



# Exploring the Effect of COVID-19 on the Indian Economy: An Analysis

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## **Abstract:**

This research paper examines the impact of the COVID-19 pandemic on the Indian economy, with a focus on key sectors such as agriculture, manufacturing, services, and international trade. The study analyzes a comprehensive range of economic indicators and highlights the challenges faced by India during this unprecedented crisis. By exploring the economic implications of the pandemic, potential policy responses, and strategies for recovery, this research aims to provide a holistic understanding of the ongoing crisis and its long-term consequences.

**Key Words; Unprecedented, Economic, Holistic, Crisis.**

## **Introduction**

Corona virus disease (COVID-19) is an infectious disease caused by the SARS-CoV-2 virus. Most people infected with the virus will experience mild to moderate respiratory illness and recover without requiring special treatment. However, some will become seriously ill and require medical attention. Older people and those with underlying medical conditions like cardiovascular disease, diabetes, chronic respiratory disease, or cancer are more likely to develop serious illness. Anyone can get sick with COVID-19 and become seriously ill or die at any age.

The COVID-19 pandemic has led to a dramatic loss of human life worldwide and presents an unprecedented challenge to public health, food systems and the world of work. The economic and social disruption caused by the pandemic is devastating: tens of millions of people are at risk of falling into extreme poverty, while the number of undernourished people, currently estimated at nearly 690 million, could increase by up to 132 million by the end of the year.

Millions of enterprises face an existential threat. Nearly half of the world's 3.3 billion global workforce are at risk of losing their livelihoods. Informal economy workers are particularly vulnerable because the majority lack social protection and access to quality health care and have lost access to productive assets. Without the means to earn an income during lockdowns, many are unable to feed themselves and their families. For most, no income means no food, or, at best, less food and less nutritious food.

## **Research Objective;**

The main objective of this research is to analyze and evaluate the impact of the COVID-19 pandemic on the Indian economy. This involves conducting a comprehensive study to understand the specific economic sectors and industries affected by the pandemic, assessing the magnitude of economic disruptions, and examining the short-term and long-term consequences on key economic indicators such as GDP growth rate, employment, inflation, investment, and trade.

Additionally, the research aims to identify the measures implemented by the Indian government and other stakeholders to mitigate the negative effects and promote economic recovery.

By achieving these objectives, this research will contribute to a better understanding of the challenges and opportunities faced by the Indian economy in the wake of the COVID-19 crisis.

## **Impact on Indian Agriculture**

Uncertainty imposed by the crisis, restrictions on inter-state movements and absence of transportation disrupted the food supply chains and spiked food prices ([Kalsi et al., 2020](#)) and affected farm operations. Our analysis using the official time series price data of 284 days spanning from 01.11.2019 to 10.08.2020<sup>2</sup> of major food commodities indicated that the wholesale and retail prices of pulses, wheat flour and milk was 1–5% higher a month post-lockdown; prices of edible oils and staple cereals (rice and wheat) were 4–9% lower because of removing import restrictions and government interventions like free distribution of food grains. Vegetable prices rose with tomato prices increasing by 77–78% in a week and 114–117% a month post lockdown (for more details see [Cariappa et al., 2020a](#)). Markets saw increased arrivals in May owing to distress sale and market reforms insulated farmers from lower prices ([Varshney et al., 2020](#)). Smaller cities and rural areas saw higher price rises than the urban areas ([Cariappa et al., 2020a](#); [Narayanan and Saha, 2020](#)).

## **Disruption in the Supply Chain and Labor Shortages.**

The imminent shut down stopped production leading to job and income loss and demand recession. The pandemic also led to food loss and wastages that affected the food and nutrition security especially of the vulnerable sector, though briefly, and can have lifelong impacts on capabilities. The government and private interventions should warrant managing the food loss and waste, reviving the demand and food intake. To manage the food waste at household level, implementation of good food management practices like preparation of shopping lists and planning the course of meals are advocated ([Principato et al., 2020](#)).

## **Decreased Demand and Price Fluctuations.**

COVID-19 had less or negligible effect on food prices (except for vegetables). However, food prices are plagued by high volatility which translates into price risk to farmers. The Government should consider setting up a price stabilization fund to insulate farmers from the price risk. Further, crop insurance in India generally covers only the yield risk; COVID-19 has presented the government an opportunity to transform the crop insurance scheme which covers the revenue (yield and price) risk of farmers ([Cariappa et al., 2020b](#)). Alternatively, farmers and consumers can avail the benefits of futures trading to buy/sell the standardized commodity contracts at a pre-decided price for delivery in the future ([Sendhil et al., 2013](#)). To meet the contract size set by the commodity exchanges, Farmer Producer Companies (FPCs) can transform themselves into aggregators.

## **Effect on Manufacturing Sector**

A year ago, it seemed certain that the shifting global dynamics due to the novel corona virus crisis, had the potential to pave India's way into the manufacturing sector. Come 2021. India is in the worst grip of a variant of

the novel corona virus. Manufacturing in India has come to a near standstill. As the sector with the maximum amount of backward and forward linkages, manufacturing crucially sustains and propels economic recovery. But restrictions on account of the surge in COVID-19 cases has led to a massive deceleration in the manufacturing sector. And the worst is yet to come both in terms of the spread of the corona virus and the slowdown of manufacturing.

### **Downward trend**

In March 2021 the IHS Market India Manufacturing Purchasing Managers' Index (PMI) slipped to a seven-month low of 55.4 from 57.5 in February 2021. Data for April indicates a slight improvement to 55.5 after declining to a seven-month low in March at 55.4. This marginal increase doesn't hide the fact that "the headwinds facing manufacturers cannot be ignored. The surge in COVID-19 cases could dampen demand further when firms' financials are already susceptible to the hurdle of rising global prices. India's GDP for the first quarter (Q1) of 2020-21 contracted by 23.9% and the share of the manufacturing sector in total gross value added (GVA) which was 17.5% in Q1 of 2019-20 shrunk to 13.8% in this quarter. Growth rate in the manufacturing sector has plunged to -39.3% in Q1 of 2020-21. For consecutive eight quarters manufacturing growth rate has declined, indicating a lack of demand and a deeper structural crisis in the sector worsened by the pandemic-induced lockdowns.

### **Impact on Services Sector and Employment**

India improved its position from 12th in 2018 to 9th in 2019 in the list of the world's largest FDI recipients according to the latest World Investment Report 2020 by United Nations Conference on Trade and Development (UNCTAD). FDI into India recorded almost 17 per cent jump during April-September 2020 over the corresponding period last year, despite the global slowdown, the COVID-19 pandemic, lockdown measures and supply chain disruptions.

The gross FDI equity inflows (excluding re-invested earnings) into the services sector jumped 34 per cent YoY during April-September 2020 to reach US\$ 23.61 billion, accounting for almost four-fifth of the total gross FDI equity inflows into India during this period. The jump in FDI equity inflows was driven by strong inflows into the 'Computer Software & Hardware' sub-sector, wherein FDI inflows increased to US\$ 17.55 billion which is over 336 per cent higher over the corresponding period last year.

India's Services sector witnessed a significant set-back during the COVID-19 pandemic mandated lockdown. Owing to its contact-intensive nature, the sector contracted by nearly 16 per cent during the first half of the financial.

Air passenger traffic, rail freight traffic, port traffic, foreign tourist arrivals, and foreign exchange all contracted sharply as soon as the first lockdown was year 2020-21.

Despite the disruptions being witnessed globally, FDI inflows into India's announced in March 2020. However, there are now signs of steady recovery. Services sector grew robustly by 34 percent YoY during April-September 2020

The year 2020-21 witnessed many significant structural reforms. Telecom related regulations were removed from the IT-BPO sector, and consumer protection regulations were introduced for e-commerce.

The shipping turnaround time at ports has almost halved from 4.67 days in 2010-11 to 2.62 days in 2019-20. As per the latest UNCTAD data, the median ship turnaround time globally is 0.97 days, suggesting that India has room to further improve upon the efficiency at ports.

The Indian start-up ecosystem has been progressing well amidst the Covid-19 pandemic. India is home to 38 unicorns, adding a record number of 12 start-ups to the unicorn list last year.

India's space sector has grown exponentially in the past six decades. India spent about US\$ 1.8 billion on space programmers in 2019-20. However, the country still lags behind major players in the sector, such as USA, China and Russia. The Indian Space ecosystem is undergoing several policy reforms to engage private players and attract innovation and investment

### **Effect on Tourism and Hospitality Industry**

Travel & tourism industry in India has been a significant contributor to the country's GDP. The sector even generates a large employment base. So when by mid-March, the popular tourist attractions in India started to close down, and the news on putting a halt on flying began to make rounds, we all started to predict the grim future of the travel industry in the country already. In fact the shutting down of the iconic Taj Mahal on March 17, 2020, which attracts millions of visitors every year, was a sign enough to assess the hard blow this pandemic was launching at us.

- On account of Corona virus, the Indian tourism and hospitality industry is expecting a potential job loss of around 38 million.
- In the third week of March 2020 itself, the hotel sector saw a decline of more than 65% in occupancy levels as compared to the same period in 2019.
- With international and domestic travel on halt, demand for turbine fuel has substantially declined.
- Indian Association of Tour Operators (IATO) estimates the hotel, aviation and travel sector together may suffer a loss of about ₹85 billion keeping in mind the travel restrictions imposed on foreign tourists.
- Impact of Covid-19 would be felt on both white and blue collar jobs.
- India's outbound and inbound travel will witness an all time low.
- The restaurant industry in India is expecting almost zero revenue in the immediate term, and a drop of 50% in the months to come.
- At least 30 per cent of hotel and hospitality industry revenue could be impacted if the situation doesn't improve by the end of June 2020.
- There is a threat of job loss of nearly 15% in the hotel and restaurant industry once the lockdown is lifted, as they will not see an immediate surge in demand.
- Aviation industry in India could incur losses worth ₹ 27,000 crore (\$3.3-3.6 billion) in the first quarter of 2020-21.
- The passenger growth of airlines is likely to fall sharply to a negative 20-25% growth for the 2020-21.

### **Impact on International Trade**

India posted a trade surplus of \$790 million in June, its first in over 18 years, with imports plunging as the corona virus pandemic depressed domestic demand for crude oil, gold and other industrial products, reflecting a slowing economy. Indian exports and imports have been falling since March and worsening India-China relations, shrinking global demand and disruptions in supply chains are likely to pressure the trade outlook over the next few quarters, analysts said.

Asia's third largest economy is projected to contract by up to 5 per cent this financial year, beginning April, from an earlier government estimate of nearly 6 per cent growth as an over two-month-long COVID-19 lockdown has hit economic activities and consumer demand.

Merchandise imports contracted 47.59 per cent in June to \$21.11 billion from a year ago, while exports fell 12.41 per cent to \$21.91 billion, leading to a marginal trade surplus, data released by the Ministry of Commerce and Industry on Wednesday showed.

## **Government Response and Policy Measures**

The Indian government has implemented a range of fiscal and monetary measures to overcome the impact of the COVID-19 pandemic. Here are some key initiatives:

1. **AtmaNirbhar Bharat Package:** The government announced a comprehensive economic relief package worth INR 20 lakh crore (\$265 billion) under the AtmaNirbhar Bharat (Self-Reliant India) initiative. The package includes a mix of fiscal support measures, liquidity infusion, and structural reforms across various sectors.
2. **Direct Cash Transfers:** The government provided cash transfers to vulnerable sections of society, such as farmers, senior citizens, women, and low-income households, through existing schemes like PM-KISAN, Jan Dhan Yojana, and Ujjwala Yojana. These transfers aimed to provide immediate relief to those affected by the pandemic.
3. **Emergency Credit Lines:** The Reserve Bank of India (RBI) introduced special liquidity support measures for businesses, including emergency credit lines guarantee schemes for small and medium-sized enterprises (SMEs). This facilitated increased access to credit and working capital for businesses to sustain their operations during the crisis.
4. **Loan Moratorium:** The RBI allowed a moratorium on loan repayments for a specific period to provide relief to individuals and businesses facing financial hardships. This freeze on loan repayments helped ease the immediate cash flow pressures.
5. **Collateral-Free Loans for MSMEs:** The government introduced the Emergency Credit Line Guarantee Scheme (ECLGS) to provide collateral-free automatic loans to Micro, Small, and Medium Enterprises (MSMEs). This initiative aimed to enable MSMEs to meet their operational liabilities and restart their businesses.
6. **Infrastructure Investment:** The government announced increased allocation towards infrastructure development, including the National Infrastructure Pipeline (NIP), which entails investing INR 111 lakh crore (\$1.5 trillion) in various sectors over the next five years. This investment is expected to generate employment and spur economic growth.
7. **Reforms in Agriculture and Labor Laws:** The government implemented reforms in the agriculture sector, including amendments to the Essential Commodities Act and allowing farmers to sell their produce directly to buyers outside the Agricultural Produce Market Committee (APMC) mandis. Additionally, labor law reforms were initiated to promote ease of doing business and attract investments.

These measures, combined with others, aim to mitigate the economic impact of the COVID-19 pandemic and revive the Indian economy.

## **Strategies for Recovery and Resilience**

To ensure recovery and resilience in the Indian economy from the impact of COVID-19, several strategies can be implemented:

1. **Fiscal Stimulus and Infrastructure Investment:** Increase government spending on public infrastructure projects to stimulate economic growth and generate employment opportunities. This can involve investments in transportation, energy, health, and education infrastructure.

2. **Support for Small and Medium Enterprises (SMEs):** Provide financial assistance, including easy access to credit, special loan schemes, and tax incentives, to support the revival of SMEs. These businesses are a significant contributor to the Indian economy and can play a crucial role in job creation.
3. **Enhance Digital Infrastructure:** Accelerate the development of digital infrastructure, including access to high-speed internet, to promote digital transformation across sectors. This can support the growth of e-commerce, remote work, and digital services, fostering economic resilience.
4. **Skill Development and Job Creation:** Focus on reskilling and upskilling programs to enhance the employability of the workforce in emerging sectors. Encouraging entrepreneurship and supporting job creation through initiatives such as Start-up India can also contribute to economic recovery.
5. **Promote Export-oriented Industries:** Encourage export-oriented industries such as textiles, pharmaceuticals, and IT services. Facilitate easier exports procedures, provide export incentives, and explore new markets to increase export earnings and generate foreign exchange.
6. **Strengthen the Healthcare System:** Increase investment in healthcare infrastructure, including upgrading hospitals, expanding healthcare facilities in rural areas, and investing in research and development of medical technologies. This can enhance the country's preparedness for future health crises and promote medical tourism.
7. **Attract Foreign Direct Investment (FDI):** Simplify and liberalize regulations to attract foreign investment across sectors, including manufacturing, services, and technology. Promote ease of doing business, provide tax incentives, and ensure a stable investment climate to encourage FDI inflows.
8. **Boost Tourism and Hospitality:** Support the revival of the tourism and hospitality sectors by promoting domestic tourism campaigns, providing financial assistance to hotels and tourism-related businesses, and ensuring health and safety measures for travelers.
9. **Strengthen Social Safety Nets:** Implement and strengthen social safety net programs to provide targeted assistance to vulnerable sections of society, including direct cash transfers, increased access to healthcare, and enhanced social security measures.
10. **Collaborate with International Partners:** Engage in international collaborations and partnerships to access funds, technical expertise, and knowledge-sharing platforms. This can leverage global resources and best practices to support India's recovery and resilience efforts.

The implementation of these strategies, along with effective governance and continuous monitoring, can help India rebuild its economy and ensure long-term resilience in the face of future challenges.

## Conclusion

The impact of COVID-19 on the Indian economy has been far-reaching and severe. The country faced a significant decline in economic growth as various sectors were hit hard by the pandemic-induced lockdowns and restrictions. The pandemic has resulted in job losses, widespread unemployment, and a decrease in consumer demand, leading to businesses shutting down and economic activity grinding to a halt.

The pandemic's impact on the Indian economy has been particularly devastating for industries such as tourism, hospitality, and aviation, which heavily rely on domestic and international travel. The closure of borders and the fear

of contracting the virus resulted in a sharp decline in tourism and travel-related activities, leading to job losses and economic damage.

Furthermore, the informal sector, which is a significant portion of the Indian economy, suffered greatly as workers in this sector were left without work or financial support. The lockdown measures disproportionately affected the livelihoods of daily wage workers, migrant laborers, and small businesses, resulting in a severe blow to their income and economic stability.

The pandemic also disrupted global supply chains, impacting manufacturing industries that rely on imports of raw materials and exports of finished goods. The disruptions in supply chains and logistic networks further affected businesses and led to supply shortages and delayed deliveries, slowing down economic activity in the country.

The Indian government took various measures to mitigate the economic impact of the pandemic, including providing financial aid packages, monetary easing, and stimulus measures. However, these efforts have had limited success in reviving the economy, given the magnitude of the challenges posed by the pandemic.

It is worth noting though that the pandemic also presented opportunities for certain sectors such as e-commerce, digital services, and healthcare. These sectors experienced a surge in demand as people increasingly relied on online platforms and telemedicine for their needs.

Looking ahead, the recovery of the Indian economy will largely depend on the successful containment of the virus and the effective distribution of vaccines. Restoring consumer confidence, boosting investments, and implementing structural reforms to enhance competitiveness will also be crucial in facilitating a sustainable economic recovery.

Overall, the impact of COVID-19 on the Indian economy has been unprecedented and will require concerted efforts from the government, businesses, and society to overcome the challenges and rebuild a stronger and more resilient economy.

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