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# Estimating the Impact of COVID-19 on Different Sectors of the Indian Economy

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## ABSTRACT

The entire world economy has been shattered by the COVID-19 pandemic. Its adverse impact on different sectors of the economy has compelled the Governments and policymakers to rethink from scratch and come up with appropriate measures for all stakeholders. The disease has already triggered a worldwide recession. All businesses, irrespective of size, are facing grave challenges. The ILO (International Labour Organization) estimate reveals that a huge number of jobs will be severely impacted across the globe. According to the ILO, the COVID-19 pandemic is the most horrible disaster since the Second World War. The International Monetary Fund (IMF), on the other hand, treats the pandemic as the most terrible economic catastrophe since the Great Depression (1930). The crisis resulted in a demand-supply mismatch because of the dismantling of the nationwide transport system. On the one hand, farmers are unable to take their produce to the market, leading to a huge shortfall in supply and consequent inflation. On the other hand, there is a huge fall in income-generating from non-marketing of products in the agricultural sector and joblessness in the industrial and service sectors also. This fall in income is again creating a fall in demand circularly. In this way, the domestic slowdown coupled with the international recession put India on the back foot. Economic activities have come to a total standstill, which has badly hit the informal sector and casual workers in India. Governments across the world are announcing stimulus packages, and Central Banks are lowering interest rates. The Government of India has also come up with many relief initiatives. Against this backdrop, this exploratory research paper endeavors to analyse the possible effects of the COVID-19 pandemic on various sectors of the Indian economy.

***Keywords:*** *COVID-19; ILO; IMF; Recession; Sectors*

## INTRODUCTION

The world has witnessed deadly diseases like Ebola, Swine flu, and SARS in the past, which took the shape of an epidemic and resulted in a huge crisis for the global economy. But the novel coronavirus (COVID-19) pandemic has not only killed people worldwide but also affected the world economy negatively. The Indian economy also suffered a huge setback as a result of this pandemic. The outcome is that the projected growth rate of the Indian economy, as per the opinions and estimates of different agencies and organizations, will likely decline.

The disease has already triggered a worldwide recession. All businesses, irrespective of size, are facing grave challenges. The ILO (International Labour Organization) estimate reveals that a huge number of jobs will be severely impacted across the globe. According to the ILO, the COVID-19 pandemic is the most horrible disaster since the Second World War. The International Monetary Fund (IMF), on the other hand, treats the pandemic as the most terrible economic catastrophe since the Great Depression (1930).

### Objective of the study and data source

The main objective of this exploratory research paper is to analyse the possible effect of COVID-19 on different sectors of the Indian economy. The study uses secondary data from various sources like articles, reports, web materials etc.

**Projected GDP**

The growth rate (GDP) projection of India during FY-21 by various agencies is presented in Table 1.

***Table 1: GDP projection of India during FY-21***

| Organization/Agency | Growth (in %) |
|---|---|
| ADB | 4 |
| Fitch Ratings | 0.8 |
| ICRA | 2 |
| IMF | 1.9 |
| S&P Global Ratings | 3.5 |
| World Bank | 1.5-2.8 |

*Source: Gupta (May 2020a)*

## LITERATURE REVIEW

'Work from Home' culture has become the new-normal norm. Accordingly, the coming years may witness huge investments in tools that cater to 'Work from Home' effectively and efficiently (Datta, 2020). The pandemic is expected to transform the landscape of all the sectors of the economy. As a result, the business will witness a change in the patterns of consumption, investments and flow of trades. As such, business firms need to have recovery plans ready in advance to combat the challenging scenario (Suri, 2020). A huge number of workers of the informal sector (around 93 million) was mostly affected. These workers belong to five sectors of the economy. These sectors are (i) manufacturing; (ii) trade, hotel and restaurant; (iii) construction; (iv) transport, storage and communications; and (v) finance, business and real estate (Mehta &Arjun, 2020). With uncertain domestic and global demand outlook and weak crude oil prices, petrochemical prices are likely to remain low. This will lead to the accumulation of huge inventories for the producers (KPMG, 2020a). There are two challenges in the real estate sector: payment of a higher rate of interest and reduced sales. The pandemic will also pose challenges to the global shipping industry (Rastogi, 2020). Uncertainty, subdued demand, crash in the stock market, pay cuts and lay-offs will result in lower GDP for India and make the economy more vulnerable (Gupta, 2020b).

## DISCUSSION

### Estimate of impact on the economy as a whole:

The crisis resulted in a demand-supply mismatch because of the dismantling of the nationwide transport system. On the one side, farmers are unable to take their produce to the market, leading to a huge shortfall of supply and consequent inflation. On the other hand, there is a huge fall in income-generating from non-marketing of products in the agricultural sector and the joblessness in the industrial and service sector also. This fall in income is again creating a fall in demand in a circular way. In this way, the domestic slowdown coupled with the international recession put India on the back foot. Economic activities come to a total standstill which has badly hit the informal sector and casual workers of India.

Considerable decreases in jobs and an increasing rate of unemployment were observed in March 2020 in the CMIE report. The workers, irrespective of their locality (urban or rural), were adversely impacted.

### Estimate of impact on different sectors of the economy:

### Auto sector

For auto components, India heavily depends on China. Such components are imported from China and the auto manufacturers and auto-ancillary industries use such components. However, the pandemic created a situation where auto components could not be imported due to shut down in China (Nifty50Stocks, 2020).

The pandemic may affect the decisions of a large number of buyers so far as purchasing vehicles is concerned. Many prospective vehicle buyers may prefer to defer their decisions on vehicle purchase for some time due to financial compulsions and low sentiment. Production is also adversely affected in the auto sector because the country heavily depends on Germany and South Korea apart from China. And, the pandemic hurts the auto sector of these countries as well (Suri, 2020). It will be difficult for the automobile sector to return to normalcy in the near term.

Aviation, tourism and entertainment sector

The tourism and hospitality sector of India is one of the worst affected sectors during the pandemic. The tourism sector witnessed a huge job loss and is bleeding. It requires heavy investment from the Government and the private sector to get the sector back on track. The aviation and tourism industry faced severe cash flow issues.

The shooting of films and release of films have been put on hold. Indian cinema industry has been seriously affected because multiplexes and cinema halls are closed for a long time. The industry is going to suffer a huge monetary loss which may be more than Rs. 200 crores at least in the next quarter. The recovery path of the Indian entertainment sector is very difficult in the short run since people will avoid gathering and travelling to maintain social distancing. The rising rate of unemployment and a simultaneous decrease in the level of income will add salt to the wounds.

**Real estate sector**

There will be subdued demand in the real estate sector in general and the housing sector in particular over a period of time which may extend several quarters. As a result, the launching of new projects will get reduced. The real estate sector employs a large section of the population either directly or indirectly. But the pandemic has changed the scenario and there will be a huge job loss or job curtailment in the sector. Reduced sales and payment of high interest will make the situation more challenging for the real estate sector in India. Nevertheless, it is expected that the situation will gradually improve after a few quarters.

**Chemical and petrochemical sector**

The petroleum sector is under tremendous pressure even before the pandemic because the demand has slowed down throughout the world. It results in excess capacity. The coronavirus outbreak has further aggravated the sector (KPMG, 2020a).

The Indian chemical sector also heavily depends on China for its raw materials. The pandemic created bottlenecks for the sector because it has become difficult to obtain raw materials from China. It leads to escalation in the price of raw materials and it badly affects the sector (Nifty50Stocks, 2020).

**Electronics and consumer durable sector**

Just like many other sectors, the electronics and consumer durables sector are also facing stiff challenges due to a sudden drop in demand. The prospective consumers prefer to defer their buying decisions because the disposable income in the hands of individuals has been reduced substantially and the prospect of growth looks gloomy for the sector. In this sector also, dependence on China for products and components will negatively impact the sector because the shutdown in China makes these sectors vulnerable. The sectors are not getting the products and components which results in an increase in price.

Pandemic-related restrictions compelled the logistic providers across the globe to withhold their services which act as a deterrent to the uninterrupted supply of products. Shipment delay will result in logistic cost enhancement. Subdued demand and labour shortfall led to underutilised capacity in the plants. To survive, many businesses in the sector weighed carefully the idea of diversification to new business which may affect the core business adversely (EY, 2020).

**Banking and finance**

The demand for all types of loans (home loans, consumer loans, working capital financing etc.) has shrunk drastically. Even in a low-interest rate situation for loans, the banks are finding it difficult to get customers. As a result, the banks are under pressure and the situation may prevail for a few quarters. There is also a risk of getting corporate as defaulters (Nifty50Stocks, 2020).

A report from the country's Central Bank has indicated an unprecedented rise in NPA (Non-Performing Assets) in the coming months. It will lead to erosion of assets of the banks. It is expected that the coming weeks and months will show a further fall in the net interest margin. However, one positive impact of the pandemic in the sector is the use of digital banking on a large scale (Bhowmik, 2020).

**Oil and gas sector**

Recently, crude oil prices have experienced a downward movement primarily due to a lack of crude oil demand across the world. In India, the biggest demand for Oil and gas comes from retail direct customer end. The Aviation industry has been sorely impacted by the closure of international and domestic travel. It is expected that the demand for Oil & Gas will take at least two to three quarters to become stable and will definitely impact the Indian economy (Nifty 50 Stocks, 2020). The demand for transport fuel was slowed down due to lockdown.

**Power sector**

The effect on the power sector will not be that serious as compared to many other sectors. It is anticipated that post-lockdown demand is going to be increased. However, the pandemic has resulted in disruptions in the activities of the coal mines. As a result, there may be a shortage of coal which may impact the availability of power in different regions. At the same time, the demand is also low which may make up for the constraints of the supply side. However, solar projects are going to suffer because of interruption in production, disruption in the supply chain and limited availability of the required raw materials (KPMG, 2020b).

**IT and software service sector**

Human resources are the key in IT and software organisations. But lockdown measures adopted by the Government will restrict the free movement of human resources. The existing projects of IT and software companies are not getting completed on time. Moreover, the new IT projects are also declining. It may take at least a quarter or two to solve this issue in this sector (Nifty50Stocks, 2020).

**Pharmaceutical and healthcare sector**

Huge demand for the essentials like masks, sanitisers, gloves, disinfectants etc. has resulted in a demand-supply mismatch. As a result, the price of these essentials increases. The situation will be normal with the increase in production of these items and it is observed that the situation is improving. Revenue flow for private healthcare providers got impacted due to the closure of all services except emergencies. Pay-cuts and layoffs may be experienced in private hospitals. To boost up healthcare infrastructure, huge funding is required from all possible sources. The nation has decided to impose a ban on the export of crucial medicines to ensure their availability for domestic use. It is expected that the difficulties in the near term will be over with time. This is the sector where there is demand but there is temporary supply disruption.

**FMCG sector**

The challenges before the FMCG and the retail sectors are unique because there is a huge demand for FMCG products but the same cannot be fulfilled because of disruption in the supply chain as a result of travel restriction decrease in the number of employees and inadequate inventory. The demand for commodities is growing faster than its supply. Retailers started innovating new delivery models/procedures to brighten up the scope of delivery (especially online delivery). For instance, companies like Big Basket and Flipkart join hands with companies like Swiggy and Uber for quick delivery of products. ITC, for ensuring no-contact delivery of its products like spices and Ashirwad atta, tied up with Domino's Pizza. Other companies like Spencer's Retail and Grofers start sending their vehicles and workers for lifting goods from the centres of distribution. This mechanism adopted by Spencer's Retail and Grofers is called a 'reverse supply chain mechanism'. Companies like Metro Cash & Carry and D Mart, to motivate their workers during this tough time, started offering an extra cash incentive to their employees (Suri, 2020).

**Micro, small, and medium enterprises (MSME) sector**

The MSME sector is under huge pressure. Things are not going well for this sector. Many customers are not in a position to repay their dues in time because of a severe liquidity crunch. It has impacted the sector badly. The sector's contribution to the exports of our nation is significant. As such, the impact will be huge and it will take a long time to overcome the situation.

**Textile sector**

The pandemic has adversely affected the Apparel and Textile sector. Non-availability of raw materials in time, dearth of working capital, reduced and inconsistent supply of labour, restriction on free movement, decreased ability of the customers to buy products resulted in lower demand for Apparel and Textile goods (Rastogi, 2020). Issues like transportation problems, production loss, non-availability of the skilled labour force, reduced demand, non-availability of raw materials, order cancellation, dearth of working capital etc. have put the sector on the back foot (Ministry of Textiles, 2020).

**Agricultural sector**

The impact of COVID-19 on agriculture is varied and devastating which calls for immediate actions on behalf of the government. Because of nationwide lockdown agricultural activities faced two major obstacles: (1) labour non-availability, and (2) inability to access the market by the producer due to transportation problems. Labour non-availability did not throw a serious problem for food crop production like rice and wheat because of the use of machinery. However, the production of the commercial crop was drastically hit due to heavy dependence on migrant labour. Shortage of labour resulted in a sharp increase in wages. So, production of such crops becomes highly unremunerative for the farmer (Ananth, 2020).

Inability to access the market resulted in the disruption of the supply chain of agricultural products. There was a disruption in the procurement of food grains by Government Agencies (mandis) and private traders too. This, in turn, generated two sorts of problems: (a) supply shocks/ bottlenecks (b) decrease in income of small and marginal farmers causing a decrease in demand for goods. Both of these should cause the prices of commodities to be stable. However, there was panicked consumption/ purchase of urban consumers with high/moderate-income levels. This stockpiling resulted in a sudden increase in the prices of vegetables, food livestock etc. Needless to say, middlemen and traders reaped the benefit of high prices while producers/farmers of agro-product suffered a huge loss in income and purchasing power (Ramakumar, 2020).

In this connection, it may be mentioned that the Government Relief measures directed towards removing supply chain disruption of agricultural sectors are quite inadequate. One such recent measure is 'Atmanirbhar Bharat Abhiyan'. The problem with this measure is that instead of putting a focus on short-term crop loans the measure attempts to improve the income of the farmers through long-term investments. Experts think that waiver of loans, cash transfer and adequate compensation for the unsold produce are the need of the hour (Jebaraj, 2020). Overall, agricultural production has not been impacted much due to the coronavirus outbreak since the agricultural product is on the list of essential categories. It will definitely contribute to Indian economic growth in the current financial year.

**Measures by the Government:**

Governments across the world are announcing stimulus packages and Central Banks are lowering interest rates. The objective is to bring more money into the economy to spur demand. According to Harsh Jain, Co-founder and COO, Groww, “The RBI is trying to maintain adequate liquidity in the system and ease the inflationary pressure on the economy” (Pal, 2020).

To cope with the situation, the Union Government of our country has taken certain initiatives for providing relief to different sectors. Healthcare workers are brought under the umbrella of medical insurance. Medical insurance cover of Rs. 5 million was announced for each healthcare worker. The Central Bank of the nation (RBI) came out with certain liquidity measures like reduction in Repo rate, reduction in Cash Reserve Ratio (CRR) and lowering liquidity coverage ratio for the banks. It is expected that such measures will inject liquidity of more than Rs. 1,37,000 crores in the banking sector. Relief measures announced for the Non-Banking Financial Companies (NBFCs) and Housing Finance Companies (HFCs) include Rs. 30,000 crore liquidity infusions for these sectors. Certain relaxations have been given to financial services for three months. These include the following:

(i) There will be no “minimum balance' requirements for the holders of Savings Bank account and for withdrawing cash in the ATMs of other banks there will be no charge.

(ii) There will be a reduction in bank charges for all digital transactions.

For the real estate sector, the time for completion and registration of projects registered under the Real Estate Regulations Act (RERA) was extended by six months. At the same time, various compliance requirements under the statute were also extended by the same period. On the corporate affairs front, it is decided that the MCA (Ministry of Corporate Affairs) will not charge any late fee for filing any document, return or generation of statements during the moratorium period (01.04.2020 to 30.09.2020, 6 months). The statutory requirement of holding the Board Meeting was relaxed and the time was extended by sixty days. It is further decided that CARO (Companies Auditors' Report Order), 2020 will be applicable from FY21 instead of FY20. For preventing insolvency proceedings against MSMEs, the limit of default was extended to Rs. 10 lakhs from Rs. 1 lakh. Further, COVID-19 related loans are kept out of the ambit of the definition of default. Food-related relief initiatives include bringing a majority of the population (almost 2/3rd) under the umbrella of 'Pradhan Mantri Garib Kalyan Anna Yojana' under which each member will be given an additional five kg of rice and wheat. Moreover, an additional one kg of pulse has been earmarked for every household initially for three months. Initiatives under the DBT (Direct Benefit Transfer) include the following:

(i) Enhancement of wages of MNREGA workers from Rs. 182/- to Rs. 202/-

(ii) Provision of one-time ex-gratia of Rs. 1,000 for three months for certain categories of persons (senior citizens, widows, disabled etc).

(iii) Supply of free LPG cylinders under Ujwala scheme for a period of three months to women belonging to BPL (Below Poverty Line) families.

(iv) Providing Rs. 500 per month for a period of three months as ex-gratia to women account holders of 'Jan Dhan'.

(v) Enhancement of the amount of collateral-free loans for Self-help Groups (SHGs).

(vi) Issuing directives to the State Governments for utilising the welfare fund for the cause of building and construction workers.

Regulatory measures for the benefit of borrowers are:

(i) Permitting lending institutions, a moratorium for a period of three months on EMIs.

(ii) Allowing lending institutions to defer payment of interest for a period of three months for facilities relating to working capital.

(iii) Re-defining computation of NPA by excluding the moratorium period from the computation.

Initiatives in the social security front include bearing both the employers' contribution and the employees' contribution (12% each) of E.P.F (Employees Provident Fund) for a period of three months and enhancement of the limit of withdrawal from E.P.F.

Relief measures related to taxation include the following:

(i) Extension of Aadhaar-PAN linking date.

(ii) Extension of due date for filing ITR (income tax returns).

(iii) Extension of due date for filing GST annual returns.

**Recommendations**

Many organisations offered suggestions to cope with the pandemic. Amongst these, the Associated Chambers of Commerce & Industry of India (ASSOCHAM) came out with many recommendations in different periods. Keeping in line with these suggestions, the following measures may be recommended:

Cash support for the urban poor: The Government must make necessary arrangements for the vulnerable sections of the urban areas by offering them cash support. The amount may be in the range between Rs. 3,000 and Rs. 5,000 per month for the poor urban workers which include auto rickshaw drivers, street vendors, construction workers and the like.

Paid sick leave: The provision of paid sick leave has to be there to support the workers and the Government has to ensure that.

Job safety: Dismissing, firing or sacking employees should be disallowed irrespective of the sector in which the organisation belongs for a specific period which maybe three months or more depending on the situation.

Waiving cost of utility: The Government must ensure waiving of the cost of the utility for a certain period (three months or more) for the poor and vulnerable section living in urban areas.

Working capital support: The Government should identify the sectors suffering from working capital crunch and provide those sectors with financial assistance for overcoming the liquidity problems.

Industry support: Firms belonging to certain sectors were hugely affected and some of these sectors are aviation, tourism, hospitality, retail etc. As such, the Government must provide support to such sectors for a certain period (six months or more) by offering them loans.

Restructuring CSR budgets: It is high time that the companies should come forward to deploy their funds earmarked for CSR activities for managing the COVID-19 crisis and the Government has to push the companies in doing this.

Oil PSU contributions: It is observed that the oil companies in the public sector are earning huge profits due to a fall in the price of crude oil across the globe. A portion of this profit should be earmarked for managing the pandemic and the Government has to convince these companies to come forward and contribute generously for the said cause.

Ensuring manufacturing of essentials at low cost: Essential items like masks and sanitisers should be made available in bulk quantity and at a reduced cost to support the citizens of the nation. The Government, as well as the private sector, should ensure the availability of essential items at a low cost on a no-profit basis. For supporting healthcare professionals, the manufacturing of testing kits and protective gear should also be extended. The State should provide free vaccination to all its citizens.

**CONCLUSION**

The challenges before the Government are two-fold: (i) Providing support to the workers belonging to the informal sector (who have lost their jobs) instantaneously; and (ii) Helping the unemployed workers in search of jobs.

History reveals that the world was successful in overcoming such pandemic situations in the past. As such, one should be optimistic that the world economy will bounce back this time also. New opportunities will emerge, and the Indian economy will prosper along with the global economy.

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