

Corona Virus (Covid -19) and its impact on economy

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Abstract

COVID-19 is the infectious disease caused by most recently discovered Corona virus. The new virus and disease were unknown before the outbreak began in Wuhan, China, in December 2019. The COVID-19 is a disease causes lung illness with symptoms such as a cough, fever, congestion, runny nose and in more severe cases, difficulty in breathing. The disease can spread from person to person through small droplets from nose or mouth when a person with virus coughs or exhales. To prevent spread of this pandemic, many countries are implementing lockdown procedure to stopping the chain of infection for this new disease. The government-ordered lockdown which have disordered life of billions and in the same time creates economic downfall scenario. The country with the most COVID-19 infections reported a record rush in unemployment.

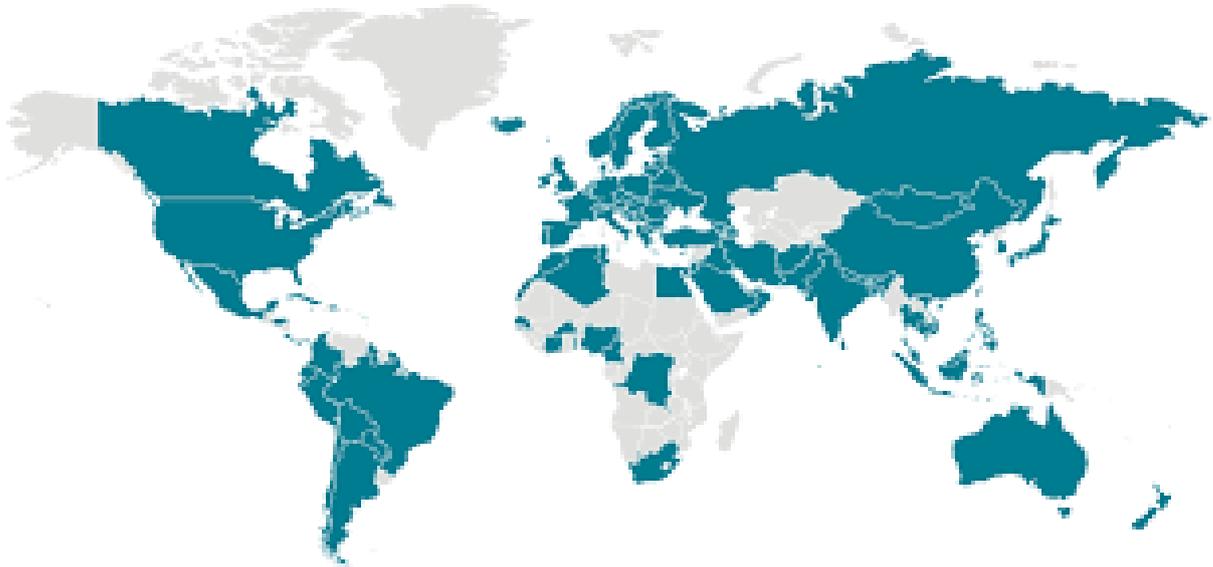
The purpose of this paper is to investigate the extent to which a Pandemic such as COVID-19 can affect the different sectors of the economy of a country. The coronavirus pandemic will deeply affect the Agriculture and allied activities, Aviation, Entertainment/sports/events, Retail sectors, tourism and travel sector. It is already clear now that its economic impact would be more severe than in the case of the Severe Acute Respiratory Syndrome (SARS) in 2002-2003. Although not as deadly as SARS, coronavirus infection has a longer incubation period and leaves about 85% of the infected without any (or with just mild) symptoms which makes it more difficult to track and to contain. Moreover, it appears to be much more spreadable than its ancestor. The good news is that most people recover from the disease and develop antibodies that can protect them from getting infected again (natural vaccination).

Keywords: Covid-19, Indian Economy, Lockdown, Pandemic

Introduction

The global pandemic of novel Corona has not only brought entire socio-economic conditions in to amend but has challenged the globalization and global operations of enterprises. Coronavirus disease 2019 (COVID-19) is an infectious disease caused by severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2). COVID-19 has been traced back on November 2019 by the first case detect in China (Wuhan). COVID-19 defined as an infectious disease caused by a new virus. This virus is spreading very fast.

Picture 1: More than 160 countries with confirmed Coronavirus COVID-19 cases



Source: Centers of Disease Control and Prevention (2020)

As report by World Health Organization (WHO) the total confirmed cases of COVID-19 worldwide are 7,578,078 cases with 423,257 deaths (12th June 2020). COVID-19 spreads primarily through contact with an infected person which is suffering from cough or sneeze. It also spreads when a person touches a surface or object that has the virus on it, then touches their eyes, nose or mouth. COVID-19 virus study also reveal that the virus is sustainable for up to 72 hours on plastics, 48 hours on stainless steel and 24 hours on cardboard and 4 hours on copper. It is also evident in the air for three hours. COVID-19 has given significant impact on the economic development worldwide. With the large-scale quarantines, travel restrictions, and social-distancing measures drive a sharp fall in

consumers and business expenditure. This situation was created economic recession globally. However, many efforts have been done by government in order to reduce the spread of COVID-19 virus. For example, a few countries were performing a lockdown approach. The impacts of this approach are consumers stay at home, businesses loose revenue and unemployment levels rise sharply.

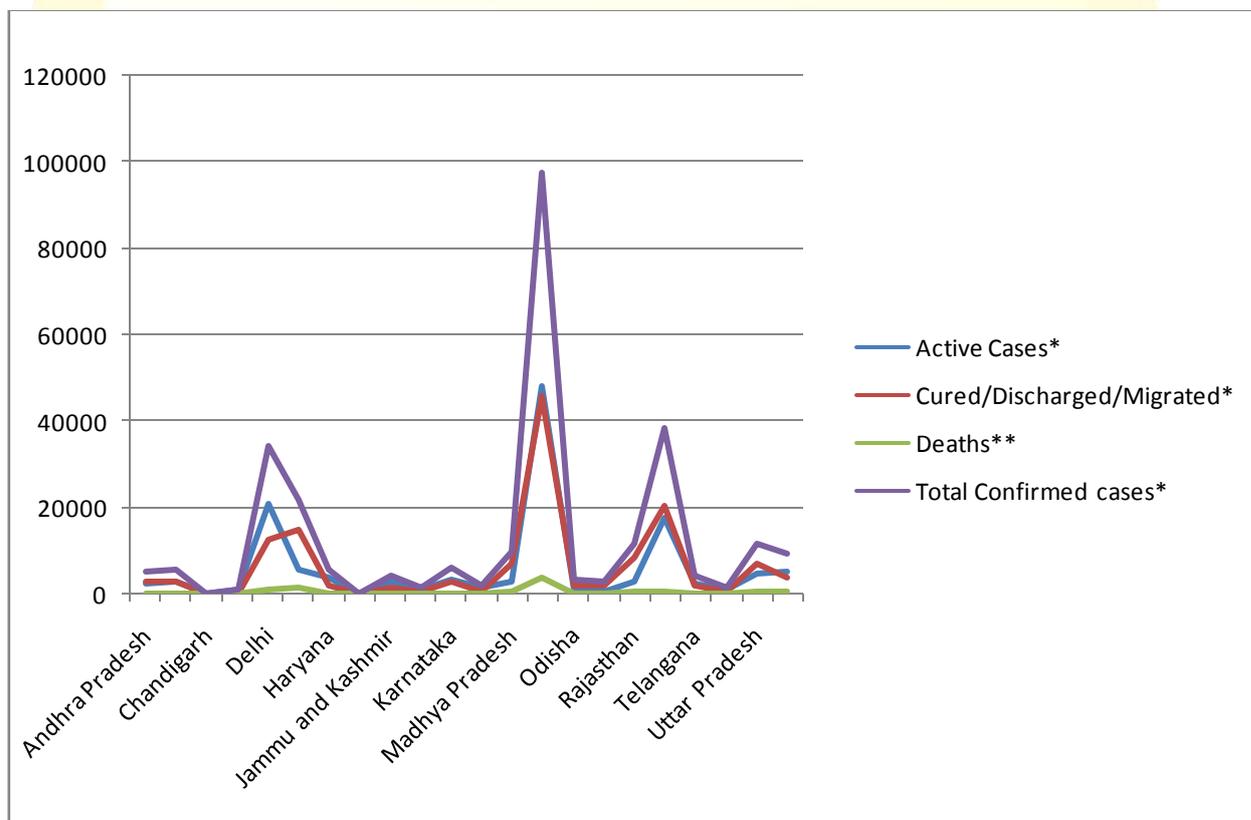
In India, total corona virus cases are 297,535 confirmed, 8,498 people have died and 147,195 people have recovered from the virus (Data as per June 12, 2020).

Table: 1 Total Covid-19 Infections up to June 12, 2020

	India	World
Total Infections	297,535	7,578,078
Total Deaths	8,498	423,257
Total Recovers	147,195	3,582,792

Source: Worldometers, Ministry of Health and Family Welfare

Fig: 1, shows total number of active cases, cured, deaths and total confirmed cases in some states of India.



Source: Ministry of Health and Family Welfare

Objectives of the Study

- To study the impact of Corona Virus on Economy of the Country.
- To study the challenges and changes from Covid-19 to the Economy.
- To study the impact of Corona virus on different Sectors of the Economy.

Global Trade and Pandemic of Novel Covid-19

The COVID-19 pandemic is imposing high risk and rising human costs worldwide. Protecting lives and allowing health care systems to survive have required isolation, lockdowns, and widespread closures to slow the spread of the virus. The health crisis is therefore having a severe impact on economic activity. The IMF concluded that the global economy would experience its “worst recession since the Great Depression, beating that seen during the global financial crisis a decade ago.” In addition, the IMF estimated that the global economy could decline by 3.0% in 2020, before growing by 5.8% in 2021, global trade is projected to fall in 2020 by 11.0% and oil prices are projected to fall by 42%. This forecast assumes the pandemic weakens in the second half of 2020 and that containment measures can be upturned quickly. The IMF also stated that many countries are facing a multi-layered crisis that includes a health crisis, a domestic economic crisis, falling external demand, capital outflows, and a breakdown in commodity prices. The IMF also argues that recovery of the global economy could be weaker than projected as a result of slow uncertainty about possible infection, lack of confidence, and permanent closure of businesses and shifts in the behavior of firms and households.

According to an analysis April 8, 2020, forecast by the World Trade Organization (WTO), global trade volumes are projected to decline between 13% and 32% in 2020 as a result of the economic impact of COVID-19. The WTO argues that the wide range in the forecast represents the high degree of uncertainty concerning the length and economic impact of the pandemic and that the actual economic outcome could be outside this range, either higher or lower. The WTO’s more optimistic scenario assumes that trade volumes recover quickly in the second half of 2020 to their pre-pandemic trend, or that the global economy experiences a V-shaped recovery. The more pessimistic scenario assumes a partial recovery that lasts into 2021, or that global economic activity experiences more of a U-shaped recovery. The WTO concludes, however, that the impact on global trade volumes could exceed the drop in global trade during the height of the 2008-2009 financial crises.

There is extreme uncertainty around the global growth forecast because the economic fallout depends on uncertain factors that interact in ways hard to predict. These include, for example, the pathway of the pandemic, the progress in finding a vaccine and therapies, the intensity and efficacy of containment efforts, the extent of supply disruptions and productivity losses, the effects of the dramatic tightening in global financial market conditions, shifts in spending patterns, behavioral changes (such as people avoiding shopping malls and public transportation), confidence effects, and volatile commodity prices.

Global Economy in Recession in 2020

Global growth is projected at -3.0 percent in 2020, an outcome far worse than during the 2009 global financial crisis. The growth forecast is marked down by more than 6 percentage points relative to the October 2019 WEO and January 2020 WEO Update projections—an extraordinary revision over such a short period of time.

Growth in the advanced economy group where several economies are experiencing widespread outbreaks and installing containment measures is projected at -6.1 percent in 2020. Most economies in the group are forecast to contract this year, including the United States (-5.9 percent), Japan (-5.2 percent), the United Kingdom (-6.5 percent), Germany (-7.0 percent), France (-7.2 percent), Italy (-9.1 percent), and Spain (-8.0 percent). In parts of Europe, the outbreak has been as severe as in China's Hubei province. Although essential to contain the virus, lockdowns and restrictions on mobility are extracting a sizable toll on economic activity. Adverse condition effects are likely to further deliberate on economic prospects. Among emerging market and developing economies, all countries face a health crisis, severe external demand shock, dramatic tightening in global financial conditions, and a fall in commodity prices, which will have a severe impact on economic activity in commodity exporters.

Emerging Asia is projected to be the only region with a positive growth rate in 2020 (1.0 percent), although more than 5 percentage points below its average in the previous decade. In China, indicators such as industrial production, retail sales, and fixed asset investment suggest that the contraction in economic activity in the first quarter could have been about 8 percent year over year. Even with a sharp rebound in the remainder of the year and sizable fiscal support, the economy is projected to grow at a subdued 1.2 percent in 2020. Several economies in the region are forecast to grow at modest rates, including India (1.9 percent) and Indonesia (0.5 percent), and others are forecast to experience large reductions

(Thailand, -6.7 percent). Other regions are projected to experience severe slowdowns or outright contractions in economic activity, including Latin America (-5.2 percent), with Brazil's growth forecast at -5.3 percent and Mexico's at -6.6 percent; emerging and developing Europe (-5.2 percent), with Russia's economy projected to contract by -5.5 percent, the Middle East and Central Asia (-2.8 percent), with Saudi Arabia's growth forecast at -2.3 percent, with non-oil GDP contracting by 4 percent, and most economies, including Iran, expected to contract and sub-Saharan Africa (-1.6 percent) with growth in Nigeria and South Africa expected at -3.4 percent and -5.8 percent, respectively. Following the dramatic decline in oil prices since the beginning of the year, near-term prospects for oil-exporting countries have deteriorated significantly. The growth rate for the group is projected to drop to -4.4 percent in 2020. A larger fraction of countries is expected to experience negative per capita income growth in 2020 than at the time of the 2009 financial crisis.

Impact of Covid-19 on Indian Economy

When the global economy is on a slowdown manner no developing economy can grow at its normal pace. The Indian economy was tackling with its own issues and COVID-19 made the matters worse. India's GDP has been on a consistent decline after peaking out at 7.9 in Q4 of FY 2018 to 4.5 in Q2 of FY 2020. The industry was facing demand problems, due to which business houses were unwilling to undertake new plans, unemployment was at its peak and exports which were consistently down for several months. The problem could be more acute and longer lasting, as the economy was in dangerous state due to Covid-19 hit.

Due to the measures adopted to prevent the spread of the Coronavirus Disease 2019 (Covid-19), especially social distancing and lockdown, non-essential expenditures are being postponed. This is causing aggregate demand to ruin across the India. In addition to the demand reduction, there will also be widespread supply chain disruptions, as some people stay home, others go back to their villages, imports are disrupted, and foreign travel is stopped. This will negatively affect production in almost all industries. Gradually the shock will spread to manufacturing, mining, agriculture, public administration and construction – all sectors of the economy. This will adversely affect investment, employment, income, and consumption, pulling down the aggregate growth rate of the economy.

Impact of Covid-19 on different sectors of Indian economy

Agriculture & allied activities:

Agriculture and allied activities sector is likely to be badly hit by the Coronavirus panic. The sale of dairy products, fish, poultry etc. has been hit during the lockdown period due to shortage of workforce and transport. And the reason behind this is misinformation, especially on social media that chicken are the carriers of Covid-19. Commercial crops are drastically affected as they tend to be dependent on migrant labour and the shortage of migrant labour has resulted in a sharp increase in daily wages for harvesting crops.

Aviation:

Aviation is amongst the most affected sector amidst the Covid-19 crisis that has taken the scale of a pandemic. According to the International Air Transport Association, airlines globally can lose in passenger revenues of up to US\$ 113 billion due to this crisis. Airfares have also come under pressure due to nearly 30% drop in bookings to virus affected destinations. As a result, airfares to such destinations have fallen by 20-30%.

Domestic traffic growth is also gradually being affected with domestic travelers postponing or cancelling their travel plans. Some companies have reported more than 30% drop in domestic travel this summer compared with last year. Airfare in the popular domestic routes has been reduced by 20-25% and airfares are expected to remain restrained for the summer season as well. According to the data available with the Ministry of Civil Aviation, nearly 585 international flights have been cancelled to-and-from India between February 1 and March 6 because of the outbreak of coronavirus. Cash reserves of airline companies are running low and many are almost at the edge of bankruptcy. Moreover, the crisis could lead to loss of many jobs. Already, some airlines have asked many of their staff/ employees to go on leave without pay. The airline industry needs an urgent bailout from the Government.

Entertainment/Events/ Sports:

In some parts of the country like Kerala, Jammu and Kashmir, Delhi, Karnataka and Mumbai, cinema theatres, shopping malls and gyms have been closed till May 31st, 2020 to stop the spread of the virus. While exact loss is difficult to calculate presently, but some estimates suggest that theatres in Delhi alone may have to incur a loss of Rs 2 - Rs 10 lakh within a period of 10 days. The announcement has also adversely impacted the television and film industry. While shootings have been suspended and promotional events have been

put on hold, it has also affected release of new movies. Several sport events have been either postponed or cancelled, and this brings huge losses for the sports industry. For instance, cancellation of IPL matches alone could mean a loss of Rs 10,000 crore for the industry.

Retail:

The epidemic of Coronavirus is having a severe impact on people, economy and business. As responsible corporate, all retail players are adopting necessary preventive actions to ensure safety of their employees and customers. The end objective is to ensure easy and continuous availability of essential food and grocery products at affordable prices so that people don't panic. During these critical times, it is imperative for all stakeholders to come together.

Given the widespread effect of COVID-19, business across sectors is looking miserable and this impacting economy at large. Shutting down of malls has severely hurt business for all retailers. This could lead to major job losses as companies won't be able to sustain this for too long.

Transport & Logistics:

The outbreak of coronavirus has had an impact on transport and logistics sector as well. The transport sector revenues have been affected and are likely to be further impacted with the slowdown in economic activities due to the urban lockdown across several states, combined with the supply disorders caused globally. Public transport, including metro and railways have also seen a downfall in passenger traffic among the government advisory for social distancing and work from home.

Auto Industry:

Its impact on Indian companies will vary and depend upon the extent of the business with China. China's business no doubt is affected. However, current levels of the inventory seem to be sufficient for the Indian industry. If the shutdown in China continues then it is expected to result in an 8-10% reduction of Indian auto manufacturing in 2020.

Consumer Durables & Electronics:

India imports 45% completely built units of consumer durables from China. In addition to finished products, India also imports nearly 70% of the components for television, and other consumer durable products such as air conditioners, refrigerators, and washing machines. Due to supply disruption, sales of these items are likely to be hampered. Also,

Chinese suppliers have reportedly increase the prices of some components by more than 2%, and prices of TV panels by more than 15%. Hence, it is anticipated that prices of these consumer durable items will see a price increase in the range of 3-5%.

Sector-wise impact on Indian industry

Novel Covid-19 has negative impact on almost all the sectors of the economy. In the given table and graphs we try to explain the impact of Covid-19 on the growth of Agriculture, Industry and Services sector.

Table: 2 Growth of agriculture, industry and services sector

Sector	2020-21: Q1	2020-21: Q2	2020-21: Q3	2020-21: Q4	2019-20	2020-21
Agriculture	0	3.0	3.0	3.0	2.4	2.3
Industry	-54.2	-27.0	-27.0	0	1.4	-27.1
Services	-16.3	-8.0	-8.0	0	5.8	-8.1
GVA	-25.7	-12.3	-12.3	0.5	4.4	-12.5

Based on National Council of Applied Economic Research NCAER QRE May, 2020

In the given table: 2, shows that there will be negative growth rate until Q3 and recovery modestly to 0.5 % in Q4. For the whole year, GVA growth is expected to be at -12.5 %.

Fig: 2.1 Shows quarterly growth of Agriculture, industry and service sector

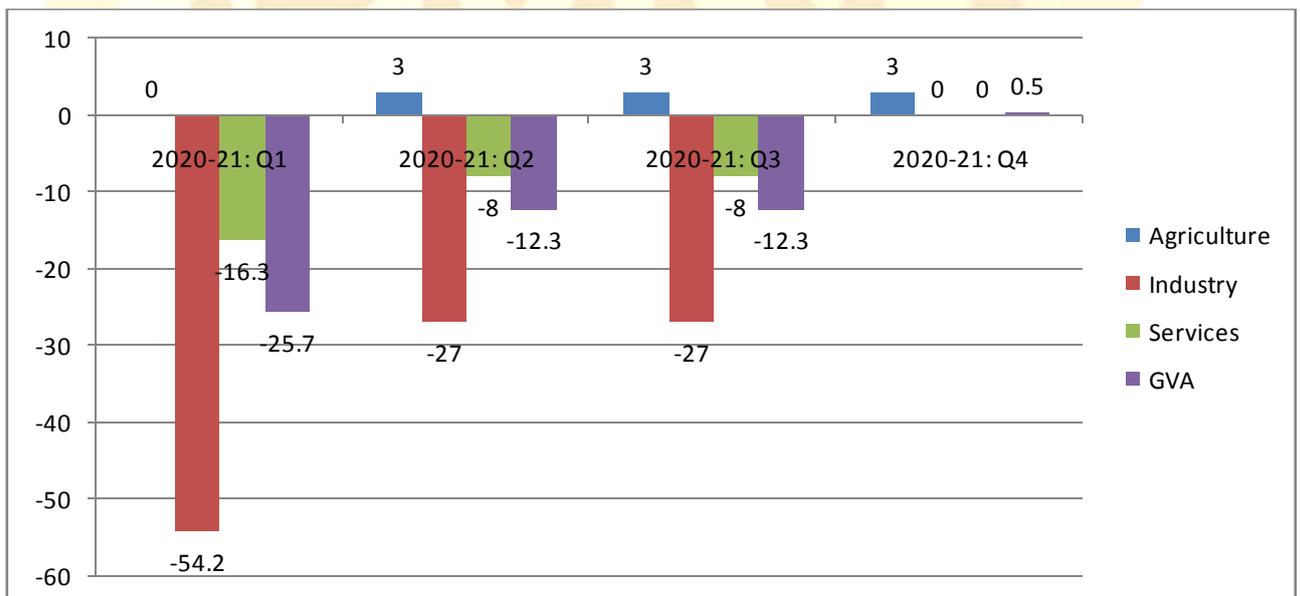
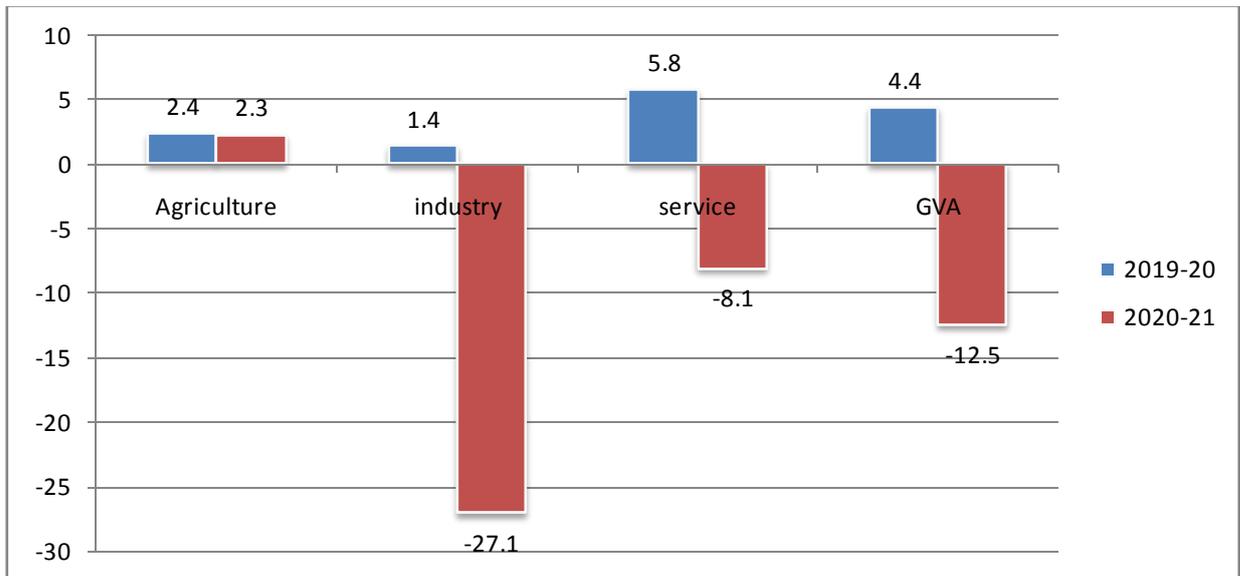


Fig: 2.2 Shows GDP growth rate of Agriculture, Industry and Service sector during 2019-20 and 2020-21



Suggestions

Instant relief measures need to be implemented and adjusted for all the sectors suffering from economic crisis. So, proper planning is needed for the economy in order to be balanced and re-energised following in this crisis. Here are a few suggestions to deal with the economic crisis:

- Impact of Covid-19 in agriculture sectors is also high. Crab, Shrimp, Fish and Dairy producers are facing export bans resulting in significant economic loss. So, India needs to be constructive and productive embracing quick, smart and innovative approach is significant to improve productivity, bridging between health shock and economic shock. Time is needed to put in extra efforts for covering every next mile.
- To protect the workers in the informal sector, who will be badly affected, this will not be easy to do, but there are two mechanisms that could be utilized to help this workers: one is MGNREGA (Mahatma Gandhi National Rural Employment Guarantee Act) and second is Jan Dhan accounts.
- To increase liquidity and increase consumer confidence, the Government of India should provide a pay roll tax holiday for a quarter to support demand in these stressful times.

- The Indian Government & RBI need to support the Indian industry and economy at this stage by bring down the cost of funds further through reduction in policy rates.
- MSMEs should be provided concessional working capital loan, equivalent to one to three month's (based upon the extent of disruption) average turnover of last year. It should also be provided concessional finance at a rate of 5% for three months through SIDBI. The interest payment for such financing can be adjusted over the next three years as part of GST.
- Additionally, to ensure cash flows for meeting working capital requirement, RBI should instruct banks not to restrict working capital credit to MSMEs. Debt repayment and interest payment by MSMEs should be deferred by at least six month. Given the economic difficulty faced by MSMEs in wake of coronavirus, RBI should relax the norms for classification of MSME loans as NPAs.
- Enable Credit and support easier credit facilities to effected sections of the businesses that operate on very short financial cycles and will be forced to stop production / trading for financial wants. Government / RBI should direct banks not to stop disbursement of loans under the expectation of project delays due to COVID-19.
- The Corporate bond and commercial paper market are suffering illiquidity. RBI may take some steps to intervene, either directly or through the commercial banking system, to ensure that adequate funds flow into this market. In the US, the Fed has stepped in to directly buy commercial paper, a strategy that it last used in the financial crisis of 2008.
- GST Returns/Procedures: The deadlines for paying taxes every month (i.e. 20th) to be deferred, filing of returns extended. All show-cause notices/ enquiries may be suspended including those relating to excise.

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