



# THE CONSEQUENCES OF THE COVID-19 EPIDEMIC ON THE INDIAN ECONOMY

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## ABSTRACT

**Aim/Background:** The COVID-19 epidemic is one of those once-in-a-lifetime catastrophes that touches everyone on the planet and disrupts our lives. The epidemic, which has killed millions of people globally, is putting unprecedented pressure on governments to sustain crucial health and social services, as well as their economies, even as the virus threatens people's everyday lives on several grounds. Many nations have closed their airports and seaports after the proliferation of COVID-19. The operations of import and export have been outlawed. Thus, the goal of this study is to examine the pandemic's long-term economic consequences by estimating its costs using official economic statistics for both the world and India and examine the policies the Reserve Bank of India and the central government have so far announced to lessen the shock, and offer a number of policy recommendations for various industries. Furthermore, this study identifies potential economic, social, and political avenues for a post-pandemic world.

**Materials and Methods:** This is a review article that offers a summary and tracking of the economic evolution of the COVID-19 epidemic from the beginning, synthesises and analyses current data from credible agencies, and provides an overall assessment.

**Results:** The epidemic undoubtedly hurt economies and living conditions for many individuals in the short- and long-term. The precise extent of the destruction is yet unknown, despite estimations of its size. However, given the enormous uncertainty that the epidemic has brought about, it appears that the recovery will be delayed, protracted, and unpredictable.

**Conclusions:** Since the short-term recovery routes of different nations are diverse, early economic growth predictions indicate that there won't be a typical rebound for the global economy. Governments should use flexible monetary and fiscal policies to achieve an equitable and durable economic recovery from the COVID-19 epidemic due to the uncertainty and a lack of faith. However, economies cannot grow either in the short or long term without fundamental reforms.

**Keywords:** COVID-19, economies, epidemics, countries, and governments.

## INTRODUCTION

Nearly all nations and territories have been impacted by the global COVID-19 pandemic. In Wuhan, China, the epidemic was first discovered in December 2019. The public was admonished by nations all around the world to exercise caution. We are in the midst of a worldwide Covid-19 epidemic, which is causing two types of shocks in countries: health and economic. The public health measures have included washing hands, using face masks, keeping a physical distance, and avoiding large crowds and assemblies. In order to flatten the curve and stop the spread of the disease, lockdown and homebound techniques have been implemented (Sintema, 2020). Coronaviruses, a wide family of viruses, are said by experts in the field to be the source of illnesses ranging from the common cold to more serious conditions, including Middle East respiratory syndrome and severe acute respiratory syndrome. The coronavirus disease (Covid-19) is a novel strain that has never before been identified in humans or the earth. It was found in China in 2019. By April 7, 2020, the Covid-19 had spread globally, killing more than 72,000 individuals and infecting more than 1.2 million people (WHO, 2020).

Hundreds of thousands of jobs and livelihoods are now at stake. Because state borders were locked, more than 50 million migrant labourers either returned to their original villages or transferred to camps inside cities as activity throughout the country came to a standstill. While there are reports of some of them coming to cities in search of employment and livelihoods, the bulk have not yet returned, putting a significant pressure on labour supply in metropolitan areas. Transportation of raw materials and finished commodities between states was also severely limited. Countries have closed their borders, thus halting international trade and commerce. All of this is seriously altering supply systems and distribution chains in practically every industry. At the same time, consumption demand has completely collapsed as millions of people stay at home and postpone non-essential spending.

According to a separate research by the International Labor Organization titled "COVID-19 and the World of Work: Consequences and Policy Responses," the crisis has already become a shock to the economy and labour markets, affecting both supply (the creation of goods and services) and demand (consumption and investment). The head of the International Monetary Fund (IMF) declared that the crisis was the biggest to hit the global economy since the Great Depression and that there was "extreme uncertainty" regarding its scope and longevity. (The Economist, 2020)

### Pre-Covid-19 era Indian economy

Since 2015-16, the GDP (gross domestic product) growth rate has been declining. Official data show that GDP growth decreased to 4.2% in 2019-20, the worst rate since 2002-03. Industry, which accounts for 30% of GDP, declined by 0.58% in the fourth quarter of 2019-20. Unemployment has risen to a 45-year high. Private corporate investment is a significant engine of growth in every economy. Prior to Covid19, nominal values of private sector investment were falling. According to CMIE (Centre for Monitoring Indian Economy) statistics, total outstanding investment projects decreased by 2.4% between 2015-16 and 2019-20, while new projects announced fell by 4%. Consumption spending was also down for the first time in decades. The UN issued a warning that the coronavirus pandemic is anticipated to have a severe negative impact on the world economy, most notably a projected fall in India's GDP growth to 4.8% for the current economy (United Nation 2020). Similar to this, the UN's Economic and Social Survey of Asia and the Pacific (ESCAP) 2020 projected that COVID-19 would have significant socioeconomic effects in the region and swell cross-border activity in the fields of tourism, trade, and financial links (United Nations, 2020).

### The Informal sector

India boasts the world's biggest informal sector, employing about 90% of the working population and providing more than 45% of total GDP. From 2016 to 2019, this industry was affected by two successive shocks in a short period of time. The first shock was Demonetisation in November 2016, when a government edict rendered 86% of the money in the economy useless overnight, followed by the haphazard implementation of the Goods and Services Tax in 2017.

While demonetisation was a significant monetary shock, it did not fundamentally affect demand and supply systems for an extended period of time. There was a brief shortage of payment options. In retrospect, we can see that individuals devised workarounds in the form of electronic payments, informal credit, turning black money into white money, utilising outdated notes, and so on. In the context of the current crisis, demand is absent, supply is absent, and so underlying revenues are absent. As a result, this is far more difficult. The Covid-19 epidemic has disproportionately impacted the already struggling informal sector (Ray and Subramanian, 2020).

Indigenously, the consequences of the COVID-19 coronavirus epidemic might cause a downturn in household spending. This will result in a loss of buying power due to job losses or salary cutbacks, and the slowing effect of postponed demand will have a longer-term impact on many industries, particularly if demand is discretionary. During the fourth quarter of 2019-20, India's real GDP fell to its lowest level in over six years. India's growth rate for 2020-21 is expected to range between 5.3% and 5.7%. For the years 2020–21, it is predicted that India's gross domestic product would rise at a pace of 1.9%. This is going to be the lowest growth rate since India's 1.1% growth rate in 1991-92. The COVID 19 has significantly affected several industries, and it is obvious that tourism, aviation, communications, the car industry, and transportation are the most negatively affected sectors.

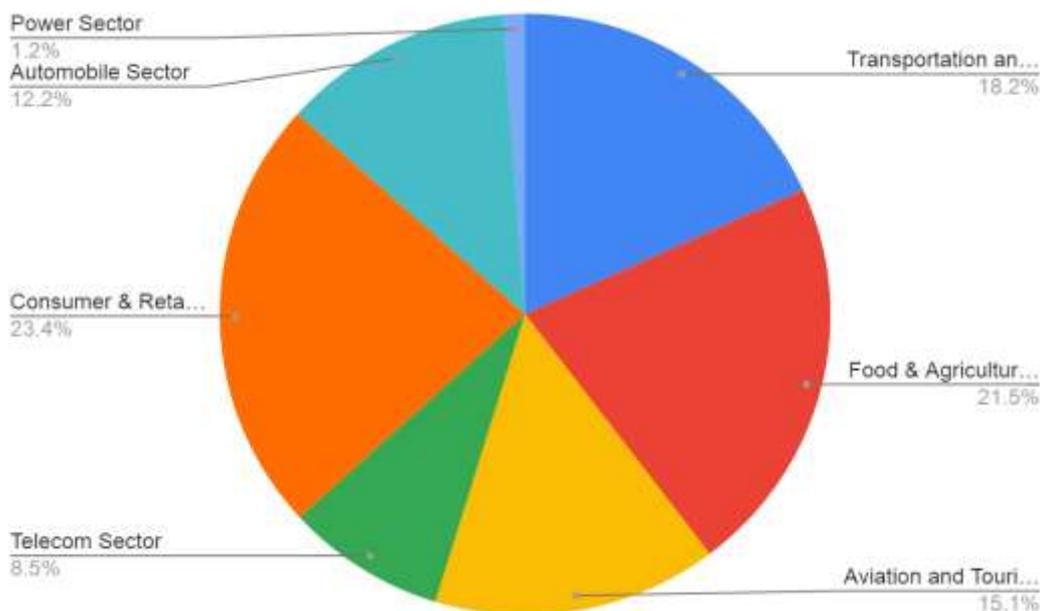
### MSMEs

One of the most important and dynamic areas for the economic growth of the nation is MSME. It is said to be the foundation of the Indian economy. Through its potential to create jobs and its 28.77% contribution to India's GDP, it supports the economy financially. According to the Sixth Economic Census from 2016 over 58.5 million firms were reported to be open for business. They were discovered to have 59.48% of their companies in rural regions. Uttar Pradesh, West Bengal, Tamil Nadu, Maharashtra, and Karnataka are the top five states in terms of the number of MSMEs. In order to increase the use of digital banking services and realise India's vision of a cashless society, the sheer quantity of MSMEs is most important.

A significant portion of India's manufacturing is made up of micro, small, and medium-sized businesses, which also contribute significantly to the country's significant job growth. According to recent yearly statistics on MSMEs, the industry generates over 30% of India's GDP, employs roughly 50% of the country's industrial employees, and accounts for half of all exports. Micro enterprises make up more than 98% of MSMEs, and 94% of them are still not officially registered with the government. Small, family-owned firms make up a large portion of micro enterprises. Although many areas of government policy do not expressly favour these businesses and are, at best, scale neutral. This industry lacks access to sufficient, prompt, and reasonable institutional lending. Only around 7% of MSMEs receive funding from formal institutions or government sources, making up more than 81% of their total funding (Economic Census, 2013).

The government's "Atmanirbhar package" includes these loan guarantee programmes for MSMEs, although as was mentioned before, a 100% credit guarantee might result in incentive distortions and difficulties with adverse selection. Additionally, despite the strategy, there hasn't been much credit offtake. In reality, since the announcement of the lockdown, the credit to deposit ratio has been steadily dropping and hasn't improved even after the announcement of this plan. Additionally, this facility was only offered to current borrowers who had incomes above a specific level. If the lockdown is prolonged to 8 weeks, Micro, Small and Medium Enterprises, which have generated more than 90% of the employment in India, employ more than 114 million people, and contribute 30% of the GDP, face the danger of experiencing a severe liquidity constraint. Many of these MSMEs have EMIs and loan payments due each month. With fixed expenses hanging over them in such a scenario, many of them may just vanish if the lockdown disturbs their cash cycle. A moratorium on loan payments is required.

On the plus side, customers are using online platforms and engaging in more e-commerce activities as a result of the pandemic-related constraints (Dutt, 2020). According to certain research, using a digital payment solution for the business increased companies' revenue by about 34%. This is one of many such factors, along with others, that are pushing numerous companies to start accepting digital payments (Mansur, 2020). Financial institutions should continue enhancing the security of e-Wallets because it has been correctly noted that the rise in the usage of digital payments during the epidemic may be seen to be a somewhat coercive behaviour (Undale et al., 2020).



**Figure 1 depicts the primary contributions to GDP by various sectors in India.**

Figure 1 depicts the primary contributions to GDP by various sectors in India. In comparison to other G-20 countries, India's expected GDP growth of 1.9% for the fiscal year 2021–2022 is the highest. The jobless rate increased from 6.7% on March 15 to 26% on April 19 in only one month. The consumer and retail business sector, which accounts for 18% of GDP, has the biggest GDP contribution, as seen in the graph above. The next sector is the food and agricultural industry, which contributes 16.5% of GDP and produces necessary goods. In addition to being a necessary good, the transportation and logistics sector contributes 14% to GDP. Since it enables employees to work from home and improves corporate communications in a timely manner, the telecom industry—which contributes 6.5% of the GDP—is one of the most important during this epidemic.

#### LONG TERM SECTORAL CONSEQUENCES OF COVID-19 Epidemic

- Transportation and Logistic Sector:** All pertinent transport and logistics services are priced fairly and transparently through Logistics price limits, etc. Support and standardisation from policy for healthy travel.
- Food & Agriculture Sector :** Use of the already-existing GST and FASTAG infrastructure is recommended for efficient food supply chain management. This will promote long-term food industry stability.
- Aviation and Tourism Sector:** GST will be waived for all aviation and tourist services for the next 12 months by all state governments for the whole tourism industry. Aviation turbine fuel should be included in the 12% GST band to offer airlines with immediate relief by offering adequate input tax credit on all products and services. The COVID issue has had a particularly negative impact on the global tourist sector. Estimates from the World Tourism Organization (UNWTO) for 2020 show a decline of 20–30% in foreign visitor arrivals. These numbers are also based on the current situation and might rise or fall in the future. Millions of individuals employed in the industrial sector are probably going to lose their employment. The travel and tourism sector in India is booming and significantly boosting the country's economy. According to the FICCI-Yes Bank paper titled "India Inbound Tourist: Unlocking the Opportunities," India is the largest market in South Asia and a tourism powerhouse. In India, tourism contributed 9.2% of the country's GDP and produced US\$247.3 billion in 2018, resulting in the creation of 26.7 million employment. It currently ranks as the eighth-largest contributor to GDP (JaganMohan, 2020).
- Telecom Sector:** Install 5G, which will enable the deployment of AR/VR for health applications in remote places. Establish thorough tool utilisation for convenience of working from home.
- Consumer & Retail Business Sector :** Managing the supply chain will be difficult. The implications on demand for non-essential goods would be significant since it wouldn't increase right away because people wouldn't buy things they didn't need to because they were afraid of becoming sick.
- Automobile Sector :** 25% of India's automobile parts are imported from China. Raw material supply disruptions would have an impact on imports.

- **Power Sector :** In addition to other events, contingency plans and increased training for the workforce are necessary to manage demand fluctuation and significant power outages.

## LONG TERM RECOMMENDATIONS

- **Transportation and Logistic Sector:** The use of assets like MRTS, SRTS, cab aggregators, etc. would drop due to lower passenger movement on urban transportation networks, which will adversely impact their income and operating.

- **Food & Agriculture Sector :** As many governments evolve their food supply chain strategies, supply chain will be a big concern. Food items such as tea, meat, spices, and seafood that are shipped to the United States, Europe, and China have been severely damaged as a result of both decreased demand and local supply chain concerns.

- **Aviation and Tourism Sector:** According to the International Air Transport Association 2020, "the worldwide drop in revenue for the passenger industry is anticipated to be between USD 63 billion and USD 114 billion."

- **Telecom Sector:** Due to COVID-19, the suspension of production facilities would have a significant impact on the telecom industries.

- **Consumer & Retail Business Sector :** Streamlining the production regulations for necessities will make it simpler for customers. Relaxation of tariff restrictions/permitting importation of goods necessary for retail chains.

- **Automobile Sector :** Create a repayment assistance programme to help automotive and associated businesses, particularly the other distributors and suppliers of and makers of car components.

- **Power Sector :** If COVID-19 is maintained for a prolonged period of time, upheavals are anticipated to be gradual. Government financing awards might lead to delays if money is diverted to other industries.

- **Fiscal and Monetary Measures:** Synchronised fiscal and monetary policy actions are required to combat the coronavirus pandemic. Paying the increased healthcare costs brought on by the pandemic is one of the fiscal strategies. The cost of healthcare would significantly increase if masks, gloves, testing kits, personal protective equipment, ventilators, ICU beds, quarantine rooms, medications, and other supplies were made available. In India, public healthcare spending accounts for 1.1% of GDP. The current fiscal year is probably going to see an increase. The government has announced a \$1,700 billion relief package, which will be utilised to provide cash transfers to the weaker and poorer segments of society. A new assistance package, which will be unveiled soon, will support the industries that are most impacted, including MSMEs and farmers.

## Economic Disparity and a Reconsideration of India's Developmental Paradigm

Some startling conclusions on India's uneven developmental paradigm were revealed in the 2019 Oxford Committee for Famine Relief (OXFAM) study on "Income Inequalities in India". According to the research, the richest 1% of the population controlled 73% of the wealth created in the nation in 2017–2018. This group's wealth climbed by 20913 billion, which is equal to the central government's entire budget for that year. The wealth of the country's richest 1% is more than four times more than that of 953 million people, who make up the bottom 70% of the population. The lower half of India's population, which numbers 670 million people, witnessed a 1% growth in wealth from 2017 to 2018. It is obvious that just a small portion of the population has reaped the rewards of development. Sharp economic disparities in the nation are the reason why a sizable portion of the population that works in the subsistence sector just requires enough food and shelter to survive.

Many more are forced back into the subsistence sector as a result of an economic shock brought on by a natural disaster or epidemic. The COVID-19 epidemic has brought the nation's unequal development to light. If no relief measure is given to them, a substantial portion of the population would battle with hunger due to the loss of daily salaries.

## CONCLUSION

The final cost to the economy will probably be far more than what is now predicted. On the demand side, the government must strike a balance between the need to guarantee that the budgetary situation does not spiral out of control and the requirement for income assistance. The compromise reached thus far appears to be sensible, but the government must find more opportunities to boost the earnings of the underprivileged. The successful execution of additional fiscal measures may also depend on the participation of the state and municipal governments. The majority of businesses enable their staff members to work remotely and from home. Although many of these precautions were already in place, they will soon become the new norm. Supply chain risks are serious and will have lasting effects. Therefore, it is crucial that we increase our capacity in order to mitigate the effects of unanticipated events. We must act rapidly to recover the company's profits and return it to the pre-risk condition. The damage caused by a single, little virus is unimaginable to humans. The most significant lesson we have so far learned is the importance of general cost control in company and living as cheaply as possible. To minimise the impact of the shock on both the official and informal sectors and create the road for a lasting recovery, policymakers must be ready to scale up the reaction as events develop. To prevent long-term harm to the economy, they must also restrict the use of discretion and make sure that the answers continue to be governed by a set of norms. However every crisis offers a rare chance to reconsider the course adopted for the growth of a person, a community, and a society. The COVID-19 pandemic sends a strong signal to the Indian economy to embrace self-sufficient, inclusive, and environmentally responsible sustainable development strategies.

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