

## Impact of Covid-19 on Indian Economy

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### INTRODUCTION

Coronavirus disease 2019 (Covid-19) has badly impacted the economic activities as well as human lives all over the world. The year 2020 has witnessed unrivalled turmoil of novel covid-19 virus and the exponential rise in corona virus cases compelled World Health Organization (WHO) to title this outbreak a pandemic on 11<sup>th</sup> march, 2020. The economic impact of corona virus pandemic in India has largely been disruptive. It has brought social and economic life at a standstill leading to a steep fall in output i.e. minus 24.4% during first quarter of 2020. Majority of the sectors have been hit hard as domestic demand and exports plummeted sharply. Thousands of micro, small and medium enterprises have shut down leading to job loss of masses.

Notably India has been witnessing a pre-pandemic slowdown as India's GDP growth rate was 8.26% in 2016-17 and had fallen to 4.18% in 2019-20. This was due to contraction of consumption and investment demand. Furthermore, the pandemic has intensified the pre-existing risk of economic downturn to new heights as it has triggered twin economic shocks i.e. both demand and supply side shocks simultaneously. The demand side shock involves reduced investment due to increase in future uncertainty, lack of effective demand for non-essentials, reduction in consumption due to income loss, etc. while the supply side shocks involves unavailability of labour for production due to their restricted movements, closure of economic activity due to nationwide lockdown during April-May, 2020.

The effect of covid-19 on agriculture sector was likely to be low as it was largely insulated from the countrywide lockdown due to its essential nature. This facilitated uninterrupted harvesting of rabi crops and sowing of kharif crops during the year 2020. The continued unabated procurement of foodgrains enhanced the buffers and ensured food security throughout the year.

However, a significant impact was seen on the transportation of agricultural goods thus leading to high food inflation and adverse initial impact on some major agricultural exports. Further, a large number of farmers who grew perishables also faced difficulty amidst lockdown. The impact can also be seen on allied sectors. As per reports, sales of poultry sector reduced by 80% losing a business of nearly ₹ 1500-2000 crore daily. Overall, the sector performed well by showing a positive growth of 3.4% during both Q1 and Q2 and 3.9% during Q3 of FY 2020-21.

The manufacturing sector was hit hard due to pandemic induced lockdowns as it showed a negative growth of 39.3% during Q1 of FY 2020-21. Millions of people lost their jobs due to the shutdown of small scale industries and new MSMEs. The nationwide lockdown led to reverse migration of workers from cities to villages and it was estimated that around 6 lakh workers walked on foot and 10 lakh workers were in relief camps, who were employed across multiple sectors. Moreover, work from home culture reduced the scale of operation thus affecting the quality, cost and production volumes of the commodities. The uncertainties in the logistics, reduced demand of transport fuels, and the lack of effective demand due to disengagement of consumers from buying processes by postponing the non-essential purchases leads to adverse effect to the manufacturing sector during the pandemic. Major companies, young startups and fast moving consumers goods companies have reduced their operations. It was reported that the construction related GVA and employment reduced between 15 to 34 per cent and 11 to 25 per cent respectively when compared to pre-crisis projections for FY21.

In terms of employment shock, contact sensitive sectors like trade, hotel, transport, tourism, etc. experienced a shock proportional to the respective employment share, with informal workers bearing a larger brunt. The service sector was abysmally hit hard among all sectors as it reported a negative growth rate in all three quarters i.e. -47% (Q1), -15.6%

(Q2) and -7.7% (Q3) of FY 2020-21. As per reports, there was 20% reduction in domestic travel and about 75% reduction in international travel bookings. Hotel booking rates have also declined from 70% to 20%. According to IATO (Indian Association of Tour Operators) estimates, the hotel, aviation and tourism sector might have incurred a loss of about US \$85 billion due to travel restrictions. Restaurant business was down by 30-35% during the last year. The imports of electronics from china dropped from 55% to 40% due to the pandemic. The lockdown has also resulted in reduced exports of raw materials like organic chemicals, cotton, minerals fuels resulting in substantial trade deficit for India. The pharmaceutical industry has been on the rise since the start of this turmoil. With a market cap of US \$55 billion at the start of 2020, it has been surging in India, exporting recently launched Covaxin and Covishield vaccines along with other generic drugs.

A massive impact on India's economy due to nationwide lockdown was increase in unemployment to 23.52% in April 2020 and caused a GVA loss of more than nine percent during that month. During the lockdown, an estimated 14 crores people lost employment while a large number of people reported huge salary cuts and more than 45% of the households have perceived drop in income as compared to the previous year. Under complete lockdown, less than a quarter of India's \$2.8 trillion economic movement was functional and approximately 53% of businesses in the country were projected to be significantly affected. The revised GDP figures for Q1 (-24.4%) and Q2 (-7.3%) during FY 2020-21 were worrisome indicating a formal entry of Indian economy into technical recession. However, the GDP for Q3 came out to be positive i.e. 0.4% which indicates a ray of hope under uncertain and gloomy economic situation. Furthermore, the MoF (Ministry of Finance) predicts a V-shaped recovery of economic activity. The economic stimulus package of ₹ 20 lakh crore worth 10% of India's GDP announced by Union government

also helped in enhancing the effective demand and carrying out essential constructional and developmental work at a large scale.

The V-shaped recovery can be attainable if recent national vaccination drive of Covaxin and Covishield vaccines become available to all sections of the society as it will determine the pace of economic recovery. Furthermore, the extent and effectiveness of government's policy stimulus measures will determine the economic revival, as nation is

preparing itself to move towards a new normal. Moreover, the recovery in demand aspects from consumer's side will prove to be a positive sign of opening up of economy. At last but not the least, by adopting new principles like shift towards localization, focus on building of self reliant nation, supply chain resilience and novel innovations will prove to be a new path of recovery in this uncertain situation.