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Impact of corona virus (COVID-19) on Indian economy

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Abstract

Globally corona virus has produce an unstable environment for people. This has moving fast with the COVID-19 novel corona virus. On March 12, the World Health Organization declared that the virus is now a pandemic and Prime Minister Narendra Modi has asked top verticals within the government, including the Niti Aayog, the Economic Advisory Council to the PM and finance ministry to assess the economic impact of the novel corona virus. Sectors such as tourism, aviation, hospitality and trade will face the first brunt of the severe travel, assembly and activity curbs imposed by the governments across the world, followed by a wider impact on other sectors as economic activity stalls.

Keywords: Covid-19, pandemic, economic downturn, aggregate demand, supply chain, informal sector, financial institutions, fiscal policy.

Introduction

The Covid-19 pandemic is an unprecedented shock to the Indian economy. The economy was already in a parlous state before Covid-19 struck. With the prolonged country-wide lockdown, global economic downturn and associated disruption of demand and supply chains, the economy is likely to face a protracted period of slowdown. It can be seen that the tourism, hospitality, and aviation sectors are among the worst affected sectors that are facing the maximum impact of the current crisis. Closing of cinema theatres and declining footfall in shopping complexes has affected the retail sector by impacting the consumption of both essential and discretionary items. As the consumption of any product or services goes down, it leads to an impact on the workforce. In the current scenario, with all the retailers closing down their services, the jobs of the employees are at a huge risk. The financial market has experienced uncertainty about the future course and repercussions of COVID-19. An estimated Rs 10 lakh crore of market cap was reportedly wiped off due to the fall of sensx in the second week of March 2020. The fall has continued till date as investors resorted to relentless selling amid rising cases of corona virus. The supply-side impact of shutting down of factories resulted in a delay in supply of goods from China which has affected a huge number of manufacturing sectors which source their intermediate and final product requirements from China. Some sectors like automobiles, pharmaceuticals, electronics, chemical products etc were impacted big time.

Impact of corona virus (COVID-19) on Indian Economy

The economic impact will depend upon the duration and severity of the health crisis, the duration of the lockdown and the manner in which the situation unfolds once the lockdown is lifted. In this paper we describe the state of the Indian economy in the pre-Covid-19 period, assess the potential impact of the shock on various segments of the economy, analyses the policies that have been announced so far by the central government and the Reserve

Bank of India to ameliorate the economic shock and put forward a set of policy recommendations for specific sectors.

Manufacturing and Services

India has made remarkable strides in creating an ecosystem for businesses to flourish. In the World Bank's Ease of doing business index, India jumped 79 points in six years - from 142 in 2014 to 63 in 2019 among 190 countries. We need to maintain this trajectory and focus on reforms that address the roadblocks to business growth in India - from countering official overreach in tax collection to loosening regulations around starting a business. We must strengthen our global acceptability by investing in socio-cultural cohesion. It is in our strategic interest to ensure that every community and identity feels accommodated and appreciated, and that this diversity coexists in harmony. Our soft diplomacy efforts must focus on reassuring the world of an India that's resilient, united, and capable of forging mutually beneficial partnerships with any part of the world. Finally, we need to actively encourage lateral talent into government from industry and private sector. In an innovation-fuelled world, it's imperative to have highly specialized expertise that can help the State solve some of the most complex challenges it faces. We have been building capabilities in diverse sectors — and strengthening our technology base — that can allow us to catapult to the centre-stage in the world's post-C Nearly 162 countries are steadily going into lockdown, and businesses across the globe are operating in fear of an impending collapse of global financial markets. This situation, clubbed with sluggish economic growth in the previous year, especially in a developing country like India, is leading to extremely volatile market conditions. Let's understand how the corona virus is impacting business and subsequent tax reforms in India avoid growth story. Nothing happens overnight. But we certainly have the potential to gradually develop the skill, scale and speed that has allowed China to dominate GSCs. More than anything, this crisis has

offered the world a glimpse of India's resilience. No other country has demonstrated rallying together in devastating times like we have. A lockdown of this scale and nature is impossible to execute smoothly. India's demographics complicate things manifold. Millions of daily wage workers have lost their solitary source of income. Many have lost their jobs many businesses will perish in the lockdown. Despite this, our adherence to the lockdown has been a tremendous success. The Indian people have embodied resilience and determination in their response to this crisis, not only in observing safety measures, but also in the coming together of the business community and civil society to coordinate large-scale relief efforts for those most harshly impacted by loss of income.

Slowdown in demand & supply

Corona virus has disrupted the demand and supply chain across the country and with this disruption, it can be seen that the tourism, hospitality, and aviation sectors are among the worst affected sectors that are facing the maximum impact of the current crisis. Closing of cinema theatres and declining footfall in shopping complexes has affected the retail sector by impacting the consumption of both essential and discretionary items. As the consumption of any product or services goes down, it leads to an impact on the workforce. In the current scenario, with all the retailers closing down their services, the jobs of the employees are at a huge risk. The financial market has experienced uncertainty about the future course and repercussions of COVID-19. An estimated Rs 10 lakh crore of market caps was reportedly wiped off due to the fall of sensex in the second week of March 2020. The fall has continued till date as investors resorted to relentless selling amid rising cases of corona virus. The supply-side impact of shutting down of factories resulted in a delay in supply of goods from China which has affected a huge number of manufacturing sectors which source their intermediate and final product requirements from China. Some sectors like automobiles, pharmaceuticals, electronics, chemical products etc were impacted big time. The United Nations Conference on Trade and Development (UNCTAD), has suggested that India's trade impact due to the COVID-19 outbreak could be around US\$ 348 million. India is among the top 15 countries that have been affected most as a result of manufacturing slowdown in China that is disrupting world trade. For India, the overall trade impact is estimated to be the most for the chemicals sector at 129 million dollars, textiles and apparel at 64 million dollars, the automotive sector at 34 million dollars, electrical machinery at 12 million dollars, leather products at 13 million dollars, metals and metal products at 27 million dollars and wood products and furniture at 15 million dollars. As per UNCTAD estimates, exports across global value chains could decrease by US\$ 50 billion during the year in case there is a 2% reduction in China's exports of intermediate inputs. According to a survey by the Federation of Indian Chambers of Commerce & Industry (FICCI), the immediate impact of COVID-19 reveals that besides the direct impact on demand and supply of goods and services, businesses are also facing reduced cash flows due to slowing economic activity which in turn is having an impact on all payments including to those for employees, interest, loan repayments and taxes. Rationalizing tax rates or providing tax relief help curb the impact of COVID-19 on the Indian economy. Speaking on measures to combat the economic impact from the rapidly

spreading corona virus, Chief Economist of the International Monetary Fund, Gita Gopinath said that Government policymakers would need to implement a substantial targeted fiscal. She also advised on broader monetary stimulus and policy rate cuts to help normalize the economic situation. India is already running short on its GST revenue collection, and the corona virus scare could make matters worse. With less than 200 active COVID-19 cases in a 1.33 billion population, the Government of India is not in a rush to make any drastic changes in policy and offer tax relief (even though Indian enterprise leaders are calling for cuts in import duties). They have, however, announced an extension in filings of GST for FY 2018-19 until June 30, 2020. India has also rescheduled the introduction of mandatory e-invoicing until October 1, 2020.

Implications on the workforce

Job losses and salary cuts are likely in the high-risk services sector, including airlines, hotels, malls, multiplexes, restaurants, and retailers, which have seen a sharp, fall in demand due to lockdowns across the country. If the current global and domestic economic slowdown persists, it will impact demand and realization. Undoubtedly, with this crisis impacting the business around the country, it will create very challenging situations for the workforce. Companies are not meeting the revenue targets hence, forcing employers to cut down their workforce. The World Travel & Tourism Council has predicted 50 million tourism jobs getting eliminated because of the pandemic. Not only the employees of multinational companies, but daily wage workers have been impacted the most during this crisis. The International Labor Organization has called for urgent, large-scale and coordinated measures across three pillars - protecting workers in the workplace, stimulating the economy and employment, and supporting jobs and incomes. According to a preliminary assessment report, nearly 25 million jobs could be lost worldwide due to the corona virus pandemic, but an internationally coordinated policy response can help lower the impact on global unemployment. While on one hand, Indian employees are losing their jobs and receiving a salary cut, there is also an assumption that the majority of expats have gone back from India and they will take time to return. Different sectors such as automobile, banking and manufacturing employ a large number of expats. Indian companies need expats for several industry verticals and job functions such as after-sales services, business development and market audits.

All for One

The credit is certainly due, in part, to India's stable federal government, which has four years to go before the next general election. Going forward, it will take collective experience and leadership to build a resurgent India that's not only significant globally, but also serves the interests of its unorganised sector workers, farmers, MSMEs and industry. For all these reasons, at a time when we're bombarded with only grim imaginings of the future, India has the capability to rise above and become a beacon of hope for the rest of the world.

Safety measures for employees

Employee safety is the need of the hour. Still, with no experience of dealing with a virus that has the potential to spread rapidly, most companies are brushing off their hands by asking employees

to stay home. Some organizations, however, are implementing measures like temperature screening, disinfection of office premises, setting up COVID-19 response teams, distribution of COVID-19 precautionary packages.

An open line of communication

Even though the mortality rate of COVID-19 is lower than the 1918 influenza pandemic, it has caused a widespread panic due to unclear lines of communication. Organizations are stepping up and maintaining an open line of communication with all their stakeholders, including employees and customers.

Major survey results

- A significant 53 per cent of Indian businesses indicate the marked impact of the COVID-19 pandemic on business operations even at early stages.
- The pandemic has significantly impacted the cash flow at organizations with almost 80 percent reporting a decrease in cash flow.
- The pandemic has had a major impact on the supply chains as more than 60 per cent respondents indicate that their supply chains were affected. The companies also highlighted that they are closely monitoring the situation and expect the impact of the pandemic on the supply chain to worsen further.
- Organizations have brought in a renewed focus on hygiene aspects concerning the pandemic. Almost 40 per cent have put in place stringent checks on people entering their offices and disinfection. Nearly 30 per cent organizations have already put in place Work-from-Home policies for their employees.
- Nearly 42 per cent of the respondents feel that it could take upto 3 months for normalcy to return.

For some of the sectors, the work-from-home proposition is posing implementation challenges as it has a direct bearing on the business operations. This is particularly true for manufacturing units where workers are required to be physically present at the production sites, and services sectors like banking and IT where a lot of confidential data is used and remote working can enhance security threats. Hence, companies operating in these sectors are finding it difficult to implement work-from-home facilities without compromising on their day to day operations.

The industry members have also shared suggestions on possible actions that the government and RBI can take to contain the spread of corona virus in India and mitigate the immediate concerns of the Indian companies.

Need for policy intervention

There is an urgent need to take instant steps to not only contain the spread of the virus, but also to address the key pain areas of the industry which can help in minimising the impact of the outbreak on the Indian economy and businesses. The Indian Government & RBI need to support the Indian industry and economy at this juncture in different ways:

- Maintain liquidity at surplus levels and provide special liquidity support for any companies / NBFCs / banks that come under strain due to intensifying risk aversion in financial markets or due to large demand shock.

- Increase credit limits for all regular banking accounts by 25 percent across the board. Also, Increase overdraft facility to state governments from the RBI. Pay the pending GST compensation immediately.
- IBC to be suspended for a short period for the aviation and hospitality sectors as they are the worst affected.

Conclusion

Since a large number of people will stand to lose their jobs especially in the retail, hospitality, travel, construction sector, the government can consider giving incentives for employers to keep the workers, while the corona virus problem tides over. On March 24th, 2020 the Finance Minister extended the filing dates of ITR, GST, linking of PAN and Aadhar and other reliefs for the big and small enterprises. The finance ministry is already working on an economic package to mitigate the impact of corona virus on the Indian economy. The government is taking necessary steps that will not damage the economy further but the damage that has been done in the previous few months will definitely last for a longer period of time. As the country is locked down for the coming three weeks, India Inc has to stretch themselves to sustain the situation and face the challenge. The Indian government has also urged employers to not cut jobs and salaries. Many CEOs and management teams are taking pay cuts to ensure their workforce does not have to bear the brunt. With the number of COVID-19 cases leaning dangerously more than 200,000 and the worldwide death toll crossing more than 8,000, the World Health Organization (WHO) declared the virus outbreak a pandemic in the second week of March 2020, four months after the novel virus first made headlines. Nearly 162 countries are steadily going into lockdown, and businesses across the globe are operating in fear of an impending collapse of global financial markets. This situation, clubbed with sluggish economic growth in the previous year, especially in a developing country like India, is leading to extremely volatile market conditions. Let's understand how the corona virus is impacting business and subsequent tax reforms in India

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