



IMPACT OF COVID – 19 ON THE INDIAN ECONOMY WITH EMPHASIS ON THE AGRICULTURAL AND FOOD SECTOR

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Abstract

Covid-19 has compelled leaders to prepare for new challenges that will emerge in the business environment. This calls for an informed and measured response from policy makers. To assist governments to do so, it is imperative that objective research be conducted in the field of not only the natural sciences but also in commercial and economic spheres. In the light of this background, this paper aims at estimating the possible short-term economic impacts of Covid – 19 on the Indian economy, with emphasis on the agricultural and food sectors. As the agricultural and food sectors have been listed in the essential category, it is assumed that the impact on them would not be very significant. This paper aims at verifying this assumption along with an examination of the impact on the food processing sector as state governments have allowed fruits and vegetables to move during the lockdown. The paper would probe into the impact of shortage of migratory agricultural labourers on the supply of rabi crops (mainly wheat) as well as the status of India's food exports to USA, China and some of the European countries. From the findings of the above investigations, the paper would then suggest various policies that the governments (both Union and State) can promulgate to ease the situation in the agricultural and food sectors. The policies would cover the financial as well as the labour aspects of the agricultural and food sectors.

I. INTRODUCTION

The present global crisis, emerging from the outbreak of novel coronavirus or Covid-19 has been unparalleled in the annals of contemporary world history. The consequences of the pandemic have been unfolding in stages in the form of loss of lives, apprehension of unpredictable deaths in the future, unemployment, slump in the growth curve of the world economy, perpetuation of recession, etc., which are taking the world economy to uncertainty from where it would take years to return to the pre-crisis level of development. Covid-19 was first detected on 17th November, 2019 in the Wuhan province of China and the province was under lockdown since 23rd January, 2020 to combat the rapid spreading virus. As per the

New York Times data (dated 29th April, 2020), there were at the global level 3,162,438 confirmed cases, 2,25,521 deaths; in India the corresponding figures were 32,936 confirmed cases with 1077 deaths – note that these numbers, unfortunately, just keep increasing! (refer to Figure 1). The impact of Covid-19 has been causing the world to head towards the worst economic fallout till 2020. The IMF has described the situation as being as grave as the Great Recession of 2008ⁱ

In order to curb the virus situation, the Indian government announced a 21-day lockdown starting from 25th March, 2020. The lockdown was then extended by the Prime Minister on 14th April, 2020 till 3rd May, 2020. All non-essential services like private and government offices, religious institutions, educational institutions, retail establishments were shut for duration of the lockdown. Given the non-containment of the transmission, there is a possibility of the lockdown being extended beyond 3rd May, 2020, at least in some states. It is not certain when the lockdown will be lifted for the entire country or what might happen once the lockdown is relaxed or how long will it take for normalcy to be restored.



Figure 1: Covid-19 Curve in India

Source: Covid19india.org

Covid-19 and the consequent lockdown have already caused substantial damage to the Indian economy, by taking away lives and livelihoods; hence, any further extension of the lockdown will aggravate the tragedy unleashed so far. One has to recall that this crisis in India was precluded by a GDP growth rate that was slowing down, an unemployment rate that was on the rise and a demand slowdown owing to the poor economic performance over the past few years. Given this backdrop, in order to minimize the impact on the economy and to set it on the path of recovery, the responses of the government (both Union and State) and the other administrative agencies like the Reserve Bank of India are vital.

This paper, will be analyzing the Indian economy in the pre-Covid-19 period, with emphasis on the agricultural and food sectors. It will also apprise the policies that have been announced in the post-Covid-19 period to contain the situation. The paper will offer a few policy suggestions at the end.

II. INDIAN ECONOMY IN THE PRE-COVID-19 PERIOD

As mentioned above, the economic scenario was on the down slide in this period. According to the official statistics (Ministry of Statistics and Programme Implementation), the GDP growth had slowed to 4.7% in 2019. Unemployment was at its highest since the last 45 years and the combined industrial output of eight core sectors, viz., Electricity, Crude Oil, Coal, Steel, Cement, Refinery Products, Natural Gas and Fertilizers, fell by 5.2% which is the lowest in the last 14 years. Private sector investment was stagnant and consumption kept falling significantly. High frequency indicators of urban consumption demand show that sales of passenger vehicles as well as consumer durable goods declined in February 2020. Overall urban consumption declined in Q4. As for indicators of rural consumption, motorcycles sales and non-durable segment kept declining in February 2020 reflecting weak rural demand. The lockdown will demolish any chance of revival of consumption demand and private investment in India. (refer to Figures 2 & 3).

Informal sector in India is the largest in the world; about 90% as per the Arjun Sengupta Report (2007) This sector was hit by two consecutive shocks before the Covid-19 crisis, viz., Demonetization and the Goods and Service Tax (GST). As this sector was coming to terms with the aftermaths of these shocks, the current crisis has added to its woes – in the absence of adequate demand and supply the underlying revenues flows have started to dry up. The Indian banking sector, over the last few years, has been strained by the Twin Balance Sheet

stresses. This was the consequence of high levels of Non-Performing Assets (NPAs) in an inadequately capitalized banking system combined with over leveraged and financially weak firms in the private corporate sector (Sengupta and Vardhan, 2017, 2019). The Indian financial sector was further shaken by the NBFC crisis.



Figure 2: Real GDP Growth

Source: KPMG Research (2020)

Chart III.4: High Frequency Indicators: Consumption Demand

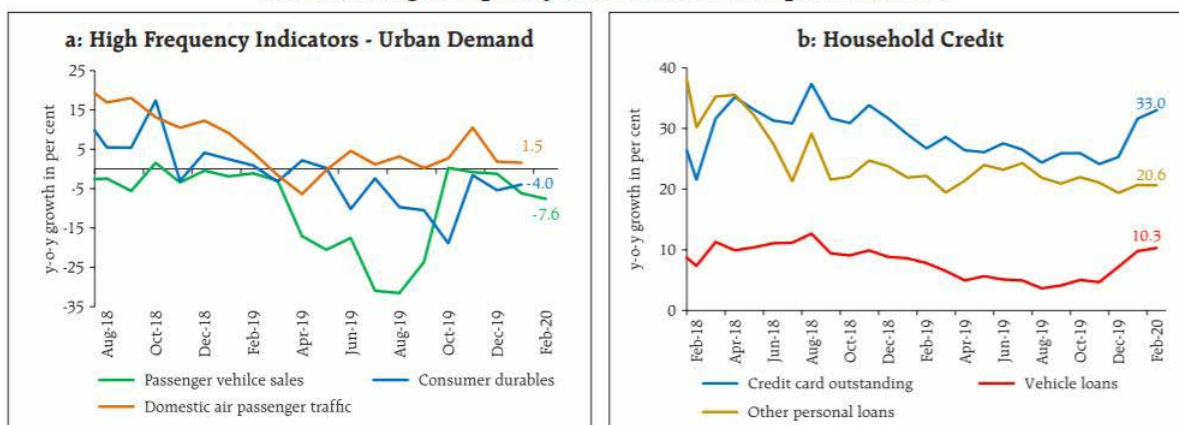


Figure 3: High Frequency Indicators: Consumption Demand

Source: RBI (2020)

In the pre Covid-19 period, agricultural sector had a growth rate of 3.2% per year in the six-year period 2014-15 to 2018-19. The data of National Statistical Office (NSO) has shown that GDP growth in agriculture has increased from 2.4% in FY19 to 3.7% in FY20. However, the terms of trade have moved against agriculture in the past years due to bumper crop and horticultural production which caused a decline in food prices. The agricultural and food sectors contribute about 16.5% to the GVA and provide 43% of employment in the country. Food and Retail market is about 828.92 billion USD and food processing is about 543 billion USD. India is the leading producer of dairy, spices, cashew, food grains, fruits and

vegetables. Foreign Direct Investment (FDI) inflows in food processing sector is about 2.14%ⁱⁱⁱ (April 2000 – December 2019). Growth in rural wages declined in the pre-Covid 19 period due to the slowdown in the construction sector.

III. IMPACT OF COVID-19 ON THE ECONOMY

The country-wide lockdown has brought all economic activities to a standstill. The disruption of supply and demand are likely to continue even after the lockdown ends. It will take time for economy to go back to its state of normalcy. The three components of aggregate demand (AD), consumption, investment and exports will, in all likelihood, stay subdued for a substantial amount of time. In addition to the collapse in demand, the supply will also get affected as the supply chain has been disrupted due to, the unavailability of raw materials, restrictions of labor mobility, travel restrictions, migration of workers to their hometowns and the slowing global trade. Many industries are struggling to stay afloat because of the supply chain disruption as most of the raw materials were from China. The longer the crisis lasts, the more difficult it will be for these companies to go back to their state of normalcy. This will also have spill-over effects on employment, investment, income and consumption pulling down the aggregate growth of the country.

India's tourism, hospitality and aviation industries have suffered significant damage because of the Covid-19 outbreaks. Even after the lockdowns are lifted, one wonders about the sustaining capacity of these industries. With all the passenger flights being shut down completely since mid-March 2020, the aviation industry has suffered losses of around 4 billion USDs^{iv} (Centre for Asia Pacific Aviation (CAPA), (2020)). The tourism and hospitality industries are also unlikely to pick up. Hotels and restaurants have been closed nationwide through the lockdown and due to natural scare factor, with people not going out as much, the demand is unlikely to pick up even after the lockdown is lifted. The World Travel and Tourism Council^v (2020) has projected that travel may fall by 25% in 2020 putting around 12-14% of the jobs at risk. The Google findings (Figure 4) substantiates this prediction. Google's mobility report shows changes in the footfalls and length of stay at different types of places across the country during the lockdown against a baseline which is median value for the corresponding day of the week for a five-week period from 3rd January, 2020 to 6th February, 2020. The latest data is available for 17th April, 2020 which shows sharp declines.

Air pollution is also an indicator of vehicular movement as well as industrial activity. Central Pollution Control Boards Air Quality Index (AQI) for India’s seven major cities show a significant decline in the pollution rates which tell us that the vehicular movement and industrial activities have declined significantly during the lockdown period. The index is almost half the levels seen last year with higher AQI values (refer Figure 5).

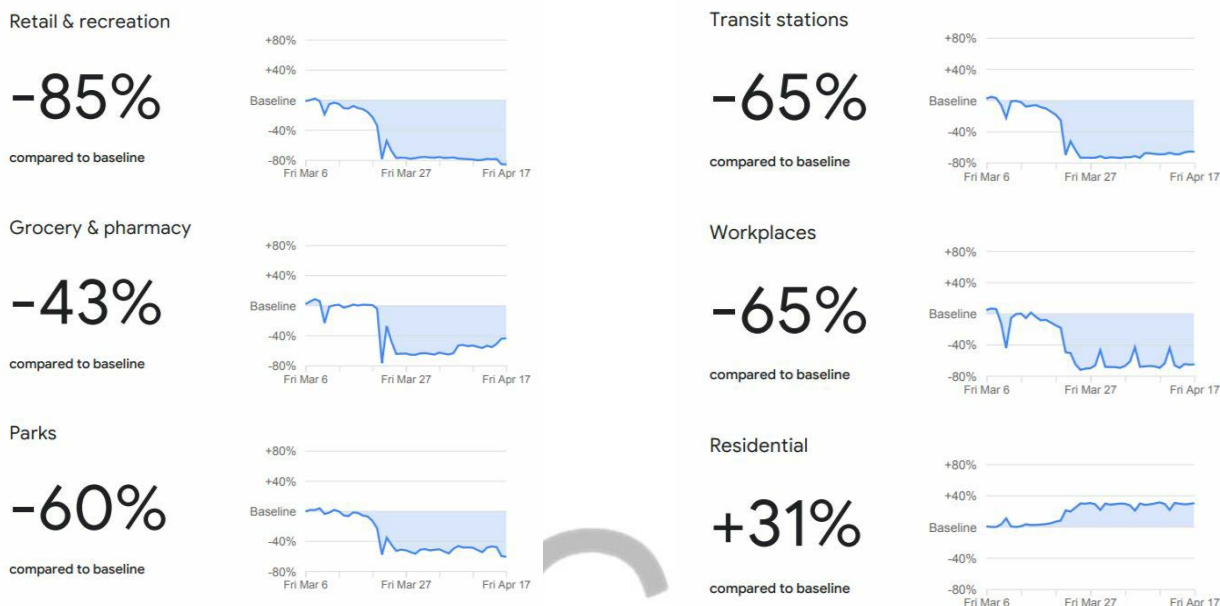


Figure 4: Google Mobility Report (2020)

Source: Google (2020)

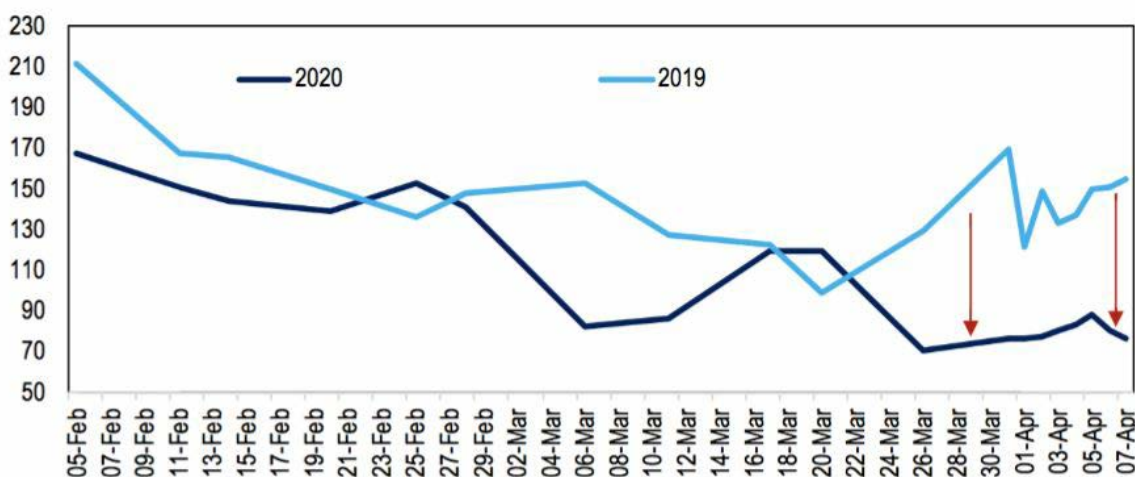


Figure 5: Air Quality Index (Seven major cities)

Source: Central Pollution Control Board, Citibank Research (2020)

Many firms will end up defaulting on their loan due to the fall in revenue. The firms which were near insolvency will be pushed to file for bankruptcy and those undergoing insolvency resolution process under IBC will get pushed to liquidation. Several businesses have also filed for Force Majeure or Act of God to stall payment of license fees, rents etc^{vi}. Over the domestic problems, the Indian economy will get affected by the global recession that could last a while. This will have spillover effects on financial and trade link of India and the rest of the world. Foreign investors are already pulling out money from the Indian financial market and reinvesting in safer assets as stock markets are crashing^{vii}.

With the outbreak of Covid-19, the situation in the agriculture and food sectors is bound to worsen. The lockdown has adversely affected the necessary agricultural supply chains by hurting the rabi harvesting season, the distribution and procurement of agro-inputs as well as the transportation, processing and marketing of agro-goods. Even though agricultural produce has been allowed to be transported, the local authorities, due to lack of proper instructions regarding the same, have been creating confusion at the state / district borders. There are instances where farm produce has gone to waste because the police did not let it across the district border. Thodupuzha (Kerala) witnessed an incident where pineapples which is the main crop in the area was not allowed to cross the district border leading to the entire output getting rotten. Due to the quarantine rules, supply chain and trade disruptions, there is restricted access to sufficient, diverse and nutritious sources of food, especially in areas hit hard by the virus or already affected by high level of food insecurity.

Wheat is India's main rabi crop and the months from March-May is its harvesting time. Uttar Pradesh accounts for more than one-third of the production of wheat followed by Punjab and Haryana. All these three states rely on labourers coming from Jharkhand and Bihar. The wheat is weighed in the *mandis* which is done by the labourers. Most migrant labourers are stuck in cities or their homelands and the machinery and equipment including harvesters are in short supply as interstate movement is restricted. Even though the government has allowed harvesting (provided that social distancing is practiced), the farmers are not getting adequate machinery and labourers to do the same. These machines were used by the farmers are in states like Madhya Pradesh and Chhattisgarh where the rabi season begins in early February-March. Now the farmers are finding it difficult to get the machines back because of severe restrictions in the borders. Shortage of fertilizers and other inputs could also affect the production that would be undertaken in the next sowing season. Closure of restaurants,

transport bottlenecks can severely affect the demand for fresh produce, poultry and fishery products, fresh milk, thus affecting both suppliers and producers.

A study by Sudha Narayan (2020) shows farmers are stuck with their harvest due to the closure of Agricultural Produce Market Committee or *mandis*. This has disrupted the supply chain from production centers to consumption centers. There are reports that show that the police are extorting the truck drivers and farmers who are trying to get their produce to the consumption centers^{viii}. This has led to the building up of angst against the authorities. Kerala milk producers, in a show of protest against the state government's apathy to their plight, drained about 80,000l of milk into the gutter after Milma failed to procure the milk¹. Unable to export their produce, many farmers are also dumping their seasonal products like grapes, strawberries etc. Poultry farmers are also affected by the fake news circulating in social medias claiming chicken and its produce carries Covid-19 virus^{ix}. The poultry sales have crashed immensely over these false claims. Many state governments have already started looking into and addressing the woes arising at the post-harvesting activities, wholesale and retail marketing activities and some have even initiated procurement activities.

There is a risk of Covid-19 spreading to farmers, workers and agricultural labourers due to reasons like: some migrant workers who have gone back to their rural hometowns could be carriers of the virus; the package material used to cover agricultural produce can also carry the virus and with social distancing tending to be less strictly followed in rural areas. The NABARD survey (2018) shows that, considering all households, 23% of rural income is from agriculture, 44% is from wage labour, 24% from government or private areas and 8% from other enterprises. This clearly shows that in rural areas, non-farm incomes are rising. The Covid-19 crisis has adverse effects on rural manufacturing and services. In the pre Covid-19 period, rural incomes were affected because of lower real wage growth. Major destinations like US, Europe and China are likely to grapple with Covid-19 for the next six months and so export is not likely to pick up. Farm gate prices for export-oriented commodities like seafood, magi, grapes are crashing and this will impact future crop availability.

IV. APPRAISAL OF THE POST-COVID-19 POLICIES ANNOUNCED

The immediate objective of the policy responses to the economic impact of crisis is to mitigate the effects of the economic shock. As for agriculture, the Union Home Affairs Ministry has exempted farm work and farming operations and agencies involved with collecting of agricultural produce at minimum support prices, mandis notified by the state government, intra and inter-state movement of harvesting and sowing related machineries etc. However, there are certain problems of implementation. Many circulars have not reached the local authorities and police. As a result of which, smooth movement of food and other essential goods are being affected immensely. There is a need for effective implementation of these guidelines.

V. POLICY SUGGESTIONS

The following are some of the agro-based recommendations that this paper has to offer during and post the lockdown:

- a) The food packaging industry should be considered an essential activity.
- b) Rigorous testing of migrant workers, social distancing during harvesting, packaging, processing, marketing, etc., should be undertaken
- c) Government should concentrate on the procurement of the farm produce especially perishable goods to ensure that farmers get their incomes and buffer stocks are built.
- d) Farmers in milk and poultry industry should be offered low or no interest loans, so that they have a hedge against their perishable products.
- e) Food security for farmers and agricultural workers to be ensured by the Government. The PM Kisan should be extended beyond giving pension to old farmers to tenant farmers as well
- f) The Government should ensure that the exports of farm produce is expedited, to prevent loss of product and so of revenue.
- g) National Agriculture Labour Force register, connected to Aadhar and Direct Benefit Transfer based system, should be maintained and used in the rapid movement of labour force to the required locations. The unemployed youth in urban and rural spaces

should be registered and used to carry out the delivery of agriculture produce and other food to overcome the current labour shortage.

- h) To ensure a smooth movement of farm produce and other essential goods during the lockdown, the government can use the Fastag technology to monitor the vehicles that are passing the borders i.e., all the vehicles used for transportation of essential goods have to be registered with the government prior and the data should be uploaded in the Fastag server to identify vehicles which are not carrying essential goods. This will reduce the extortion of truck drivers and farmers.

VI. CONCLUSION

The outbreak of Covid-19 has thrown the world into an abyss of uncertainty. The current dip in the cyclical flows is different from all the plunges we have seen before - this down turn in the business cycle calls for shake-up of the economic order. Policy makers, across the world, need to be prepared to scale up the response to minimize the impact of the crisis and pave the way for a V shaped recovery. Policy making is difficult in the best of times and it becomes even tougher in exceptional times especially when there is pressure for quick actions. The Covid-19 crisis has three main interlinked problems – a health shock, an economic shock and a global economic turndown. Each of these shocks is significant in its way and together they create a considerable pressure upon policy makers to act quickly and decisively. Without a proper understanding of the size and duration of the crisis, it is difficult to come up with policy responses. Most importantly, joint and well-coordinated efforts by all the administrative units at all the levels and in all sectors are critical in for bringing back at least a semblance of normalcy.

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ⁱ <https://www.imf.org/en/News/Articles/2020/03/23/pr2098-imf-managing-director-statement-following-a-g20-ministerial-call-on-the-coronavirus-emergency>

ⁱⁱⁱ According to the data of KPMG International

^{iv} <https://www.livemint.com/news/india/covid-19-fallout-indian-airlines-staring-at-3-6-billion-loss-11585542933463.html>

^v Reuters News - <https://www.reuters.com/article/us-health-coronavirus-tourism/world-travel-may-shrink-25-on-coronavirus-in-2020-shed-50-million-jobs-wttc-idUSKBN2101F2?il=0>

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^{viii} https://www.business-standard.com/article/pti-stories/two-cops-held-for-demanding-extortion-money-from-truck-driver-119071300921_1.html

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