POST COVID-19 IMPACT ON ECONOMIC GROWTH

Asst.Prof.Dr.Ronil Kulbhushan Ahale 000346
Dr. H. N. Sinha Arts & Commerce College, Patur Dist-Akola
M-9623936691 Emai.id- ronil_online@rediffmail.com

Abstract

The outbreak of COVID-19 put social and economic life in a deadlock. This study focuses on assessing the impact on affected sectors such as aviation, tourism, retail, capital markets, MSMEs and oil. International and internal mobility is restricted, and revenue generated by travel and tourism, which contributes 9.2% of GDP, will take a major toll on GDP growth. Aviation revenue will decrease by US $ 1.56 billion. Oil has fallen to an 18-year low of $ 22 a barrel in March, and foreign portfolio investors (FPIs) have withdrawn large amounts of US $ 571.4 million from India. While lower oil prices will reduce the current account deficit, inverse capital flows will expand this. The rupee is depreciating continuously. MSMEs will undergo a severe cash crisis. The crisis of such temporary population of migrants amidst lockouts across the country witnessed a widespread mass migration. Their concerns were mainly lack of jobs, daily rations and lack of social security. India should revisit its development paradigm and make it more inclusive. COVID 19 has given India some unique opportunities. There is an opportunity to participate in global supply chains, multinationals losing trust in China. For 'Make in India', some reforms are required, labor reform being one of them.

Keyword - COVID 19, Economic Impact, GDP Growth Rate, Regional Impact, COVID Relief Measures

Introduction

The outbreak of COVID-19 has impacted nations in an enormous way, especially the nationwide lockdowns which have brought social and economic life to a standstill. A world which forever buzzed with activities has fallen silent and all the resources have been diverted to meeting the never-experienced-before crisis. There is a multi-sectoral impact of the virus as the economic activities of nations have slowed down. What is astonishing and worth noting is an alarm bell which was rung in 2019 by the World Health Organization (WHO) about the world's inability to fight a global pandemic. A 2019 joint report from the WHO and the World Bank estimated the impact of such a pandemic at 2.2 per cent to 4.8 per cent of global GDP. That prediction seems to have come true, as we see the world getting engulfed by this crisis.

In another report entitled'COVID-19 and the world of work: Impact and policy responses' by International Labour Organization, it was explained that the crisis has already transformed into an economic and labour market shock, impacting not only supply (production of goods and services) but also demand (consumption and investment). International Monetary Fund's (IMF) chief said that, 'World is faced with extraordinary uncertainty about the depth and duration of this crisis, and it was the worst economic fallout since the Great Depression'. The IMF estimated the external financing needs for emerging markets and developing economies in trillions of dollars. India too is groaning under the yoke of the pandemic and as per news reports in Economic Times published on 23 March 2020, the economists are pegging the cost of the COVID-19 lockdown at US$120 billion or 4 per cent of the GDP (*The Economist*, 2020).

This COVID-19 pandemic affected the manufacturing and the services sector—hospitality, tours and travels, healthcare, retail, banks, hotels, real estate, education, health, IT, recreation, media and others. The economic stress has started and will grow rapidly. While lockdown and social distancing result in productivity loss on the one hand, they cause a sharp decline in demand for goods and services by the consumers in the market on the other, thus leading to a collapse in economic activity. However, lockdown and social distancing are the only cost-effective tools available to prevent the spread of COVID-19. Governments are learning by doing, as it was in the case of success of containment strategy in Bhilwara district, Rajasthan, India, the economic risks of closing the economy remain nonetheless. Similarly, flattering the caseload curve is critical for economy at large, but it comes with an economic cost.

Material and Methods

Research studies done earlier to assess the economic impact of epidemics have been based on simulation models. A study done by Martin Karlsson (2014) to assess the impact of 1918 Spanish flu epidemic on Swedish economy is based on the neoclassical growth model; an extension of the standard difference-in-differences (DID) estimator was employed to exploit the differing flu mortality rates across Swedish regions. The policy brief issued by the Asian Development Bank to assess the economic impact of Avian Flu pandemic on Asian economies has been done through macroeconomic simulations based on Oxford Economic Forecasting (OEF) global model, which incorporates both the demand and supply sides and adjusts to a new equilibrium after a shock (Bloom et al., 2005). The empirical estimates of the economic effects of the Severe acute respiratory syndrome (SARS) epidemic are based on a global model called the G-Cubed (Asia-Pacific) model which was proposed by Lee and McKibbin (2004). Economic effects of epidemics are measured through economic costs deriving from disease-associated medical costs or forgone incomes as a result of the disease-related morbidity and mortality. In a global economy, the economic consequences of an epidemic in one country are transferred to other countries because of the integrated supply chains and capital markets. COVID-19 pandemic is caused by novel coronavirus infection, and scientific research is going on to study the impact of this infection on the human body and to find a possible cure for the infection. There are many variables in the epidemiological calculations done for this disease which are based on assumptions such as the cause of infection, the infection rate and the ratio of asymptomatic cases to symptomatic cases. In the future, scientific research will unravel the mysteries of this disease and the disease spread. Economic projections or simulations are closely linked to epidemiological forecasting of the disease pattern. We decided not to use simulation models because of the uncertainties related to the disease. In this study, the focus is on assessing the damages caused by COVID-19 in the affected sectors, such as aviation, tourism and the retail, the overall productivity loss and the socio-economic impact of labour hours lost with an analysis of developmental policy and programme implications.

Sectoral Implications of COVID-19 Pandemic in India

Impact on Tourism, Aviation and Retail

The tourism industry is the worst affected due to the COVID crisis, internationally. The World Tourism Organization (UNWTO) (2020) estimations depict a fall of 20–30 per cent in international tourist arrivals. These figures too are based on present circumstances and are likely to increase or decrease in future. Millions of people associated with industry are likely to lose their jobs. In India, the travel and tourism industry is flourishing and is contributing sizably to the economy.

The FICCI-Yes Bank report titled 'India Inbound Tourism: Unlocking the Opportunities' described India as a tourism powerhouse and the largest market in South Asia. Tourism in India accounted for 9.2 per cent of GDP and had generated US$247.3 billion in 2018, with the creation of 26.7 million jobs. Currently, it is the 8th largest country in terms of contribution to GDP (JaganMohan, 2020). According to the report, by 2029, the sector is expected to provide employment to nearly 53 million people. Foreign Tourist Arrivals (FTAs) crossed 10 million in 2017. However, the coronavirus pandemic has restricted international mobility and the revenues generated by this sector will take a major toll on the GDP growth rate. It may bring a downfall of 0.45 per cent in the growth rate of GDP.

The aviation sector in India currently contributes US$72 billion to India's GDP. Foreign tourist arrival has been down in the first quarter. The lockdown will have a significant impact on arrivals in the second quarter. If we estimate a conservative 25 per cent decline in the contribution of the aviation sector, it will amount to 18 billion. Railways contributed US$27.13 billion in 2019 to GDP. A 21-day lockdown period will bring down the revenue by US$1.56 billion.

The Indian retail industry was worth US$790 billion in FY 2019. It accounts for over 10 per cent of the country's GDP and around 8 per cent of employment. In the past few years, online retail has seen a very rapid growth and the market projections had indicated a 30 per cent growth in online retail in 2020 (National Investment Promotion and Facilitation Agency, 2020). A month-long shutdown for retail will affect the Quarter 2 revenues. In the retail sector, the suppressed demand has a tendency to revive very fast and this will enable the sector to recover the losses once the lockdown is lifted. Online retail was operational in some parts of the country during the lockdown period and this will help in offsetting some of the losses for the industry.

Impact on GDP Growth Rate

While the COVID-19 pandemic is constantly growing and showing little signs of containment as of 15 April 2020, its adverse impact on economic growth of the country will probably be very serious. The UN warned that the coronavirus pandemic is expected to have a significant adverse impact on global economy, and most significantly, GDP growth of India for the present economy is projected to decline to 4.8 per cent (United Nation 2020). Similarly, the UN 'Economic and Social Survey of Asia and the Pacific (ESCAP) 2020 reported that COVID-19 would have extensive socio-economic consequences in the region with inundate activities across borders in the areas of tourism, trade and financial linkages (United Nations, 2020).

Economic Survey 2019–2020 had provided advance estimates for growth in real GDP during 2019–2020 at 5.0 per cent, as depicted in Table 1, as compared to the growth rate of 6.8 per cent in 2018–2019. The nominal GDP is estimated at ₹204,400 billion in 2019–2020 with a growth of 7.5 per cent over the provisional estimates of GDP (₹190,100 billion) for 2018–2019. (Economic Survey, 2020, p. 100) On 28 February 2020, the National Statistical Office announced revised estimates of GDP growth, from 8 per cent to 7.1 per cent in the first quarter, from 7 per cent to 6.2 per cent in the second quarter and from 6.6 per cent to 5.6 per cent in the third quarter. Goldman Sachs estimated the growth rate of GDP at 1.6 per cent, declining by 400 basis points because of 21-day lockdown (Goldman Sachs, 2020). In case of a quick retraction of COVID-19 pandemic across the globe by mid-May, KPMG India estimated India's GDP growth in the range of 5.3 per cent to 5.7 per cent. In second scenario where India controls the virus spread but there is a significant global recession, the growth may be between 4 per cent and 4.5 per cent. KPMG India in its report estimated India's GDP growth rate falling below 3 per cent if the virus spreads further in India and lockdown sees an extension (KPMG, 2020). Motilal Oswal research suggests that a single day of complete lockdown could shave off 14–19 basis points from annual growth (Oswal, 2020). Barclays reported the cumulative shutdown cost to be around US$120 billion, or 4 per cent of GDP (Barclays, 2020). Mr Yashwant Sinha, former Finance Minister of India, estimated the cost of 21-day countrywide lockdown at 1 percentage point of GDP. The global recession and uncertainties of future might make a 2 percentage point decline in growth rate (for 2020–2021) possible.

Impact of COVID-19 Pandemic on Migratory Labour

The International Labour Organization in its report describes the coronavirus pandemic as 'the worst global crisis since World War II'. About 400 million people (76.2% of the total workforce) working in the informal economy in India are at a risk of falling deeper into poverty due to catastrophic consequences of the virus. As half of the world is in lockdown, it is going to be a loss of 195 million full-time jobs or 6.7 per cent of working hours globally. Many are in low-paid, low-skilled jobs where sudden loss of income is catastrophic (International Labour Organisation, 2020).

Seasonal migration of labour for work is a pervasive reality in rural India. A migration of millions of people happens from rural areas to industries, urban markets and farms. Major migration corridors in India are from UP and Bihar, to Punjab, Haryana, Maharashtra and Gujarat. Newer corridors from Odisha, West Bengal and North East to Karnataka and Andhra Pradesh, from Rajasthan to Gujarat, from MP to Gujarat and Maharashtra and from Tamil Nadu to Kerala are also being created. These migrant workers are employed in the construction sector (40 million), domestic work (20 million), textile (11 million), brick kiln work (10 million), transportation, mining and agriculture (IIPS, 2001). During lockdown, 92.5 per cent of labourers have lost 1 to 4 weeks of work. A survey done by Jan Sahas, of 3196 migrant workers across northern and central India, between 27 March and 29 March, reveals that 80 per cent of migrant workers feared that they will run out of food before lockdown ends on 14 April and will not get their job back thereafter (Figure 1). The survey revealed that 55 per cent of migrant workers get a daily wage between ₹200 and ₹400, and 39 per cent of the workers get it between ₹400 and ₹600, which is below minimum wage rate. Only 4 per cent of the workers get ₹600 and above, which is close to minimum wage rate. They work in exploitative conditions, are often under debt and have little savings of their own. About 49.2 per cent of these workers in the survey said that they did not have ration and 39.4 per cent said that they had ration which would last about 2 weeks.

way of life till we are able to eradicate the virus. During this time, the economy is juxtaposed with social behaviour of humankind, so the responsibility of bringing back economic action is not of government alone.

The risk of a global recession due to COVID-19 in 2020 and 2021 would be extremely high, as it has been observed globally that the shutdown of all economic activities—production, consumption and trade—to control the spread of COVID-19 is imminent. The nature of shutdown is unique in case of COVID-19 due to a supply shock, a demand shock and a market shock. The recovery in economy depends on the timings and magnitude of government support as well as the level of corporate debt and how the companies and markets cope with lower demand. Government assistance to those most in need (largely constituted of unorganised sector, migrants and marginalised communities) is a critical measure to save many lives.

However, every crisis brings about a unique opportunity to rethink on the path undertaken for the development of a human being, community and society. The COVID-19 pandemic has a clear message for the Indian economy to adopt sustainable developmental models, which are based on self-reliance, inclusive frameworks and are environment friendly.

References

Barclays . (2020). How will India lockdown play out for economy & markets: 4 scenarios. *Economic Times*. https://economictimes.indiatimes.com/markets/stocks/news/how-will-india-lockdown-play-out-for-economy-markets-4-scenarios/articleshow/74804087.cms
Google Scholar

Bloom, E., Wit, V. d., Jose, M. J.-S. (2005). *Potential economic impact of an Avian Flu Pandemic on Asia*. Asian Development Bank. https://www.think-asia.org/handle/11540/2165.
Google Scholar

Economic Survey . (2020). *Key indicators*. Government of India.Google Scholar