Impact of Covid-19 On Different Sectors in India And Fiscal Policy Response

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Abstract:

The Covid-19 crisis brought the whole world into a different level economically as well as emotionally. Everything was come into halt and the outbreak of the virus has unprecedented implications on the global economy. Almost all the economies had to extend fiscal support measures as all the sectors were affected badly. The paper is intended to analyse the negative effect on different sectors of Indian Economy and to highlight the extraordinary fiscal and monetary interventions to contain the impact of the pandemic.

***Keywords** – Covid-19, Indian Economy, Sectors, Fiscal Measures.*

I. INTRODUCTION

Millions of people were affected by the outbreak of Novel Coronavirus disease throughout the world. No country was ready to face such type of health emergency as the dissemination of the virus was massive. The outburst of the disease was first started in Wuhan, China in December 2019 and afterwards with thorough monitoring and assessment, the World Health Organisation declared it as Public Health Emergency of International Conference on 30th January 2020. Later it forced WHO to announce it as pandemic on 11th March 2020. In India, the first case of COVID-19 was reported on January 30, 2020 and the number of cases continues to rise. The government of India announced nationwide lockdown and was extended several times followed by a gradual reopening with restrictions implemented in selected containment zones. The normal life of the people was badly affected.

The first case of the disease was found in Kerala and the number surged to uncontrollable condition in most of the cities which were densely populated. The metropolitan cities Delhi, Mumbai, Kolkata, Chennai were badly affected. India became the third worst affected country worldwide in June, 2020. Due to low spending on health sector as percentage of GDP there were shortage of beds and ventilators, lack of manpower, lack of isolation rooms throughout the country. But due to the steps taken up by the Government as well as by the public, it was able to contain the health and economic damage caused by the pandemic. The paper will discuss how the country has fought the pandemic since its onset and the role played by Government of India through its fiscal policy.

II. OBJECTIVES OF THE STUDY

(i) The effort of India in fighting the Covid-19 pandemic has been acknowledged and appreciated all across the globe as it was difficult for such a huge and second populated country to face such pandemic.

(ii) But it is relevant to analyse the impact of the pandemic on various sections of the society economically due to lockdown and compulsion for urban rural migration of labourers.

(iii).There is a need to see the impact on various sectors and what are the remedies employed by the government. The objectives of the study are:

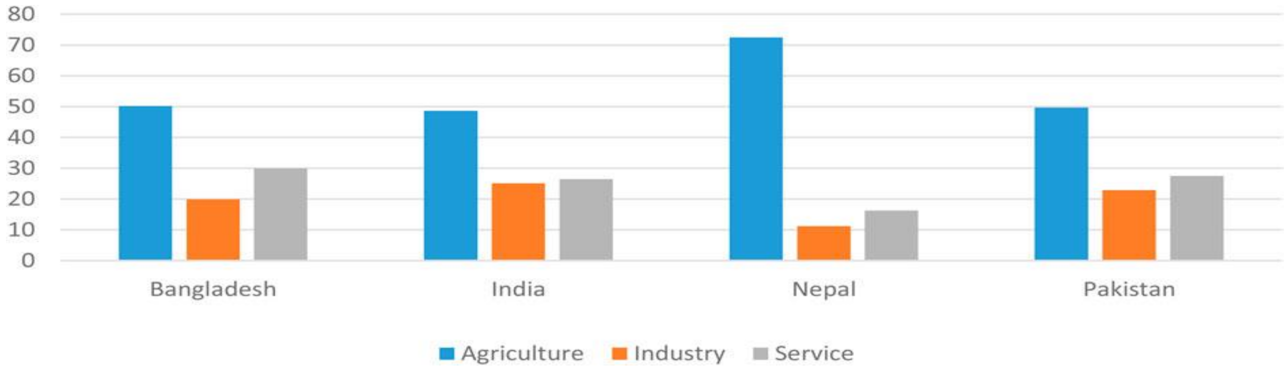
(iv).To highlight the impact of pandemic on different sectors of the economy and

(v).To analyse the fiscal policy measures taken up by the government of India to bring back the economy in track.

III. IMPACT OF PANDEMIC ON DIFFERENT SECTOR IN INDIA

The Covid-19 induced lockdown in India was a colossal economic shock affecting almost all the sectors of the economy. It hindered the economy with complete closure imposed on enterprises across all sectors. Times of crisis is a great teacher as along with the inherent challenges it can throw open many new opportunities but nationwide lockdown, the Indian economy was hit hard by unemployment and a steep decline in growth. The impact of pandemic on all the important sectors of the economy is discussed below:

Socio-Economic Implication of Covid-19



Source : frontiersin.gov

Agricultural Sector: Agriculture sector was affected badly by the pandemic, at All-India level, half (47%) agriculture production was adversely affected by the impact of COVID-19. In extent, agriculture production (-2.7%) had not been adversely impacted significantly, mainly due to the fact that harvesting of rabi crops like wheat was almost complete by the end of April 2020. However, in allied sector production had declined significantly, especially in poultry sector (-19.5%), followed by fisheries sector (-13.6%) and Sheep/Goat/Pig (S/G/P) sector (-8.5%), primarily due to drastic decline in demand for these products as hotels, tourists places, restaurants were closed and also there was speculation that meat consumption will enhance the possibility of catching the disease. Similarly, in sub sector like dairy (-6.6%) and horticulture (-5.7%) production also reduced, due to the reduction in demand for these products and disruption in their supply chain. Due to nationwide lockdown and restrictions imposed on movement of men/material and closure of shops, availability of agri inputs viz. seeds (-9.2%), fertilisers (-11.2%), pesticides (-9.8%), fodder (-10.8%), etc. declined in the range of 9 to 11 per cent. Disruption in supply chain owing to restrictions on movement of vehicles and closure of shops and markets, prices of agri inputs viz. seeds (8.8%), fertilisers (10.0%), pesticides (9.0%), fodder (11.6%), increased in the range of 9 to 12 per cent.

Industrial Sector: The manufacturing sector was affected in several ways due to the pandemic leading to low-scale operations, and ultimately led to a negative impact on production volumes. Over a period, this adversely affected the turnover and revenue. The IIP (Index for Industrial Production) also fell to a negative growth of 9.6% indicating that core manufacturing activity also suffered setbacks resulting from the first and the second wave. The complete lockdown and partial lockdowns had both demand-side and supply-side impacts on the manufacturing sector. India’s GDP for the first quarter (Q1) of 2020-21 contracted by 23.9% and the share of the manufacturing sector in total gross value added (GVA) which was 17.5% in Q1 of 2019-20 shrunk to 13.8% in this quarter. Growth rate in the manufacturing sector has plunged to-39.3% in Q1 of 2020-21. For consecutive eight quarters manufacturing growth rate has declined, indicating a lack of demand and a deeper structural crisis in the sector worsened by the pandemic-induced lockdowns. The main concerned was the urban rural reverse migration of the industrial workers.

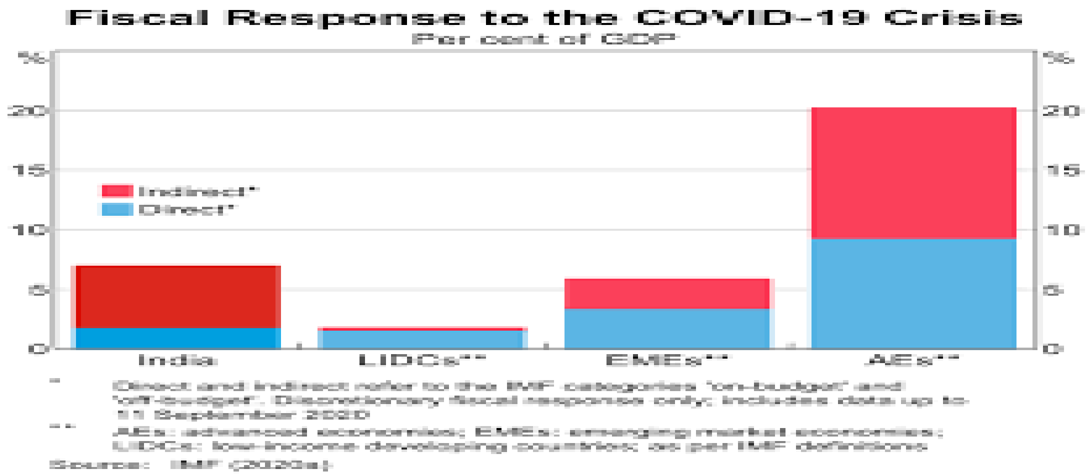
Some of the key issues that impacted the manufacturing sector in India are highlighted below:

- Supply Chain Disruption leading to shortage of Raw material
- Underutilization of the production capacity
- Shortage of labour due to reverse migration of the workers
- Lack of market demand
- Special Regulatory Restrictions imposed by the Government
- Liquidity crisis

Service Sector: Services sector contributes more than 50 per cent to India's GDP and also employment rate is also high in this sector. While Covid-19 pandemic has had an adverse impact on all the sectors of the economy, the worst affected was the service sector as its' share in India's GVA declined from 55 per cent in 2019-20 to 53 per cent in 2021-22. Within the services sector, the effect of Covid-19 has been varied. While non-contact services such as information, communication, financial, professional and business services have remained resilient, due to the mode of transmission of the disease, the impact has been much relentless on contact based services such as tourism, retail trade, hotel, entertainment and recreation, etc.

Source : pib.gov.in

IV. FISCAL POLICY RESPONSES



Source : rba.gov.au

The Fiscal Policy support measures extended by the Government of India can be broadly divided into two broad categories:

(i) above-the-line measures which include government spending of about 3.5 percent of GDP, of which about 2.2 percent of GDP have been utilized in the past fiscal year.

(ii) below-the-line measures designed to support businesses and shore up credit provision to several sectors was about 5.3 percent of GDP.

In the early stages of pandemic response, above the line expenditure measures focused primarily on social protection and healthcare like

(1) in-kind (food; cooking gas) and cash transfers to lower-income households of around 1.2 percent of GDP

(2)wage support and employment provision to low-wage workers nearly 0.5 percent of GDP

(3)insurance coverage for workers in the healthcare sector; and healthcare infrastructure i.e.,0.1 percent of GDP

The measures that were announced later in October and November 2020 include additional public investment and support schemes targeting certain sectors of about 0.2 per cent of GDP.

Later Government announced fiscal support to Production Linked Incentive scheme targeting 13 priority sectors cost about 0.8 percent of GDP over 5 years, a higher fertilizer subsidy allocation benefiting the agriculture sector of 0.3 percent of GDP and support for urban housing construction of 0.1 percent of GDP. Several measures like postponing some tax-filing and other compliance deadlines, and a reduction in the penalty interest rate for overdue GST filings have also been announced to ease the tax compliance burden across a range of sectors.

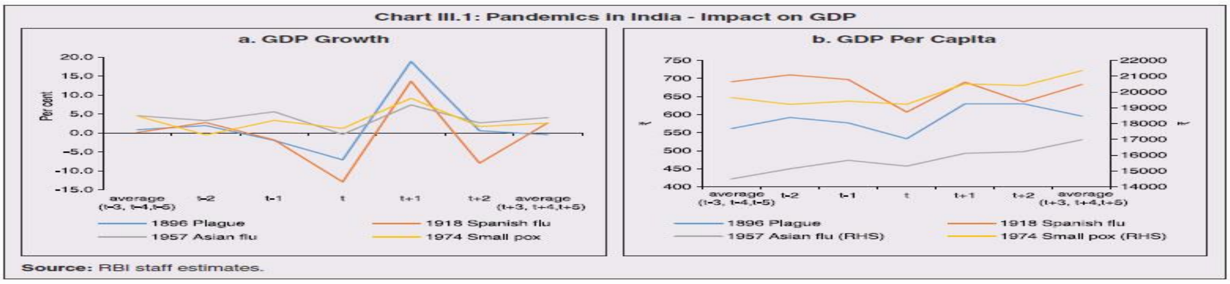
Similar measures to ease tax compliance burden during the months of April and May 2021 were re-introduced in response to the recent surge in infections. Measures without an immediate direct bearing on the government's deficit position aim to provide credit support to businesses (1.9 percent of GDP), poor households, especially migrants and farmers (1.6 percent of GDP), distressed electricity distribution companies (0.4 percent of GDP), and targeted support for the agricultural sector (0.7 percent of GDP), as well as some miscellaneous support measures (about 0.3 percent of GDP).

The key elements of the business-support package introduced are various financial sector measures for micro, small, and medium-sized enterprises and non-bank financial companies, whereas additional support to farmers mainly in the form of providing concessional credit to farmers, as well as a credit facility for street vendors were announced. Agricultural sector support is mainly for infrastructure development.

The budget expanded spending on health and wellbeing, including a provision for the country's COVID-19 vaccination program to a huge amount of Rs.350 billion.

In April 2021, in response to the surge in infections, the central government announced that free food grains would be provided to 800 million individuals in May and June, similar to the additional food rations provided in 2020.

The central government also extended a scheme for providing interest-free loans to states for capital expenditure to FY2021/22 for a sum of 150 billion rupees and expedited the release of Disaster Response Fund to state governments from June to May.



Source:rbi.gov.in

V. CONCLUSIONS

The COVID-19 pandemic hampered firms, agriculture and service sectors productivity and even consumption ability of the consumers. Many government resorted to fiscal stimulus on response to the economic disturbances. The policies were mainly to boost the production as well as consumption. In such situations one should never forget the generous and positive role played by the government. The huge spending supported a strong economic rebound, with GDP and employment recovering at a remarkable pace.

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