RESEARCH ARTICLE

THE IMPACT OF COVID-19 ON INDIAN ECONOMY AND NEED OF A TAILORED RESPONSE

Divya Juneja¹, Dr. Varun Kumar² and Dr. Ruchi Juneja³

1. MA Economics, Panjab University, Chandigarh, India.
2. Senior Resident, Kalpana Chawla Govt Medical College, Karnal, Haryana, India.
3. Assistant Professor, Kalpana Chawla Govt Medical College, Karnal, Haryana, India.

Abstract

Unprecedented health and economic crisis is unfolding across the globe. Even most developed nations are finding it hard grappling with COVID 19 menace. India, with its more than 90 per cent of workforce employed in informal sector, and half a billion daily earners, is particularly more vulnerable. Demand side shocks, supply chain disruptions, increased stresses on banking and financial sector, and weakening of rupee in the midst of global uncertainty has the potential to throw Indian economy in tailspin. Urgent times call for urgent reforms in public health sector to provide robust healthcare delivery to every citizen. Also, the time demands serious considerations of Universal basic income and urban reforms to decongest the cities.

Introduction:

Entire world is in the throes of major pandemic COVID-19, which has only a few parallels in the history of mankind. Countries across the globe—developed, developing and under-developed—are on the edge, closely observing its unfolding and impact, and are pulling out all stops to tackle the spread and save precious lives.

Mortality of the novel corona virus disease is not so much a concern—fatality rate of COVID-19 being less than 1% (Fauci et al., 2020) as compared to 11% for SARS-COV (2002) (Chan Yeung and Xu, 2003) and 35% for MERS-COV (2012) (Alsolamy and Arabi, 2015)—as the transmissibility rate. Transmissibility—rate at which it spreads from one person to another—denoted by epidemiological concept $R_0$ is up to 5 for COVID-19 (Zhao et al., 2020), whereas $R_0$ for MERS-COV is <1 (Bauch and Oraby, 2013) and SARS-COV is 3 (Bauch et al., 2005), the higher the $R_0$, the higher the transmissibility.

It is this rapid transmission and mode of spread—through air droplets and fomite (objects that are likely source of infection like clothes, body surfaces and utensils) —that have led governments across the world to announce drastic measures like extended lockdown and home confinement to stem the tide. Lockdown is India’s sophie choice too, and the entire country is observing complete lockdown for 40 days.

Each country will have a tough time dealing with COVID-19 consequences, once this menace is over—either sufficient herd immunity has developed or a potent vaccine comes. However, because of unique composition of Indian economy—more than 90% of total workforce (465 million workers) employed in informal sector, near half a
billion daily wage earners, jobless growth in last more than two decades, and widespread inequality—our country will face daunting challenges given the narrow fiscal space and global uncertainty.

Early predictions by various rating agencies (“Moody’s cuts India growth,” 2020) and IMF (“IMF chief Kristalina Georgieva,” 2020) cast a gloomy spell ahead for the Indian economy. Moody has forecast deceleration of economic growth for the current year from 5.3% to 2.2%. According to estimates of Centre of Monitoring Indian Economy (CMIE), rate of unemployment has increased from 7.8% to 23.4% in the month of April 2020 (“India’s unemployment rate spike,” 2020).

India has witnessed severe ‘farm distress’ in the preceding decades. Rising input costs due to increase in prices of fertilizers, diesel, and seeds, shrinking farm sizes, and degrading natural resources had already caused a precipitous decline in farm income across the country. This Lockdown will further aggravate this distress by causing supply chain disruptions, labour unavailability in the times of rabi harvest, hassles in easy procurement, depressed milk demands, reduced poultry demands due to hotels and restaurants closure.

Labour intensive manufacturing sector is contributor of 29% of GDP and employer of 25% workforce (Subramanian, 2020). Though India is a leading manufacturer of pharmaceutical products, 65-70% of pharmaceutical ingredients like API come from China; also, 45% of electronic components, organic and inorganic chemicals, and yarn are imported from China, all of which have taken a big hit due to this pandemic. All the associated manufacturing industries will suffer severe blow in its wake. Clothes manufacturing association of India (CMIA) estimates that Indian Textile & Apparel (T&A) industry, employer to nearly 50 million individuals and responsible for15% of export earnings, could suffer 10 million job cuts due to lock down and post lockdown demand and supply shocks (Sreevatsan A., 2020). Similarly, construction industry, having multiplier effect on 250 allied industries and contributor of 8% country’s GDP (Subramanian, 2020), came to a grinding halt, affecting millions of lives. In upcoming times of financial stress, disruption of work, and breakdown of supply chain, recovery will be a major challenge.

Tourism industry also came to a standstill and the country is staring at a potential job loss of around 38 million individuals in tourism sector alone. Hotel aviation and travel sector together is expected to incur a loss of 85 billion rupees according to KPMG (Radhakrishnan, 2020).

Banking sector will also be under tremendous stress in the coming months. Asset quality will deteriorate across all sectors, leading to pressure on profitability, liquidity and capital for banks. Already overwhelmed with high NPAs, a sharp decline in economic activity and a rise in unemployment will lead to a deterioration of household and corporate finances, which in turn will result in increases in delinquencies. Weakening of Rupee against Dollar will be another cause of worry. For firms laden with dollar denominated debts, continuous weakening of Rupee will intensify their struggle to pay off debts (“RBI governor Shaktikanta Das,” 2020).

It is a black swan event for the Indian economy with myriad consequences. On the economic front, government is doing everything it takes to alleviate the acute sufferings of dispossessed. It has increased the PDS allocation to supplementary 5 kg/person/month. Provision of school meal to children stuck at home is being done, and public canteen for stranded migrant workers is being mooted in several states. To mitigate the financial stresses of middle class, moratorium on loan repayment, rent payment, school fee payment and defraying the cost of retaining the workers in small enterprises is being done. Noble and appreciable as these steps are—guided by principle of compassion—we must also, however, have a plan laid out to deal with the lurking economic crisis.

There will be a massive demand shock which can snowball into avalanche of economic depression. Though there have been many misgivings about universal basic income—not entirely unfounded given the fiscal leeway and real politik of India—impending demand shock in the wake of COVID-19 is a reason to reconsider the ignored plan and design universal basic income suited to Indian capacity and needs. For too long, there has been intense deliberations on ‘Universal versus targeted’, inclusion criteria and minimum transfer adjusted to inflation, which have only hobbled its implementation. Universal basic income, adjusted to poverty line estimates would cost nearly 10% of GDP and is totally unsustainable. However, quasi UBI proposed in the economic survey 2016-17 with targeted income transfers of 7620 rupees to 75% of the population must be given a serious consideration (Subramanian, 2017).
Urgently we need to roll out the health sector and urban reforms, if we have to give a robust response in case any future epidemic arises. Indian spending on public health sector amounts to abysmal 1.6% of GDP (Subramanian, 2020). Healthcare delivery via insurance has many flaws, and will never have a universal coverage in India. Only viable option is strengthening public health system and ramping up the community medicine capacity.

Localisation of hot spots of epidemic to densely populated cities—Mumbai, Delhi-NCR (population density of nearly 20000 per sq. km)—clearly point out to the fact that there is urgent need to decongest the cities and roll out suitable policies. Smart villages should be high on our reform agenda. Strengthening digital and physical infrastructure of the cluster of villages needs urgent attention of policymakers.

This economic catastrophe has put millions of lives and livelihood in jeopardy. India has performed exceptionally well in times of crisis in the past like Green revolution and financial sector reforms of 1991. This crisis too calls for urgent reforms in governance, health sector, social, and demographic policies lest all the cumulative and hard work of decades since independence is undone.

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