IMPACT OF COVID-19 ON GDP AND ITS COMPONENTS

-Kishita Sharma[1]

ABSTRACT

The ongoing crisis of the Covid-19 is a calamity that the world wasn't prepared for and has sent the Indian and the global economy into an unprecedented state of tension. The prolonged nationwide lockdown in order to flatten the curve of infection has caused the economy to plunge downhill. Due to the dire need of social distancing and the economic activities being at a temporary halt, it has triggered the fear of an imminent recession which will significantly impact the global economic growth. The purpose of this paper is to analyze the Indian economy post Covid-19, to determine the risk associated with different sectors of the economy and address the same in order to come up with a defense mechanism to mitigate those risks. There is a need to evaluate the potential threats that might come up Post Covid and cause a domino effect on supply chains, bankruptcies and movement of goods and services in India. It also suggests looking for the latent opportunities brought by the crisis and making the economy more resilient by redefining the industrial policy, and laying out better fiscal stimulus measures and monetary policies to deal with the impending recession. The paper also envisages shedding light upon India's potential to leverage the crisis to its advantage given the fact that globally companies are looking to shift and diversify their manufacturing and supply chain base away from China. India can step in here and use this as an opportunity to attract FDI and repair its shaken economy. There's also an alarming need to keep a balance between attracting the FDI and maintaining domestic supply chains so that the Indian domestic markets do not suffer and rather become self-sufficient.

Keywords – *Covid-19, Economy, Recession, Fiscal and monetary measures, FDI.*

INTRODUCTION

The corona virus outbreak which was first detected in Wuhan, China on Dec 31st 2019 has now held 188 countries[2] into its death grips. Since the disease is highly contagious, the Governments had to impose strict social distancing rules and a nationwide lockdown all across the affected countries in order to combat the virus. The lockdown meant restricting all

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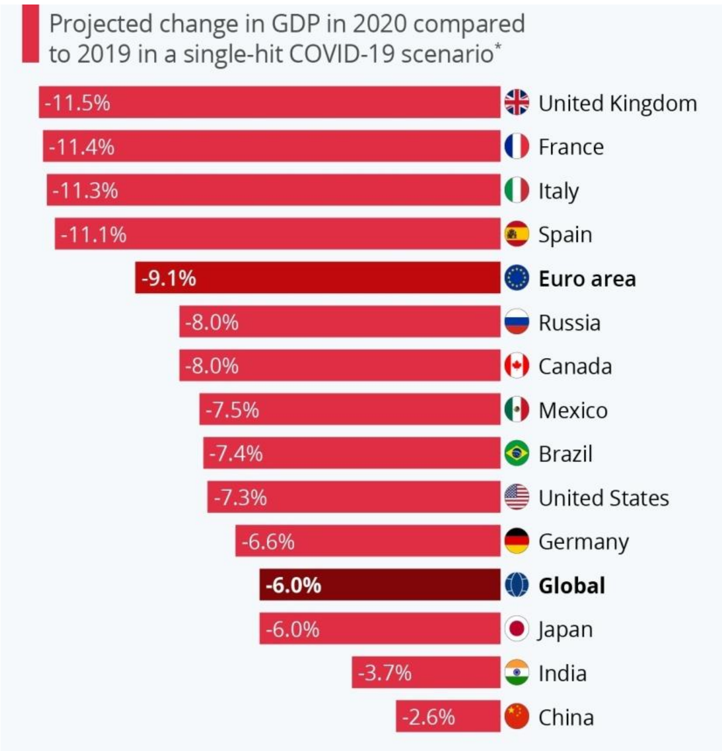
[2] World Health Organization; Coronavirus disease (COVID-19) Situation Report - 149, (2020)

the citizens to their homes, shutting down businesses and ceasing of almost every economic activity. The world may have to pay a wholesome economic price of the unprecedented lockdown amounting to the economy being pushed towards an impending global recession. According to the International Monetary Fund, this crisis can cripple the entire global economy and the world might witness the worst economic fallout since the Great Depression of 1930s.[3]



Source: OECD

The above graph shows the projected GDP change in 2020 as compared to the previous year.

The Indian government announced a nationwide lockdown starting March 25 for duration of three weeks, followed by four extensions. During this period, all non-essential services and

[3] Kristalina Georgieva, The Great Lockdown: Worst Economic Downturn since the Great Depression, International Monetary Fund, (Mar 23, 2020). https://www.imf.org/en/News/Articles/2020/03/23/pr2098-imf-managing-director-statement-following-a-g20-ministerial-call-on-the-coronavirus-emergency

businesses including retail establishments, educational institutions, places of religious worship, public utilities and offices, both private and government, and all means of travel across the country were closed. This was by far the most extensive measure taken by any government in response to the pandemic.

Millions of migrant workers had to return to their homes. While some managed to return, others were not left with much choice but to stay at camps set up in cities due to the state borders being sealed. This also severely restricted transportation of raw materials and finished goods across states. Countries closed national borders which caused international trade and commerce to come to a standstill. These factors led to heavy disruption of supply chains and distribution mechanisms in almost all the sectors. Simultaneously, consumption demand saw a substantial decrease as millions of people were staying home, with all their non-essential expenditures shelved.

The takeaway for government from the previous crises has been that the effects of a demand driven recession can be countered with government spending. As a result, Governments of most countries have now increased their distribution of monetary welfare to citizens, and ensured that businesses have access to the funds needed so that their staff remains employed throughout the pandemic. Additionally, the nature of the crisis means that some sectors, such as e-commerce, food retail and the healthcare industry, may benefit, providing some support to the economic growth to relieve the damage.

IMPACT OF COVID-19 ON GDP AND ITS COMPONENTS

The stringent measures to control the spread of Covid resulted in decline in GDP, disruption of supply chains, a striking high rate of unemployment and ultimately costing a fortune to the entire Industrial sector all across the world. The economic collapse caused by the pandemic is largely due to the fall in demand, meaning that there is a decrease in the number of consumers for the goods and services available in the global economy. This dynamic is clearly observable in severely affected industries such as travel and tourism.

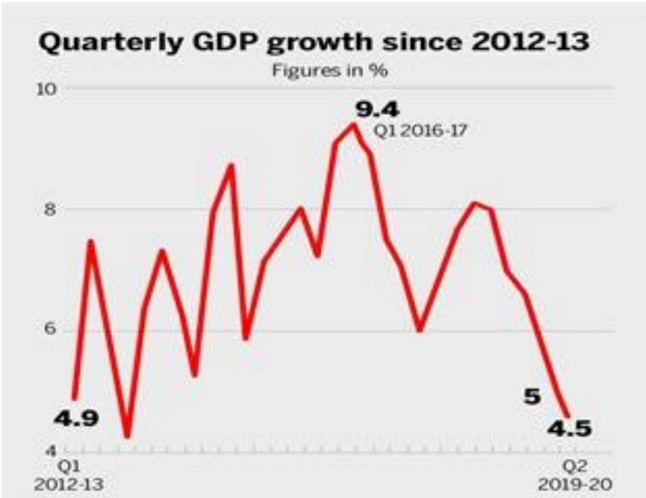
According to Asian Development Bank, Global economy could witness losses worth up to USD 5.8-8.8 trillion equivalent to 6.4 per cent to 9.7 per cent of the global GDP –the steepest slowdown since the Great Depression of 1930s.

GDP & Per Capita Income:

"Indian economy witnessed the lowest GDP growth in 26 quarters. The growth in GDP during 2019-20 is estimated at 4.2 percent as compared to 6.1 percent in 2018-19. GDP at Constant (2011-12) Prices in Q4 of 2019-20 is estimated at ₹38.04 lakh crore, as against ₹ 36.90 lakh crore in Q4 of 2018-19, showing a growth of 3.1 percent."[4]

"The Per Capita Income in real terms (at 2011-12 Prices) during 2019-20 is estimated to attain a level of ₹94,954 as compared to ₹92,085 in the year 2018-19, resulting in growth of 3.1 percent during 2019-20, as against 4.8 per cent in the previous year. The Per Capita Income at current prices during 2019-20 is estimated to be ₹1, 34,226, showing a rise of 6.1 percent as compared to ₹1, 26,521 during 2018-19". [5]

Private consumption and fixed investments are one of the significant contributory factors of GDP and their decline was one of the major reasons responsible for the resultant slow growth of GDP. Since the global economic scenario is weak, there is bound to be an impact on Indian exports causing an overall impact on the fiscal deficit ratios. Although, the Health care sector and government spending have seemed to hold the fort, there's still a long way to go to mitigate the damage done. Economy is headed towards a recessionary phase with some even expecting growth to contract over 5 % in financial year 2020-21 (FY21).

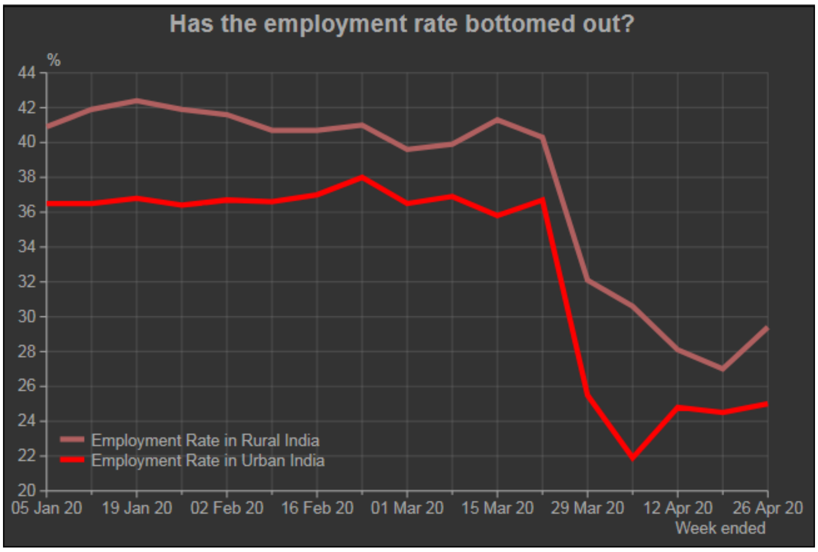


Source: MOSPI

[4] National Statistical Office Ministry of Statistics & Programme Implementation Government Of India, Press Note On Provisional Estimates Of Annual National Income 2019-2020 And Quarterly Estimates Of Gross Domestic Product For The Fourth Quarter (Q4) Of 2019-2020, 2 (2020).
[5] Id.

The above graph indicates that the GDP growth of 4.5 % in FY 2019-20 is the lowest growth seen by India in six years as compared to the previously recorded low rate of 4.9% in March'13.

Unemployment:



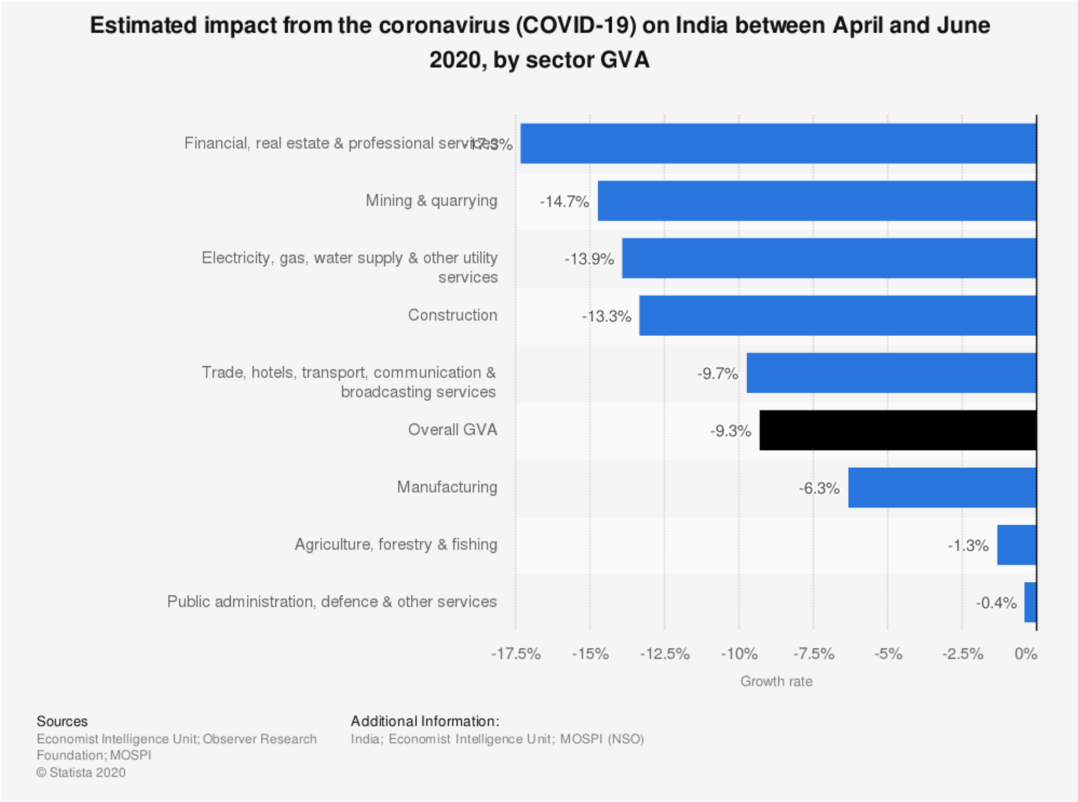
Source: CMIE

Unemployment went up to 26 percent on April 19, 2020.[6] The rate of employment went down with numerous companies having to lay off their employees as a result of decrease in demand. *"The labour participation rate has dropped from 42.6 per cent in the week of March 22 which was just before the national lockdown to 35.4 per cent in the latest week ended April 26. I.e. a 7.2 percentage point fall, implying that 7.2 per cent of the working age population has quit the labour markets during this lockdown. The working age population is a little over a billion people in India. This implies that over 72 million people have quit the labour markets in a month."* [7]

[6] Mahesh Vyas, Has the employment rate bottomed out, Centre for Monitoring Indian Economy Pvt. Ltd. (CMIE), (Apr 19, 2020) https://www.cmie.com/kommon/bin/sr.php?kall=warticle&dt=2020-04-07%2008:26:04&msec=770

[7] Mahesh Vyas, Hope in desperate situation, Centre for Monitoring Indian Economy Pvt. Ltd., (Apr 16, 2020). https://www.cmie.com/kommon/bin/sr.php?kall=warticle&dt=2020-04-28%2010:29:55&msec=990&ver=pf.

OPPORTUNITY THREAT ANALYSIS OF DIFFERENT SECTORS OF ECONOMY



PRIMARY SECTOR

Agriculture:

Agriculture is one of the most significant sectors of global economy. India's agriculture sector accounts for around 15.87% percent of the country's economy in terms of annual GVA and accounts for 42 percent of total employment.

COVID-19 has affected all the processes ranging from farm production to the supply chains. GDP from Agriculture in India decreased to 5306.26 INR Billion in the first quarter of 2020 from 6098.83 INR Billion in the fourth quarter of 2019. [8] This was majorly due to the challenges posed by the 3-month lockdown in order to curb the virus. The agriculture sector encountered two major problems- firstly the lack of labor due to the widespread inter-state movement of migrant laborers; and secondly the inability to access markets to transport and deliver the produce due to sealing of borders leading to disrupted supply chains and thus resulting in stagnation of harvest. The current situation has compelled numerous migrant

[8] National Statistical Office Ministry of Statistics and Programme Implementation , Press Release on Quarterly Estimates of GVA at Basic Prices for 2019-20 (at 2011-12 prices) , 4 (2020).

workers across the nation to return to their homes. These workers act like a backbone for the industries since most of the harvesting operations and the post harvest managing of produce is heavily dependent on them, and their return caused a state of panic. Also, due to the social distancing norms and closure of hotels and restaurants the demand for agriculture commodities, particularly the perishable goods, dropped by 20%.[9]

The Central Government responded to the crisis by announcing a Twenty Lakh Crore package, in lieu to protect the vulnerable sections. These measures were aimed at providing alternate revenue until the economy falls back into place. In order to retain the demand for agricultural products Post-Covid, investments in key logistics, including on research and innovation, must be promoted. Moreover, e-commerce, delivery companies and start ups should be boosted with befitting policies and incentives. The small and medium enterprises, running with raw materials from the agriculture, also need attention so that the rural economy doesn't collapse.

SECONDARY SECTOR

Manufacturing industry:

The lockdown extension has put a lot of strain on the manufacturing industry which contributes to almost 20% of the GDP. Covid-19 has impacted the manufacturing industry in many ways and the automobile and electronics sectors were among the worst hit. According to the data released by National Statistical Office (NSO), the Gross Value added (GVA) growth in the manufacturing sector contracted by 1 per cent in the second quarter of this fiscal from 6.9 per cent expansion a year ago.

Since India is heavily dependent on China for import of finished goods and raw material essential for production, the production loss in China would affect over 70 million traders in India. Moreover, low consumer demand led to less production and lack of employees reduced the scale of operation, causing a negative impact on most companies' annual turnover in terms of profitability and sales.

The electronics industry is being significantly affected due to COVID-19, as China accounts for nearly 85% of the total value of components utilized in smart phones and nearly 75% in

[9] Jayashree Bhosale, Prices of agricultural commodities drop 20% post COVID-19 outbreak, The Economic Times, Mar 19, 2020, at A6.

the case of televisions globally Most of the Chinese factories were shut down due to the pandemic, negatively affecting the electronics manufacturing sector across the globe.

Post covid-19, restarting the operations is going to be challenging due to an acute shortage of workers who've returned to their homes. There will be an alarming need to rebuild our domestic industries by reducing imports and strengthening the local products, in order to become self-sufficient as a country. India can boost its manufacturing sector by grasping the hidden opportunity of attracting more FDI since companies all over the world are looking to relocate their manufacturing bases away from China and India can be the best suited alternative for that.

Construction sector

GVA growth slowed down to 3.3 per cent from 8.5 per cent earlier. There were various hotspots in urban areas where key construction projects came to a temporary halt due to the lockdown. This resulted in unemployment of millions of migrant labourers whose livelihood depended primarily upon these construction activities. This increased the plight of the migrant labourers since they hardly had any savings to suffice their survival during the lockdown period.

In such a scenario, some countries like UK, have responded to this with security schemes specifically created for certain employees and India should perhaps follow suit. Also, *"Funding of construction projects will be instrumental in helping revive the economy as infrastructure investment has the highest GDP multiplier factor, almost 2.0x, and our industry is among the largest employment generators impacting seven crore households."*[10]

TERTIARY SECTOR

Finance Industry and real estate sector:

As covid-19 continued to wreak the economy, the global financial system turned out to be both beneficent and risky. While banks and certain crowd funding platforms have helped support small businesses and people in need, market volatility has hit record levels with a growing concern around credit losses. The government has asked banks to operate with

[10] Press Trust of India, Construction industry seeks immediate release of pending dues from government agencies, The Economic Times, (May 24, 2020). https://economictimes.indiatimes.com/industry/services/property-/-cstruction/construction-industry-seeks-immediate-release-of-pending-dues-from-government-agencies/articleshow/75948091.cms?from=mdr

reduced capacity and allow only essential banking services. Following the economic slowdown, Banks in the country are likely to witness a spike in their non-performing assets ratio by 1.9 per cent and credit cost ratios by 130 basis point in 2020.

Although the government and international organizations have been quick enough to address the financial fallout, there's still a lack of clarity around how policy should evolve to sustain financial stability.

“Institutional investment into Indian real estate sector has declined 58% from a year ago to $712 million during the quarter ended March. Total investments in financial year 2019-20 witnessed a decrease of 13% at $4.26 billion--the lowest for four years. ANAROCK Group in a report last month said housing sales will fall 25-35 per cent while office absorption will fall in the range of 13-30 per cent on a year-on-year basis.” [11]

Hospitality, tourism and aviation

The travel and tourism industry is undoubtedly the hardest hit economic sectors due to the Covid-19 pandemic. According to a report by World Travel and Tourism Council, the pandemic can take away 50 million jobs across the world in the travel and tourism industry, reflecting a 12-14% of reduction in jobs. Within India, the hotels have seen a massive decline in demand and future bookings. The sector is currently only held together by long stay guests and hotels that have been turned into isolation centers for the international travelers returning to India. As the world felt the ripple effects of Covid, overall occupancy across hotels in key areas declined rapidly by a staggering 45 percentage as compared to the previous year.

The International travel could also be severely impacted up to 25% this year. Moreover, the suspending of visas by the Indian Government, and the decline in foreign tourist arrivals in India had a huge impact on travel. Major future travel bookings that were done for Oct-March (the most significant season for the industry) completely vanished, costing the industry a fortune.

The Government should take certain measures for the distressed sectors specifically the hotel and tourism industry that have been the biggest causalities of the pandemic.

[11] Kailash Babar, Covid-19 Impact: India real estate institutional investment down 58% in January-March, The Economic Times, (Apr 20, 2020). https://economictimes.indiatimes.com/markets/stocks/news/covid-19-impact-india-real-estate-institutional-investment-down-58-in-january-march/articleshow/75253574.cms

The measures that can be taken by the industry to get back up post Covid can be –

- Reassure safety to the paranoid customers by increasing deep clean measures and abiding by revised government rules.
- Provide reasonable support to returning employees.
- Honor cancelled bookings in good spirit and lean towards more flexible policies for the customers.
- Boost up the marketing tactics and roll out better digital and social media strategies.

MONETARY AND FISCAL MEASURES BY THE GOVERNMENT

Certain monetary and fiscal measures were taken in order to mitigate the impact of COVID-19 on domestic demand and spur growth once the normalcy is restored. They were -

Fiscal measures

The Indian government announced a stimulus package of 20 lakh crore to combat the crisis. The key elements of the package were: providing food security to the poor and cash transfers to lower-income households; insurance coverage for workers in the healthcare sector; and wage support to low-wage workers. *"These measures were in addition to a previous commitment by Prime Minister that an additional 150 billion rupees (about 0.1 percent of GDP) will be dedicated to health infrastructure, including for testing facilities for COVID-19, personal protective equipment, isolation beds, ICU beds and ventilators. Several measures to ease the tax compliance burden across a range of sectors have also been announced."*[12]

During second week of May, the Finance Minister announced measures targeting micro, small and medium sized enterprises, and provisions to support poor households, especially farmers and migrants. Certain measures also targeted support for the agricultural sector (about 0.7 percent of GDP), and some expansion of existing programs providing work opportunities to low-wage laborers (about 0.2 percent of GDP; and a reduction in up-front tax for workers. Additional support to migrants and farmers was mainly in the form of providing concessional credit to farmers, as well as a credit facility for street vendors and an expansion of food provision for non-ration card holders (mainly migrants). The Centre has also finally agreed to a continuous demand from states to increase their borrowing limit.

[12] International Monetary Fund, Policy Responses to Covid-19, 12 (2020)

Monetary and Micro financial measures

The Reserve Bank of India (RBI) reduced the repo and reverse repo rates by 75 and 90 basis points to 4.4 and 4.0 percent, and took liquidity measures to the tune of 3.7 trillion Rupees which is 1.8% of GDP on 27 May. Three measures comprising Long Term Repo Operations (LTROs), cash reserve ratio (CRR) cut of 100 bps, and an increase in marginal standing facility (MSF) to 3 percent of the Statutory Liquidity Ratio (SLR). Lenders allowed to suspend interest payments on working capital facilities for three months as accumulated interests can be paid later and loans won't be in default.

"On April 1, RBI also decided to provide special refinance for an amount of ₹500 billion ($6.56 billion) to the National Bank for Agriculture & Rural Development (NABARD), Small Industries Development Bank of India (SIDBI), and National Housing Bank to enable them to meet sectoral credit needs with an assistance of ₹150 billion ($1.964 billion) to refinance small firms."[13]

Reserve Bank also came out with a bold and comprehensive package to help small and medium enterprises tide over the unprecedented crisis on May 13, which includes a collateral-free automatic loan provision worth Rs 3-lakh crore. To provide stressed MSMEs with equity support, the government and RBI will also facilitate provision of Rs. 20,000 crore as subordinate debt and Rs 50,000 crore equity infusion for MSMEs through Fund of Funds. MGNREGA will also be getting an additional Rs 40,000 crore

RECOMMENDATIONS

Uncertainty about the duration of the crisis will still remain an obstacle in the revival of economy. Central banks need to work in coordination with the fiscal authorities to provide quantitative and technical support and finance their future policy measures. The Fiscal and monetary measures taken by the government have seemed to have hold fort for now, but the cloud of uncertainty is making people question whether these policy measures will cushion the wounded economy.

While there is a unanimity that the various measures announced will procure long-term benefits, most of the experts also agree that the stimulus package fails to address the near term stress and the lack of demand in the economy. The package has fallen short of including the most vulnerable and hard-hit sectors of the economy that need urgent support for their revival. *"India's tourism, travel and hospitality is said to have a 10-12% of impact*

[13] Id. at 13

on its employment which is estimated to cover over 5 crores of direct as well as indirect jobs".[14] The industry is shook from a lack of backing and any fiscal and monetary support from the government.

The trading community has also expressed their disappointment for being excluded from the package since it is expected that nearly 20% traders will have to wind up their business and it will adversely affect another 10% traders dependent on those 20% traders who will be constrained to close their businesses as well.[15] Under such a grim situation the Government should not turn a blind eye towards the traders.

The RBI must ensure that the taps of emergency credit and liquidity remain open for businesses, particularly MSMEs, whose payment and working capital cycles are badly hit. Also, Both liquidity measures and market interventions to control foreign exchange volatility need to be used in a careful manner considering all the risks involved, without exhausting all of our stock at one go.

COVID-19 - A 'BLESSING IN DISGUISE' FOR INDIA'S MANUFACTURING SECTOR

Covid-19 has placed a series of challenges before the economic sector leaving little room for quick revival and recovery of losses. But every crisis brings out its own set of latent opportunities. This pandemic has the potential to carve out a way for the manufacturing sector of India.

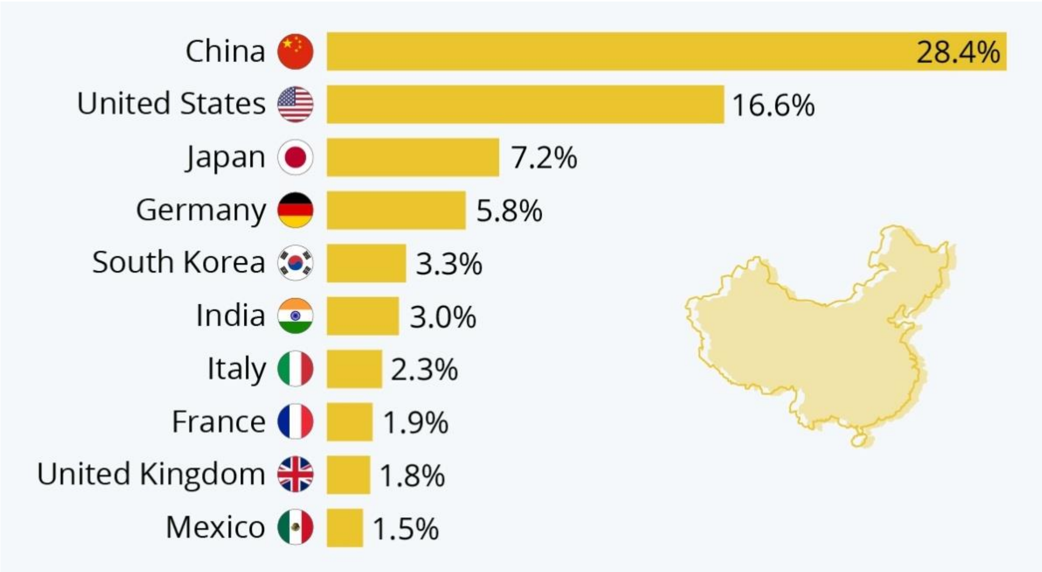
BOOSTING THE MANUFACTURING SECTOR BY TAKING LEVERAGE OF TRADE WARS:

India's neighboring country, China, has been the dominant factory of the world for decades and manufactures about one third of all the products consumed throughout the world. In the past, India too, made several attempts to boost its manufacturing sector and attract foreign investors but the plan never came to fruition. However, things could take a turn for the better for India with the crisis having changed the global dynamics. If India identifies and makes

[14] **Saumya Tewari,** Travel and tourism industry in shock with no relief measures from government, Live Mint, (17 May, 2020, 07:12 PM) https://www.livemint.com/news/india/travel-and-tourism-industry-in-shock-with-no-relief-measures-from-govt-11589722537599.html

[15] Shashwat Mohanty & Madhvi Sally, Lockdown or not, 20% of India's retail to shut shop, The Economic Times, May 13, 2020, at A6.

the right move, it might see a dramatic change in its economical conditions in the near future.



Source: United Nations Statistics Division

The above graph shows that China accounted for 28 percent of global manufacturing output in 2018.[16] As corona virus took its toll on the country, it turned out to be unfavorable for the world that much of its supplies were tied to China alone. Japan, in fact, recognized this overdependence and has announced a package of 2.2 billion for homegrown manufacturers to help them relocate their factories out of China. It is expected that other countries will mirror Japan's move in the coming years which will serve as an excellent opportunity for India to attract Foreign Direct Investments to the country.

Moreover, China has recently been caught up in a trade war with America that resulted in a sudden increase in the price of commodities in US. At this point, India can rise to the occasion and grab the opportunity to invite America to set up their manufacturing bases in India since it has long been a trusted ally for US. This will lead to enormous job creations in the manufacturing sector of India.

India has a highly proficient working population which can be extremely lucrative for its manufacturing sector. Also, India has an extremely low cost of labour as compared to USA and China. Its manufacturing labour cost in 2015 stood at 1.72/hour while the same for USA

[16] "Felix Richter, China Is the World's Manufacturing Superpower, Statista, (Feb 18, 2020) .https://www.statista.com/chart/20858/top-10-countries-by-share-of-global-manufacturing-output/

was 37.96/hour. India's cost stands almost half to that of China. Estimatedly, the Indian manufacturing sector has the potential to reach us $1 trillion by the year 2025.

MAKE IN INDIA

The mishandling of the virus by China has disrupted the entire global dynamics and is receiving a backlash from world capitals, fuelling the campaigns of boycotting Chinese products. The Atmanirbhar Bharat scheme could improve the condition of business operation in India by aiding home-grown manufacturing and promote the domestic produce by replacing low technology imports from other countries, especially China.

The relief package by the government focuses on uplifting small businesses and providing incentives for domestic manufacturing including benefits for MSMEs. This move could help India recover its manufacturing output which has suffered a huge blow due to the crisis.

Also, India could benefit big time if it invests in the food processing sector now since there's a possibility that China might see a decline in its exports of agriculture and consumable goods like tea, horticulture and floriculture.

HEALTHCARE SECTOR

Being upfront in the fight against covid-19, there's naturally a lot of hopes and focus on the healthcare industry. India is the 3rd largest producer of pharmaceuticals and related products in the world, and a major exporter of generic drugs and devices to all parts of the world. Healthcare industry can not only drive the economic output for healthcare segment alone, but for the entire economy, especially from a global prerogative.

India's already heading the global exports of IVDs. A research done by Globaldata reveals that the Indian ventilators market is likely to grow at an annual growth rate (cage) of 4.8% by the year 2025. Seeing the high demand of ventilators, Max Healthcare also came up with an innovative device that once attached to the ventilators, separates the airflow into four streams, thus making it operative/functional for four patients. Thus, it is expected that India will witness a significant amount of global buyers coming its way for these test kits, and other products.

Moreover, the distrust between China and other countries seems to have grown due to the faulty test kits exported by it. Hence, the domestic produce of rapid testing kits could prove to be a kick start for the manufacturing sector.

CONCLUSION

The Corona virus pandemic is not only an urgent health crisis but also holds a placard warning about the approaching economic crisis, which will be far worse to handle if correct measures to combat it aren't taken in time. The damage done would be fatal for the entire global economy jeopardizing millions of livelihood. The Policymakers need to take stringent measures to contain the virus, but the irony is the containment measures can push the economy deeper into the abyss. Therefore, the Government needs to come up with a strategy that can efficiently deal with the health crisis as well as keep the economy into motion.

Although due to the unprecedented nature of the crisis it is difficult to predict the future economic growth, certain growth could take place in the second quarter as industries restart their operations with the streamlining of supply chains and migrant workers getting back to their jobs.

There is an alarming need for the government to address the vulnerable sectors of the economy who have received no backing from the government for a smooth functioning of economic activities Post-Covid.

India can win the battle against this pandemic only if it makes the best out of the current situation and utilizes the hidden opportunities the crisis has in store with it. It is the best time for India to use the backlash received by China from countries all over the world and the US-China Trade wars as leverage to attract more Foreign Direct Investments into the country. Also, it's a crucial time to focus on its self-sufficiency by substituting the foreign imports and promoting our local domestic industry.