



Covid -19 crisis and Indian economy: Challenges & solutions

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Abstract

The rampant spread of COVID-19 outbreak, across borders and geographies, has severely impacted almost the whole world and triggered significant downside risks to the overall global economic outlook.

Due to the lockdown announced by the Indian Government, the economy has brought down the economy on its knees, impacting both overall consumption and investments. This has prompted several rating agencies to revise downward their FY 2020 GDP growth estimate for India in the range of 2.1–4.0%. For most businesses, the slowdown could be in the form of supply disruptions, fall in consumption demand, and stress on the banking and financial sectors. There will be no surprise to see a permanent impairment of a large section of the industry, which may lose the opportunity to come back to life again. The present paper is an attempt to highlight the impact of Covid -19 pandemic situation on the Indian Economy and suggestive measures to be taken for sustaining and reviving the same.

Keywords: Indian economy, slow down, covid-19 pandemic, impact

Introduction

The ongoing Corona Virus Pandemic is the cost that the nations are bearing for Globalization. The Corona Virus has travelled from China to all other countries of the world. Corona Virus has not just rattled lives, but also economies across the world and our country, has not been spared either. It is no longer only a global health crisis; it is also a major labour market and economic crisis that is having a huge impact on people, with over 170 countries likely to experience negative per capita GDP growth due to the raging corona virus pandemic. This pandemic situation has already brought seventy percent of our country's economic activities, investments, exports etc. to a complete halt. The corona outbreak has attacked the Indian economy at the most inopportune time, when its economy was showing some signs of recovery after fiscal/monetary measures. Unfortunately, the impact of this corona virus on our country will be many a fold times, as India is an emerging economy and therefore, the future for our country seems bleak and unwelcoming. The extent of actual impact would depend on the severity and duration of the outbreak, which is still unknown.

Objectives of the Study

- To understand the impact of Covid- 19 on Indian economy as a whole.
- To understand the effect of Covid- 19 pandemic situation on important segments of economy.
- To suggest corrective measures for the revival of economy.

Research Methodology

In the present study the researcher have taken secondary data in the form of survey reports & study reports by various agencies like CRISIL, FICCI, PwC, ASSOCHAM, CII, McKinsey & Company and CARE Ratings for detailed study to understand the impact of COVID-19 on Indian economy and its various sectors. In addition to this

researchers have studied the research papers and news articles that were published in during the period.

Impact of Pandemic on Various Segments

Agriculture Sector

The lack of labour, lack of transport mechanism, lack of access to markets etc. will cause a major setback to the agriculture sector Agriculture and Rural Activities The agriculture sector is critical as large number of workers and the entire country's population are dependent on this sector. The performance of agriculture is also key to the state of rural demand. Shortages of fertilizers, veterinary medicines and other inputs will also affect agricultural production. Closures of restaurants, transport bottlenecks can diminish demand for fresh produce, poultry and fisheries products, affecting producers and suppliers.

Real Estate Sector

Indian Real Estate Sector, due to several challenges such as Demonetization, GST, RERA and Liquidity Crisis, was already in prolonged slow down and this Covid-19 crisis will serve it no better. The pricing for properties will come down, and the property owners/developers will be ready to get rid of its ready inventory at the earliest, which will be an opportunity for the homebuyers. The sluggishness of Real Estate sector and Automobiles sector will directly affect the Iron & Steel manufacturing industries.

Banking & Financial Sector

The most worrisome impact of corona crisis is on the Banking & Financial Sector. With the global recession creeping in, the NPAs of the banks and financial institutions/NBFCs are expected to pile up. Also, the negative impact of crisis on industrial production and domestic demand are likely to aggravate the difficulties for Indian Banking system. Moody's Investors Service has already changed the outlook for the Indian banking system to negative from stable, as it expects deterioration in banks' asset quality due to disruption in economic activity.

Tourism

India is big on cultural and historical tourism, attracting domestic and foreign nationals throughout the year. It does not come as a surprise that a large number of confirmed COVID-19 cases in India include foreign tourists. But with visas being suspended and tourist attractions being shut indefinitely, the whole tourism value chain, which includes hotels, restaurants, attractions, agents, and operators is expected to face losses worth thousands of crores. Experts believe the tourism industry is likely to take a massive hit, and it could end up crippling the industry for the foreseeable future.

Overall macro impact

The countrywide lockdown has brought nearly all economic activities to an abrupt halt. The disruption of demand and supply forces are likely to continue even after the lockdown is lifted. It will take time for the economy to return to a normal state. Hence demand is unlikely to get restored in the next several months, especially demand for non-essential goods and services. Three major components of aggregate demand—consumption, investment, and exports—are likely to stay subdued for a prolonged period of time. In addition to the unprecedented collapse in demand, there will also be widespread supply chain disruptions due to the unavailability of raw materials, exodus of millions of migrant workers from urban areas. The supply chains are unlikely to normalise for some time to come. This in turn will have further spill-over effects on investment, employment, income and consumption, pulling down the aggregate growth rate of the economy.

On Non-Essential Businesses

With all non-essential businesses closed, most industries will witness a drastic decline in sales. Revenue losses will force businesses to either close down or opt for wholesale retrenchment of workers. Operations of a large number of companies in specific sectors will not see business getting back to normal even after the lockdown ends, as the labour has moved out. Even capital intensive sectors such as aviation, real estate, consumer durables, and jewellery may not see a demand revival for several months or quarters.

MSMEs

MSMEs The micro, small and medium enterprises as a whole form a major chunk of manufacturing in India and play an important role in providing large scale employment and also in the country's exports. Recent annual reports on MSMEs indicate that the sector contributes around 30% of India's GDP, and based on conservative estimates, employs around 50% of industrial workers. Over 97% of MSMEs can be classified as micro firms (with an investment in plant and machinery less than Rs 25 lakh), and 94% are unregistered with the government. Many of the micro enterprises are small, household-run businesses. Although all businesses have been affected by the pandemic, the MSME sector would be badly hit by reduced cash flows caused by the nationwide lockdown. Their supply chain would be disrupted, and they would be affected by the exodus of migrant workers, restrictions in the availability of raw materials, by the disruption to exports and imports and also by the widespread travel bans, closure of malls, hotels, theatres and educational institutions etc. This, in turn, would massively hamper the MSME businesses. As a consequence,

hundreds of thousands of people who work for these small businesses may end up with job and salary losses.

Remedial Measures

Covid-19 has changed the world fundamentally. With nations in lockdown to protect their people and businesses on hold, the wheels of economic growth have been brought to a halt. But like everything else, this too shall pass. And when it is gone, the countries with proper plans will take a lead. We have to make sure we are ready for the new world post coronavirus. There are many steps that we can take now for economic growth, we do scenario planning and take major issues that we need to tackle now fast we, as a country, will win:

1. Preventing another Covid-19 outbreak

This will be critical for any country or business. A new wave of covid-19 will be hard to recover from. We should start preparing detailed Covid-19 guidelines and make it a mandatory compliance for companies post-lockdown. Businesses should put in extra effort to make sure their factories are Covid-19 compliant. This step will also build confidence in the workforce and will ensure better production.

2. Lack of manpower

Another looming issue post-lockdown will be lack of workforce or manpower. Most of the workers are migrant and may not be able to return to work soon. Companies will end up operating at very low capacity. This will require businesses to take up substantial measures for worker safety and in providing benefits like housing near the place of work etc. Businesses will also require thinking out-of-the-box and establishing processes to employ available workforce efficiently. For example—multiple shifts (as an all available workforce cannot work together due Covid-19 guidelines), providing other benefits to workers, utilizing available capacity of units etc.

3. Unanticipated Demand

The Covid-19 pandemic has impacted the supply chains across the globe. Post lockdown, it will be very difficult for businesses (except essential goods, FMCG etc.) to predict from where and what level of demand will come. Businesses should activate scenario planning teams. These teams will help cover multiple demand scenarios and plan solutions accordingly, managing other stakeholders like vendors to ensure supplies.

4. Liquidity Crunch

Businesses have started facing massive working capital/cash flow issues due to lockdown and they will continue even post that because of reduced demand. MSME and start-ups are the worst hits. Though government has started taking steps via SIDBI and other schemes to help MSMEs but we still need to do more. To help these small businesses, government can also procure from MSMEs and startups thus, helping them sustain.

5. Supply Chain

Once lockdown is lifted one of the most crucial things to make sure we are on a path of exponential growth is ensure our 'physical supply chain' operates seamlessly without any obstruction. As a country, we would have to define clear

guidelines on movement of goods. States, businesses and industry bodies would need to work together in making this happen.

6. Banking Sector

In absence of a liquid and well-functioning bond market, given the extra-ordinary nature of the crisis and given the dependence of the Indian economy on banks, the banking system needs to step up to provide the necessary credit to firms as well as households. Otherwise far too many enterprises will get destroyed and unemployment will go up dramatically.

Conclusion

Covid-19 has posed an unprecedented challenge for India. Given the large size of the population, the precarious situation of the economy, especially of the financial sector in the pre-Covid-19 period Overall, COVID-19 has brought untold misery to a large section of low income individuals across the globe. The uncertainty about future looms heavily in the mind of both consumers and producers.. The central and state governments have recognized the challenge and have responded but this response should be just the beginning. Policy makers need to be prepared to scale up the response as the events unfold so as to minimise the impact of the shock on both the formal and informal sectors and. The uncertainty about future looms heavily in the mind of both consumers and producers to pave the way for a V-shaped recovery.

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