Economic fallout of Covid -19 in India

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Abstract

Pandemics usually cause a burden on healthcare systems, but COVID-19 also impacted the economies of the affected countries. This is because COVID-19 directly impacted income due to premature deaths, workplace absenteeism and reduction in productivity, causing large scale decline in government revenues also.

The lockdown in India had a significant impact on the economy mainly on consumption that is Aggregate Demand, impacting sectors like logistics, auto, tourism, metals, drugs and pharmaceuticals, electronic goods, MSMEs and retail.

After unprecedented lockdowns and restrictions to flatten the curve of Covid-19 infection, business and government leaders are now wrestling with the question of when and how to ease them with a three pronged approach. Experts inform that governmental incentives and aggressive stand and the population's resilience, has made the economy to start expanding again.

Objective

To briefly track the economic fallout of Covid -19 in India and to trace the steps taken by industry to mitigate its effects.

Methodology

The paper draws relevant information about the topic, from newspapers, websites, lectures and other secondary sources.

Key words

Lockdown, pandemic, economic impact, economic recovery

Introduction

The COVID-19 which causes novel corona virus was first reported in China's Wuhan in December 2019 and since then has spread to most of the world. On March 11 2020, Dr Tedros Adhanom Ghebreyesus, Director-General of the World Health Organisation (WHO), declared the infectious disease as a 'pandemic' because by that time there were over 3 million cases and 207,973 deaths in 213 countries (World Health Organization. Coronavirus Disease 2019 (COVID-19): Situation Report 100, Geneva (2020).

A pandemic is not new. There have been three influenza pandemics in the 20th century – Spanish Flu caused by A (H1N1) virus, in 1918–1919; Asian Flu caused by A(H2N2) virus) in 1957-1958 and Hong Kong Flu caused by an A(H3N2) virus in 1968.

According to the Centers for Disease Control and Prevention, the 1918 influenza pandemic was the most severe and since there was no vaccine available then, the world resorted to isolation, personal hygiene and such measures.

Later in 2009, another flu pandemic caused by influenza A (H1N1) virus emerged. It primarily affected children and young and middle-aged adults. Two vaccines were produced for the virus and the spread was controlled.

Just like other pandemics, as of now, there is no vaccine available against COVID-19 and the governments decided to take precaution by enforcing isolation, personal hygiene and such measures leading to unprecedented lockdowns and restrictions to contain Covid-19 infections.

Economic effect of Covid-19 in India

Usually pandemics resulted in burden on healthcare systems, but COVID-19 has also impacted the economies of the affected countries. The COVID-19 pandemic has caused direct impacts on income due to premature deaths, workplace absenteeism, reduction in productivity and has resulted a negative supply situation, with manufacturing productive activity slowing down due to global supply chain disruptions and closures of factories. This was unprecedented.

In addition to the impact on productive economic activities, consumers also changed their spending behavior, due to decreased income as well as the fear and panic accompanying the epidemic. Service industries such as tourism, hospitality, and transportation suffered significant losses due to reduction in travel. Restaurants and bars, travel and transportation, entertainment, and sensitive manufacturing were the sectors worst affected by the COVID-19 quarantine measures. With factories and workplaces shut down, millions of migrant workers had to deal with the loss of income, food shortages and uncertainty about their future. Government schemes ensured that the poor would get additional rations due to the lockdown, but the distribution system was seen struggling to cope. India faced a huge decline in government revenues as the corona virus hit the economic activity of the country as a whole.

Fear of Covid-19 restricted individual movement. The lockdown in India had a significant impact on the economy mainly on consumption that is Aggregate Demand, which is the biggest component of GDP. Declining consumption has led to the closure of businesses impacting global supply chains. The impact of COVID-19 is being felt across sectors like logistics, auto, tourism, metals, drugs and pharmaceuticals, electronic goods, MSMEs and retail.

World Bank’s Chief Economist for South Asia, Hans Timmer warned of a worst-case scenario due to prolonged and broad national lockdowns.

On 27 March, Moody's Investors Service revised its estimate of India's GDP growth for 2020 from 5.3% to 2.5% (Business Today. PTI. 27 March 2020*)*

In April 2020, the World Bank downgraded India's growth for fiscal year 2021 with the lowest figures seen in three decades (The Times of India. 12 April 2020*)*

In mid-April the International Monetary Fund projected GDP for India for the FY21 at 1.9% (India Today. 17 April 2020)

Confederation of Indian Industry (CII) estimated that India's GDP for FY21 will be between 0.9% and 1.5% (Business Today, retrieved 23 April 2020*)*

On 22 May the RBI Governor Shaktikanta Das also said India's GDP growth will remain negative in FY21 (Livemint. Retrieved 24 May 2020*)*

On 1 September 2020, the Ministry of Statistics and Programme Implementation released the GDP figures for Q1 FY2021, which showed a contraction of 24%. (Hindustan Times, retrieved 15 June 2020 and The Times of India, retrieved 1 September 2020

All this data carried conviction because India's exports in April 2020 fell by -36.65% year-on-year, while imports in April 2020 fell by -47.36% as compared to April 2019

Night lights and economic activity are connected and night light radiance fell from between 29% to 37.2% in March 2020 compared to March 2019. India's fuel demand in April 2020 as compared to the previous year fell nearly 46%. Major companies in India such as L&T, Bharat Forge, Ultra Tech Cements, Grasim, Tata Motors, Thermax and others temporarily suspended or significantly reduced operations in a number of manufacturing facilities and factories across the country. Sensex fell 4000 points (13.15%) and NSE Nifty fell 1150 points (12.98%). **(**The Economic Times. 23 March 2020*)*

So alarming was the slowdown effect due to restrictions that in March, Adar Poonawalla, CEO of Serum Institute of India said that "the economic danger of the outbreak was exponentially greater than its health risks". On 29 April, Indian billionaire NR Narayana Murthy echoed similar sentiments saying that if the lockdown continues, India may see more deaths due to hunger than from the pandemic (The Economic Times, retrieved 30 April 2020)

Containing economic fallout of Covid-19 in India

The sentiments of health vs economy became paramount and after unprecedented lockdowns and restrictions to flatten the curve of Covid-19 infection, business and government leaders are now wrestling with the question of when and how to ease them. Various approaches are being tried, and there are wide differences of opinion.

But it's not as if only two conditions exist - to "close" or to "open." Such decisions have to be considered with a three pronged approach.

a) Charles Kettering, the inventor, famously said, "A problem well-stated is a problem half-solved." The starting point for any reopening decision - of a country, state, community, or business – has to begin with its objective. The objective must be reasonable and achievable, and actions must focus on achieving it. Objectives for easing restrictions have to balance multiple and competing considerations. Therefore framing the question precisely, about the objective, is the first step toward a clear solution.
b) The second step is the capacity to read the granular composition in order to set the objectives properly. General David Petraeus said in 2010: "We have never had the granular understanding of local circumstances that we achieved over time." The General was describing how 'granular' insight and learning, enabled agility over a period of time. In this pandemic too there are striking 'granular', basic, identifiable, differences across geographies and highly compartmentalized impacts within population groups and professional associations. Every grain gives prompts different solution choices that can be applied in different ways in different settings; for example, Sweden's approach to isolating old populations and largely avoiding lockdowns was one way; Italy's approach to quarantining Lombardy early was another, as was China's decision to isolate the city of Wuhan. India itself has complex granular structure and arriving at any solution demands detailed and careful consideration. The power of the granular approach is in helping systematically understand the various interactions that geography, community, or businesses face, assessing their risk, and identifying ways to either reduce intensity, or reducing the number of people involved in the interaction.
c) Lastly is the capacity to learn and adapt quickly to emerging environments. There is still much not known about Covid-19, but experts are learning more every day. And because of the uncertainty, it is important to build the capacity to learn and adapt quickly: to monitor progress against the objective, assimilate new information and learn as it emerges, and refine and evolve decisions accordingly.

In line with these three principles, the government is undertaking measures to contain the health and economic fallout, and the RBI has begun providing calibrated support in the form of policy rate cuts and regulatory restraints. Experts inform that due to governmental incentives and aggressive stand and due to the population's resilience, there are definite signs of an economic recovery which is when, an economy is bouncing back from a recession and starting to expand again.

D Subbarao, former RBI governor feels India could look forward to a V-shaped recovery. (Business Today, retrieved 11 May 2020). A V-shaped recession and economic recovery is about speed and sharpness. It means, there is a sharp contraction in the economy before it experiences an equally sharp recovery to pre-recession levels.

Arthur D Little, an international consulting firm, has suggested that India will most probably see a W-shaped recovery (consultancy.in. 21 May 2020). W-shaped recessions are also known as 'double-dip' recessions. This is because, at first, it can look like an economy is undergoing a V-shaped recovery before it plunges into a second, smaller, contraction before fully recovering to pre-recession levels. Markets are likely to be more volatile under a W-shaped recovery because investors and traders can be under the illusion that the economy is about to recover only to find there is another dip, before it recovers genuinely.

Mythili Bhusnurmath, an economist-turned-banker-turned journalist, writes in The Economic Times of 6 June 2020 that U- shaped recovery is the most likely followed by an L-shaped recovery. A U-shaped recovery sees an economy experience a sharp fall into a recession like the V-shaped scenario, but a more gradual and slower recovery to pre-recession levels. An L-shaped recession and recovery is seen as the worst-case scenario where the economy returns to growth at a much lower speed, which means it takes much longer to fully recover.

Conclusion

Be as it may, realizing that economy is equally important, the government permitted select sectors to operate and many companies in May 2020 started preparations for restarting operations. Some companies opened offices with 33% staff strength while others took a cautious approach of rotating staff duties. The beginning of June saw more companies reopening. Educational institutions also cautiously began functioning and quickly adapted to an online environment. A study by Elara Securities Inc. found that five Indian states, Kerala, Punjab, Tamil Nadu, Haryana and Karnataka, were contributing 27% to India's GDP as India emerged from a total lockdown. (Hindustan Times, Niyati Singh, Bloomberg. 2 June 2020). By mid-June, unemployment levels were back to pre-lockdown levels. (The Economic Times, retrieved 24 June 2020). Online sales reached pre-covid level sales by June end. On 2 July 2020, The Times of India reported that a number of economic indicators such as the manufacturers purchasing managers' index, goods movement, GST collections, electricity usage and rail freight transport, all showed significant improvement as compared to previous months. The Economic Times of 4 July 2020 mentions the PMI (Purchasing Managers' Index) up at 56.8 per cent, goods and services tax (GST) collections up 4 per cent on a year-on-year basis to Rs 95,480 crore while E-way bills were at 50.2 million until 28 September, which happens to be the highest figure since March.

By 13 September 2020, Nomura India's Business Resumption Index showed that economic activity was nearly back to pre-lockdown levels. (The Economic Times, 15 September 2020). On 24th September 2020, The Economic Times reported that while speaking at the ET Global Summit, Kevin Sneader, global managing partner of McKinsey and Co. said that, "many economists have been talking about 'V', 'U' and 'K' shape recoveries ever since the COVID-19 pandemic began. Yet, in all likelihood, there could be an 'X' shaped recovery for global economies, including India."

The recent 'aatma nirbhar' goal given by the government seems to have galvanized the country's determination to break through the stranglehold of the Covid-19 and to rise to the occasion by becoming not only self reliant but also dominant on the world stage.

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