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Impact of Covid-19 Pandemic on Indian Economy

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Abstract: *The present pandemic situation has an adverse deep impact on Indian business. The impact of the coronavirus pandemic COVID-19 could lead to a slowdown in domestic demand. India 's real GDP depleted to its bottom in over six years during 4Q 2019-20. India 's growth for the next year 2020-21 is forecasted in between 5.3% to 5.7%. The COVID-19 or coronavirus, pandemic has revealed many weaknesses in the global system. COVID-19 has severed disruption for the Indian economy. The current coronavirus pandemic could lead to a four percent permanent loss to real Indian gross domestic product (GDP). It is estimated for India's Gross Domestic Product (GDP) growth rate to 1.9 percent for 2020-21. This will be the lowest after India recorded a growth rate of 1.1 percent in 1991-92. The COVID 19 has disrupted major sectors, transportation is the most impacted sector that is facing negative repercussions of the present disaster. The present study is undertaken to study the impact of COVID 19 in various sectors considering the data which are secondary in nature, different appropriate statistical tools and techniques are applied for analysis and conclusion. On the basis of finding recommendations are suggested to overcome these adverse situations.*

Keywords: Covid Pandemic, Gross Domestic Product, Impact, Measures are taken

I. INTRODUCTION

The global economy has come to a near standstill owing to the disruptive impact of the pandemic across economies. The enforced lockdowns and economic shutdowns implemented in nations across the world are unprecedented and will entail huge economic costs and burdens. Supply shortages are expected to affect various sectors as a result of panic buying, increased usage of goods like pharmaceuticals, sanitizers, and masks, and some basic necessities to fight the pandemic. The impact of COVID-19 on the Indian economy has been quite lamentable. After reporting its first case in late January 2020 in Kerala, the government of India took various precautionary measures to restrain the spread of the virus. The Indian Prime Minister, Mr. Narendra Modi, called for a 14-hour 'Janata Curfew' (public curfew), which was then followed by a nationwide lockdown in almost four phases, over a period of 70 days.

They were also impacted greatly since they were far from home with no modes of transport to facilitate their journey back to their hometowns. The macro-economic impact of COVID-19 on India's national and sub-national levels is uncertain. It is further expected that the contraction in foreign demand and domestic consumption will lead to significant job losses in both the formal and informal sectors, thus increasing the unemployment rate. The fallout has been mostly seen in industries such as manufacturing, construction, and real estate. The crisis has also increased the fiscal deficit of the economy as the government budget for the fiscal year was not altered to sustain the current crisis. The ongoing health crisis and the resultant disruption of economic activities have had and will continue to have a negative impact on the Indian economy. Despite the government announcing a relief package of 1.7 trillion Indian rupees, it was clear that a large portion of the country's population was going to be scouring for livelihoods since this stimulus package would not benefit all. Based on the discussion above, we narrow down to two main objectives of this study: firstly, we accommodate theoretical linkages and statistics to evaluate the potential and estimated impact of the pandemic on various macroeconomic variables of the Indian economy; secondly, we focus on the economic consequences of the virus on the Indian economy, with the present assessment of economic outcomes and policy measures.

1.1 Statement of the Problem

Even prior to the pandemic, the Indian economy was marked by a slowdown of economic growth and record increases in unemployment and poverty. Undoubtedly the COVID 19 pandemic in India has very severely impacted, rather negatively on various sectors of the Indian economy. Thus, India's capacity to deal with a new crisis was weak when the pandemic hit in March 2020. The economic crisis after March 2020 affected all the sectors of the Indian economy. In agriculture, farmers were faced with broken supply chains, lack of market outlets, poor demand, and falling output prices. In industry, micro and small enterprises were the most acutely affected.

The crisis led to a loss of employment to the tune of at least 15 million. We estimate that India's GDP growth rate in 2020-2021 may range from –4.3% to –15%. The government's economic response till October 2020 was seriously deficient on demand-side interventions. The government was hesitant to expand budgetary spending because it feared a rise in the fiscal deficit. Given this fiscal stance of policy, the chances of an early revival in the Indian economy appear dismal. This made an impact to study the effect of a covid pandemic on the Indian Economy. And look how and what all the effects of covid 19 in various sectors of the economy and whether there is a slowdown in the economy or not.

The above problem is discussed in the form of a research question:

What are the effects of covid 19 on Indian economic development?

How does the impact of covid 19 create an economic slowdown in the economy?

The objective of the study:

- To analyze the Gross Domestic Product of India due to the covid pandemic.
- To study the short-term and long-term impact of covid 19 on a different sector of the economy.
- To examine the various measures taken by government to overcome pandemic.

II. RESEARCH METHODOLOGY

The study is descriptive in nature

Source of Data

The data are secondary in nature. The data are collected from various sources such as the internet, books, articles, and public investigations.

III. ANALYSIS AND INTERPRETATION

Impact on Indian Economy:

The estimation of GDP for the quarter, in the global crash of economy due to the adverse effect of covid.

Table 2 India GDP Trend

Year → / Quarter ↓	2015-16	2016-17	2017-18	2018-19	2019-20
Q1	7.5%	7.2%	5.9%	7.7%	5.0%
Q2	7.6%	7.4%	6.6%	6.9%	4.5%
Q3	7.3%	7.0%	7.3%	6.3%	4.7%
Q4	7.9%	6.1%	7.9%	5.7%	

Sources: Ministry of statistics and Programme Implementation (MoSPI)

The GDP estimation was given by various top rating agencies based on the performance of the various sector in the economy.

GDP post announcement of the economic package (May 2020)

SN	Agency	Estimate
1	Bernstein	−7%
2	ICRA	−5%
3	Goldman Sachs	−5%
4	Nomura	−5%
5	Fitch	−5%

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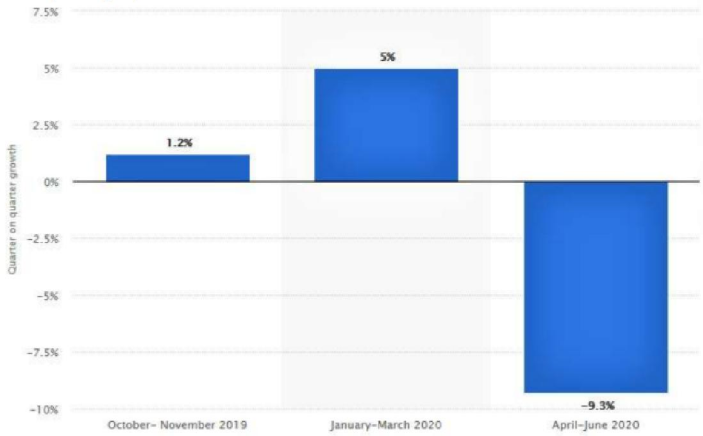
6	SBI	−4.70%
7	CARE Rating	−1.5%–1

The pandemic has adversely affected the estimated GDP of the fiscal year 2021. Fall in manpower of production units, leading to loss of productivity coupled with a shortage of demand, has led to negative impacts across various industries, further leading to a fall in their GDP contribution to the economy. India's quarterly GDP was estimated to have declined by over 9% between the months of April and June 2020. This was a decrease from a 5% growth rate at the beginning of 2020. The country went into a lockdown on March 25th, 2020, restricting 1.3 billion people within the confines of their homes. The real GDP increased by only 3.1 percent in the first quarter of 2020, over its corresponding quarter of 2019. This negative impact on the GDP is partially an outcome of the coronavirus outbreak and the subsequent measures to prevent it, accompanied by a significant dip in growth rate, the declining trend of which started much earlier. The financial, real estate, and professional service sector was the worst hit during the period of lockdown. During the first quarter of India's nationwide lockdown that was announced following its first coronavirus outbreak, the economy was expected to lose over □ 32,000 crores (US$ 4.5 billion) per day.

Estimated quarterly impact on GDP:



The pandemic further weakened consumer demand and private investment in the March quarter. In the first quarter of 2020, only one week of nationwide lockdown was observed. Yet, the economic growth was estimated to be 2.1% in the March quarter. Growth was 4.2% in the fiscal year through March 2020, as compared to 6.1% in the fiscal year 2019. The total loss in output is estimated to be around □ 6 trillion based on the GDP at current prices for the fiscal year 2020. This growth rate is extremely poor compared to the estimated growth rate of 7.5 per cent at current prices for the same fiscal year.

Impact on Employment:

The unemployment rate has had a sudden surge due to the total lockdown imposed in the country followed by the policy of social distancing. The decline of economic activities implies slack labor market conditions that contribute to rising unemployment rates. Lack of funds for business and movement of migrant laborers back to their hometown has also resulted in massive unemployment. Between February and April 2020, the share of households that experienced a fall in income increased to nearly 46 percent. The total lockdown followed by the practice of social distancing resulted in job losses, specifically those pertaining to Indian society's lower economic strata. Several households terminated domestic help services – essentially an unorganized monthly-paying job. During the nationwide lockdown, labor-intensive industries reported the highest rate of unemployment as efforts were made to reduce manpower due to lack of funds owing to temporary stoppage of production and prolonged shortage in demand. The informal, unorganized jobs which employ 90% of the population were the first to be hit. As a result of proctor acts, curfews, and the closure of businesses, even the formal, permanent jobs were affected. All these factors have led to a steep rise in the unemployment rate from 6.6 percent in January 2020 to 24 percent in the month of May (in comparison to the 6.30 percent rate in May 2019).

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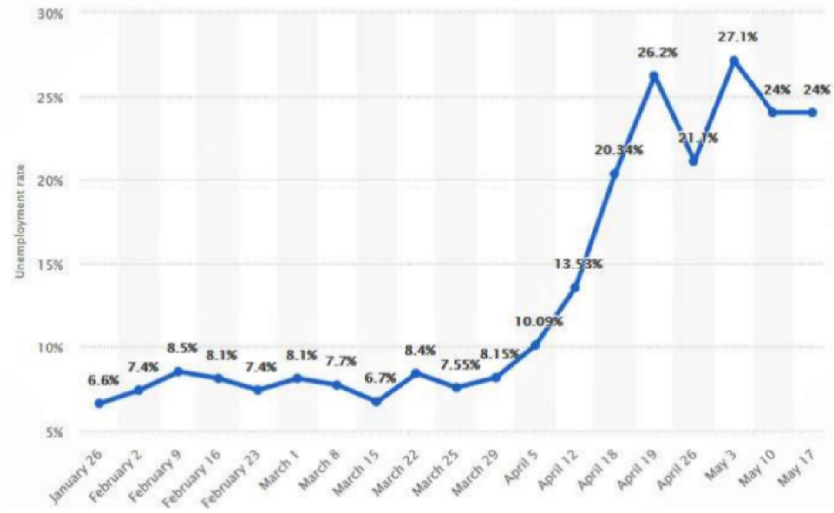
Impact on unemployment rate due to corona lockdown from January to May 2020:



Impact on Trade:

The trade impact of the pandemic on India is estimated to be around 348 million dollars, as the country is among the top 15 economies most affected as the slowdown of manufacturing in China disrupts world trade, according to a UN report. In India, the chemical sector is most impacted in terms of trade and stands at 129 million dollars, textiles and apparel at 64 million dollars, the automotive sector at 34 million dollars, metals and metal products at 27 million dollars, leather products at 13 million dollars and electrical machinery at 12 million dollars. The only positive news that came along with the crisis was that India registered a trade surplus in 2020, almost after two decades. The last trade surplus was reported in 2002. However, this surplus is unlikely to sustain.

Impact on Financial Markets

The financial sector of India is facing challenges on multiple fronts in the time of this crisis. Due to fear and the practice of social distancing, very few customers are being served in the physical branches of banks, putting additional strain on other channels like telephone, online banking, and social media. A large number of people are frantically trying to contact their financial services providers with questions, queries, concerns or to request some special measures as their incomes have been impacted by the pandemic. Moreover, many have lost their jobs, seen their businesses shut down and their incomes diminish, in addition to living with the constant fear of defaulting on loans, missing mortgage payments, and falling into a debt trap.

Businesses need additional help as their revenues have dropped drastically. Fintech companies are comparatively well-placed to deal with remote working requirements and digital working, although some of them are uncertain of funding in this volatile period. Additionally, many companies are offering services to customers and businesses free of cost or innovating to create new products that meet specific needs, during this crisis. The current situation requires constant and careful handling from financial institutions as they have the duty of reassuring consumers, responding to their concerns, and restoring their trust during this volatile period.

Impact on Inflation

The impact of coronavirus on the inflation rate of the country is ambiguous. The rate of inflation increased significantly during 2019. Since 2014, India's CPI (consumer price index) inflation has somewhat remained in the band of 2-6 percent. In comparison to the aftermath of the global financial crisis 2008, CPI inflation was on a downward trend as shown in Figure 7. Due to a number of push and pull factors, it is difficult to govern which factors affect the inflation of a country like India. During the present crisis, inflation is expected to remain dormant. This would give RBI some flexibility to go for accommodative monetary policies. Outlook India reports a decline in food prices, "offset by the potential cost-push increases in prices of non-food commodities." The main reason for this is supply disruptions from

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both domestic producers and imports due to the imposition of the total lockdown followed by the practice of social distancing. Retail feature expansion in March 2020 tumbled to a 4-month low of 5.9 percent, in accordance with market predictions, 0.7 percent lower from a month back and 3.1 percent higher from the comparing month, a year prior (Outlook India).

Figure 7:-
Source: Ministry of statistics and programme implementation, Government of India.

Impact on government budget:

Pre-Covid situation and the impact of Covid:

The government budget deficit as a percentage of GDP jumped by more than a percentage point from FY18 and FY19 as shown in figure 8. The increased government spending and reduced tax revenue during the last fiscal year, there has created a large fiscal gap. The recent budget deficit has already breached the target of 3 percent set in the Fiscal Responsibility and Budget Management (FRBM) Act of 2003. The outstanding public debt as a percentage of GDP has been rising ever since 2014. Thus, the state of the Indian economy on the eve of the COVID-19 crisis was already weak. This has increased the vulnerability of various segments of the Indian economy including the government budget. The targeted fiscal deficit for the current financial year was revised to 3.5 percent in the recent budget. Some states do not even have enough money to pay salaries in the near future. Keeping in mind the high deficit numbers at the state level, it can be said that most states have not come out with their stimulus package even after the lockdown ended. According to estimates, the Indian economy was expected to lose over Rs. 32,000 crore (US$ 4.5 billion) every day during the first 21 days of the lockdown. Jefferies Group said that the government can spend almost INR 1.3 lakh crore (US$ 18 billion) to fight the devastating impact of the pandemic. The current collective fiscal deficit for both the center and state governments stands at 6.5 percent of the GDP (as of June 2020).

Post COVID-19 impact:

The pandemic is likely to impact the fiscal deficit situation of the country through two channels. First, the need for the government to allocate a sizable portion of its budget to fight the pandemic including expenditure on health, social security, and other payments needed to control the economic fallout of the event. Second, the consequent fall in economic activity will lead to fall in tax collections. This effect has already been witnessed, as the tax collection has gone down drastically, forcing the government to cut down costs. So, not only will the expenditure increase, but also there will be a constant fall in tax collection, further increasing the fiscal deficit.

Measures were taken by RBI to mitigate economic disturbances caused by COVID-19:

The Reserve Bank of India (RBI): Has decided to buy government bonds worth INR 30000 crore. These are Open Market Operations. It refers to buying and selling of securities between the Central Bank and Commercial Banks/Public. There is a very low demand for goods and services in the economy due to the lockdown phase. Thus, to increase aggregate demand and the money supply of the economy, the RBI decided to purchase Bonds worth INR 30000 crore.

This will result in:

1. Increase in Aggregate Demand (AD)
2. Increase in Money Supply
3. Increase in lending capacity of Commercial Banks

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Decreased LRR: Legal Reserve Ratio:

R.B.I. can influence the credit creation power of commercial banks by making changes in Cash Reserve Ratio (CRR) and Statutory Reserve Ratio (SLR). CRR refers to the minimum percentage of net demand and time liabilities to be kept by commercial banks with the central bank. The Reserve Bank increases CRR during inflation and decreases the same during deflation. SLR refers to the minimum percentage of net demand and time liabilities that commercial banks are required to maintain with themselves. SLR is increased during inflation or excess demand and decreased during deflation of deficient demand. As this is the situation of Deficient Demand, LRR is decreased. This means fewer deposits have to be kept with RBI and commercial banks can keep more cash reserves by themselves.

This results in:

1. Increased Credit Creation and Lending Capacity
2. More borrowings
3. Increased Aggregate Demand (AD)

Decrease in Reverse Repo Rate:

Reverse Repo Rate is the rate at which Commercial Banks Park excess funds with the RBI and receive interest. A decrease in Reverse Repo Rate will lead to less excess funds deposited by commercial banks, which means Commercial banks will have more funds.

This results in:

1. Increased Credit Creation and Lending Capacity
2. More borrowings
3. Increased Aggregate Demand (AD)

Decreased Repo Rate (aka Repurchase Rate):

Repo Rate: It is the rate of interest at which the central bank lends money to the commercial banks for a short period of time. A decreased Repo rate will help in:

1. Cheaper Borrowings for Commercial Banks, encouraging them to borrow more funds from RBI.
2. With higher funds, comes higher lending capacity;
3. banks can give loans at lower interest rates
4. Increase in money supply in the economy, as there is higher credit creation
5. raising the aggregate demand.

RBI has also been conducting many other monetary operations for better liquidity management as it scrambles to keep the banking sector healthy, in a bid to support the economy in the wake of the novel coronavirus pandemic. The above measures are taken by RBI to control the situation of Deficient Demand. Deficient Demand results in falls in Output/Employment, Price, and in Income Levels of Economy. Hence, these monetary measures will help increase the demand of the economy.

Government measures to tackle the pandemic:

I . Atmanirbhar Bharat Abhiyan:

The Atmanirbhar Bharat initiative, which translates to 'Self-Reliant India', was introduced by the Modi government with the aim of making India a self-reliant nation. Emphasis was laid on the fact that self-reliance does not refer to cutting off from the rest of the world, but being a bigger and more important part of the global economy. Numerous government decisions have been made under this package like changes in the definition of MSMEs, increasing FDI in the defence sector, and boosting the scope of private participation in a number of sectors. Atmanirbhar Bharat has been referred to as a re-packaged version of the "Make in India" scheme. The 5 pillars of self-reliant India include:

1. Economy
2. Infrastructure
3. System
4. Democracy
5. Demand

ii. Economic package:

The government announced the economic stimulus package of INR 20 lakh crore, which makes up 10 percent of the GDP as of 12th May 2020. This package consisted of a mix of reforms, infrastructure building, support to businesses that are suffering, and some amount of direct cash support. The package also included collateral-free loans, changes in FDI policy, provident fund contribution and measures to increase ease of doing business. With most announcements being related to supply, this policy did not address short term demand concerns, which may pull down the economy even more. While the economic package was criticised by quite a few on the grounds of being inadequate, it also received neutral and other positive responses as for the necessary caution the government demonstrated in its spending.

iii. Protectionism:

India changed its foreign direct investment (FDI) policy on 18th April 2020 in order to curb opportunistic acquisitions of Indian companies due to the pandemic. China could take advantage of the falling financial markets, leading to hostile takeovers. The new FDI policy does not restrict markets, however, the FDI from neighboring countries that share a land border with India is under scrutiny.

iv. Alternative to China:

The government of India is using this as an opportunity to attract companies that are finding an alternative to China. A total of at least 461,589 hectares has been earmarked for the purpose, as reported by The Economic Times. The government is also looking at the "China Plus One" strategy, which suggests that instead of only investing in China, diversification of business into other countries is a safer and more economical option in the longer run. Following the pandemic, numerous Indian companies are adopting this strategy by finding alternative supply chains.

IV. CONCLUSION

The outbreak of coronavirus has pushed the entire world into a state of ambiguity. This has many consequences such as changing the mindset of people, challenging the industry, shake up the world economic order. Everyone is trying to measure this pandemic. It is certain that we are gradually adapting to the changes in our life in a permanent manner. The worldwide pandemic has created Associate in nursing ever-lasted impact on the commercial landscape. The longer-term is bleak for the foremost people. Whereas the reduced economic activities thanks to COVID-19 have definitely created air and water cleaner as per several reports, modifications within the dynamics of plastic, food, and medical specialty waste generation throughout a similar time.

Risks to supply chains are significant and will have a long-term impact. Hence it is important that we improve the capabilities in order to counter the consequences of unforeseen events. We need quickly restore the profit of the business and resume the original state which was destroyed by the risk. One mall virus has devastated the world which is beyond imaginable for mankind. The important learning, we have learned so far is the critically of overall cost control in business and living our livelihood to the minimum.

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