirus illness, known as COVID-19, has never been found in people or on Earth before. In 2019, it was discovered in China. Over 72,000 people had died and over 1.2 million had been infected by the Covid-19 virus by April 7, 2020, when it had spread throughout the world (WHO, 2020).

Now, hundreds of thousands of livelihoods and employment are on the line. As activities across the nation came to a halt, almost 50 million migrant laborers either moved to camps inside cities or returned to their native villages as a result of state borders being sealed. The labor supply in urban regions is severely strained since, despite rumors that some of them have moved to cities in quest of work and a living, the majority have not yet returned. There were also

significant restrictions on the movement of completed goods and raw materials between states. International trade and commerce have ceased as a result of countries closing their borders. In almost every business, this is having a significant impact on distribution networks and supply systems. Millions of individuals are staying at home and delaying non-essential expenditure, which has resulted in a total collapse of consumption demand.

The crisis has already become a shock to the economy and labor markets, impacting both supply (the production of goods and services) and demand (consumption and investment), according to a different study conducted by the International Labor Organization titled "COVID-19 and the World of Work: Consequences and Policy Responses." The head of the International Monetary Fund (IMF) stated that there was "extreme uncertainty" about the extent and duration of the crisis, which was the largest to strike the world economy since the Great Depression. (2020, The Economist) <sup>[8]</sup>

### Pre-Covid-19 Era Indian economy

The GDP (gross domestic product) growth rate has been falling since 2015–16. According to official figures, GDP growth in 2019–20 fell to 4.2%, the lowest level since 2002–03. In the fourth quarter of 2019–20, industry, which makes up 30% of GDP, fell by 0.58%. The unemployment rate is at its highest level in 45 years. In any economy, private corporate investment is a major economic driver. Private sector investment was declining nominally prior to COVID-19. Statistics from the Centre for Monitoring the

Indian Economy (CMIE) show that between 2015–16 and 2019–20, the overall number of unfinished investment projects declined by 2.4%, while the number of newly announced projects fell by 4%. Additionally, for the first time in decades, consumption expenditure decreased. The United Nations warned that the coronavirus pandemic is expected to have a serious negative effect on the global economy, with India's GDP growth for the current economy expected to drop to 4.8% (United Nations 2020). In a same vein, the United Nations' Economic and Social Survey of Asia and the Pacific (ESCAP) 2020 predicted that COVID-19 will increase cross-border activity in the areas of commerce, tourism, and financial ties and have major socioeconomic consequences in the region (United Nations, 2020).

### The informal sector

With over 90% of the working population employed and over 45% of the country's GDP coming from the informal sector, India has the largest informal sector in the world. This industry experienced two consecutive shocks in a brief period of time between 2016 and 2019. Following the unplanned introduction of the Goods and Services Tax in 2017, the first shock was demonetization in November 2016, when a government decree declared 86% of the economy's money worthless overnight.

For a long time, demand and supply chains were not significantly impacted by demonetization, despite it being a major monetary shock. For a while, there weren't many ways to pay. In hindsight, we can see that people came up with workarounds in the form of informal credit, computerized payments, converting black money into white money, using old notes, and more. Due to the current situation, there is no supply, no demand, and hence no underlying revenue. This makes it much more challenging. The already troubled informal sector has been disproportionately affected by the Covid-19 pandemic (Ray and Subramanian, 2020).

Indigenous people may see a decline in household expenditure as a result of the COVID-19 coronavirus outbreak. Job losses or pay reductions will cause a loss of purchasing power, and many businesses will be affected in the long run by the delaying effect of delayed demand, especially if that demand is discretionary. In 2019, India's real GDP dropped to its lowest level in more than six years during the fourth quarter. It is anticipated that India's growth rate would fall between 5.3% and 5.7% in 2020–21. An estimated 1.9% growth in India's gross domestic product is anticipated for 2020–21. Since India's 1.1% growth rate in 1991–1992, this will be the lowest growth rate. Numerous businesses have been severely impacted by COVID-19, but it is clear that the most severely impacted are tourism, aviation, communications, the automotive industry, and transportation.

### MSMEs

MSME is one of the most vital and active sectors for the country's economic development. The Indian economy is claimed to be built on it. It boosts the economy monetarily by contributing 28.77% of India's GDP and having the ability to generate jobs. In 2016, the Sixth Economic Census found that more over 58.5 million businesses were operating. It was found that 59.48% of their businesses were located in rural areas. According to the number of MSMEs,

the top five states are Karnataka, Tamil Nadu, Maharashtra, West Bengal, and Uttar Pradesh. The sheer number of MSMEs is crucial for boosting the adoption of digital banking services and achieving India's goal of a cashless society.

Micro, small, and medium-sized enterprises make up a sizable amount of India's manufacturing sector and play a major role in the substantial increase in employment in the nation. Recent annual figures on MSMEs show that the sector employs almost 50% of India's industrial workers, contributes more than 30% of the nation's GDP, and accounts for half of all exports. More than 98% of MSMEs are microbusinesses, and 94% of them are still unregistered with the government. A significant percentage of micro companies are small, family-run businesses. Despite this, many aspects of government policy are, at most, scale neutral and do not specifically favor major companies. This sector does not have access to adequate, timely, and affordable institutional credit. More than 81% of MSMEs' overall funding comes from formal institutions or government sources, yet just around 7% of them do so (Economic Census, 2013).

These loan guarantee programs are part of the government's "Atmanirbhar package" for MSMEs; nevertheless, as previously stated, a 100% credit guarantee may lead to adverse selection issues and incentive distortions. Furthermore, there hasn't been significant credit offtake in spite of the plan. In actuality, the credit to deposit ratio has been continuously declining since the lockdown was announced, and it hasn't gotten any better even after this plan was announced. Furthermore, only existing borrowers with earnings above a certain threshold were eligible for this program. More than 90% of jobs in India are created by micro, small, and medium-sized businesses (MSMEs), which employ over 114 million people and account for 30% of the country's GDP. If the lockdown is extended to eight weeks, these businesses run the risk of suffering from a severe cash shortage. EMIs and loan payments are due each month for a large number of these MSMEs. If the shutdown disrupts their financial cycle, many of them could simply disappear since they have fixed expenditures hanging over them. A loan payment moratorium is necessary.

On the bright side, the pandemic-related restrictions have led to an increase in e-commerce and the use of online platforms by consumers (Dutt, 2020) <sup>[6]</sup>. According to certain studies, businesses' income grew by around 34% when they used a digital payment option. Numerous businesses are being pushed to begin taking digital payments by this and other considerations (Mansur, 2020). Since it has been accurately observed that the increase in the use of digital payments during the pandemic may be seen as a somewhat coercive behavior, financial institutions should keep improving the security of e-Wallets (Undale et al., 2020).

The main GDP contributions made by India's different industries are shown in Figure 1. India's anticipated 1.9% GDP growth for the fiscal year 2021–2022 is the highest when compared to other G-20 nations. In only one month, the unemployment rate rose from 6.7% on March 15 to 26% on April 19. According to the graph above, the consumer and retail business sector contributes the most to GDP, making up 18% of the total. The food and agriculture sector, which generates necessities and accounts for 16.5% of GDP, comes next. The transportation and logistics industry is not

just an essential good but also a 14% contributor to GDP. The telecom sector, which accounts for 6.5% of GDP, is one of the most crucial during this pandemic since it allows workers to work from home and expedites business interactions.

### Permanent sectoral implications of the COVID-19 epidemic

- **Transportation and logistics sector:** Through logistics pricing limitations, etc., all relevant transportation and logistics services are priced fairly and openly. Policy support and uniformity for healthy travel.
- **Food and agriculture sector:** For effective food supply chain management, it is advised to make use of the GST and FASTAG infrastructure that is currently in place. Long-term stability in the food business will result from this.
- **Aviation and tourism sector:** All state governments would waive GST on all aviation and tourism services for the whole tourism sector over the course of the next 12 months. In order to provide airlines with immediate relief by providing a sufficient input tax credit on all goods and services, aviation turbine fuel need to be included in the 12% GST range. The worldwide tourism industry has been particularly negatively impacted by the COVID problem. The World Tourism Organization (UNWTO) projects that international visitor arrivals would drop by 20–30% in 2020. These figures may increase or decrease in the future and are also dependent on the current circumstances. It is likely that millions of people who work in the industrial sector will lose their jobs. India's travel and tourism industry is flourishing and greatly enhancing the national economy. India is the biggest market in South Asia and a major player in the travel industry, according to the FICCI-Yes Bank report "India Inbound Tourist: Unlocking the Opportunities." In 2018, India's tourist industry generated US\$247.3 billion, or 9.2% of the nation's GDP, and created 26.7 million jobs. According to Jagan Mohan (2020) <sup>[11]</sup>, it is now the eighth-largest contributor to GDP.
- **Telecom sector:** Installing 5G in the telecom sector would allow AR and VR to be used for health applications in remote locations. Create a comprehensive tool usage plan to make working from home more convenient.
- **Retail and consumer business sector:** Supply chain management will be challenging. The demand for nonessential commodities would be significantly impacted since it wouldn't rise immediately as a result of people not purchasing unnecessary items out of fear of getting sick.
- **Automobile sector:** China is the source of 25% of India's imports. Imports would be impacted by disruptions in the supply of raw materials.
- **Power Sector:** To handle demand fluctuations and major power outages, among other things, emergency

preparations and enhanced personnel training are required.

### Endurance suggestions

- **Transportation and logistic sector:** As a result of less passenger movement on urban transportation networks, fewer assets such as MRTS, SRTS, cab aggregators, etc. would be used, which would negatively affect their revenue and operations.
- **Food & agriculture sector:** The food supply chain will be a major problem as many countries change their strategy. Due to local supply chain issues as well as declining demand, food products including tea, meat, spices, and seafood that are exported to the US, Europe, and China have suffered significant harm.
- **Aviation and tourism sector:** "The worldwide drop in revenue for the passenger industry is anticipated to be between USD 63 billion and USD 114 billion," according to the International Air Transport Association 2020.
- **Telecom Sector:** The telecom businesses will be greatly impacted by the stoppage of manufacturing facilities due to COVID-19.
- **Consumer & retail business sector:** Customers would find it easier if manufacturing requirements for needs are simplified. lowering tariffs and allowing the entry of products that retail chains need.
- **Automobile sector:** Establish a payback aid program to support the automobile industry and related companies, especially the other manufacturers, distributors, and suppliers of auto parts.
- **Power sector:** Upheavals are expected to be gradual if COVID-19 is maintained for an extended length of time. Awards of government funding might cause delays if funds are transferred to other sectors.
- **Fiscal and monetary measures:** To fight the coronavirus pandemic, coordinated fiscal and monetary policy measures are needed. One of the fiscal solutions is to cover the higher healthcare expenditures caused by the epidemic. If masks, gloves, testing kits, PPE, ventilators, intensive care unit beds, quarantine rooms, drugs, and other supplies were made available, the expense of healthcare would rise dramatically. In India, 1.1% of GDP is spent on public healthcare. There will most likely be an increase in the current fiscal year. The \$1,700 billion relief plan that the government has unveiled would be used to give cash transfers to the less fortunate and vulnerable members of society. The most affected industries, such as MSMEs and farmers, will get support from a fresh aid package that will be announced soon.

### Economic inequality and a reexamination of India's growth model

The 2019 Oxford Committee for Famine Relief (OXFAM) research on "Income Inequalities in India" produced some shocking findings on India's unequal developmental

paradigm. The study found that 73% of the wealth generated in the country between 2017 and 2018 was held by the richest 1% of the population. The wealth of this group increased by '20913 billion,' which is equivalent to the whole budget of the central government for that year. The richest 1% of the nation's population have more than four times the wealth of the 953 million people that comprise the lowest 70% of the population. The wealth of the 670 million persons that make up the lower half of India's population increased by 1% between 2017 and 2018. It is clear that just a tiny percentage of people have benefited from progress. A significant section of the population who works in the subsistence sector only needs enough food and shelter to live because of the stark economic disparities in the country. Due to an economic shock caused by an epidemic or natural disaster, many more are compelled to return to the subsistence sector. The COVID-19 pandemic has shown the country's uneven progress. Due to the loss of daily wages, a sizable section of the populace would struggle with hunger if no relief measures were provided.

### Conclusion

The ultimate economic cost is likely to be far higher than current projections. On the demand side, the government has to balance the need to ensure that the financial situation doesn't get out of hand with the need for income support. The current agreement seems reasonable, but the government needs to look for other ways to raise the incomes of the poor. The involvement of the state and local governments may also be necessary for the effective implementation of further budgetary measures. The vast majority of companies allow their employees to work from home and remotely. These safeguards will soon become the new standard, even though many of them were already in place. Risks to the supply chain are significant and will have long-term consequences. Consequently, it is imperative that we expand our capabilities to lessen the consequences of unforeseen circumstances. To recoup the company's income and get it back to its pre-risk state, we need to move quickly. Humans cannot fathom the harm that a single, little virus might wreak. The significance of general cost management in business and living as inexpensively as possible is the most important lesson we have learnt thus far. Policymakers must be prepared to increase the response as circumstances change in order to lessen the shock's effects on the formal and informal sectors and pave the way for a long-term recovery. They must also limit the use of discretion and ensure that the responses remain subject to a set of standards in order to avoid long-term harm to the economy. Nonetheless, every crisis is a unique opportunity to reevaluate the path chosen for the development of an individual, a community, and a society. The Indian economy is strongly encouraged to adopt self-sufficient, inclusive, and ecologically conscious sustainable development techniques by the COVID-19 program.

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