



IMPACT OF COVID-19 ON INDIAN ECONOMY

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ABSTRACT

COVID-19 has emerged as the black swan event of the century, with significant macroeconomic impact in India as well as with the world. The corona virus pandemic has served as a "severe demand shock" for the Indian economy creating severe dislocation and disruption in the Indian economy. The economic impact of the 2020 corona virus pandemic in India has been largely dispositive with adequate amount of disruptions. The Government announced lockdown as a result the economy slowed over the next few months in the whole country and this slowdown resulted in the form of supply disruptions for most businesses, consumption demand hampered severely, and stress increased on the banking and financial sectors. Covid-19 pandemic has cast a long shadow on the global economy. COVID-19 is spreading rapidly in India, policymakers are worried as how to fight the virus and minimise its impact on the economy



KEYWORDS: COVID-19, lockdown, economic disruption, pandemic.

INTRODUCTION

Human spirit is ignited to resolve to overcome the pandemic. It is during our darkest moments that we must focus on the light. COVID-19 grips the world in its deadly embrace, India as well as in other parts of the world, the aim is to do whatever it takes to prevent epidemiological curve from steepening more. The corona virus pandemic is a "severe demand shock" for the Indian economy growth as corona virus induced lockdown causing significant disturbance across various sectors leading to downfall in the country's GDP. COVID-19 pandemic threatens to disrupt the Indian economy as a whole with fear of recession looming in many countries resulting in acute market volatility and the unprecedented uncertainty. The pandemic and consequent lockdown affected various sectors, including MSME, hospitality, civil aviation, agriculture and allied sector. The rampant spread of COVID-19 outbreak, across borders and geographies, has severely impacted not only India but affected almost the whole world and triggered significant downside risks to the overall global economic outlook. India's GDP showed consistent decline after peaking out at 7.9 in FY 2018 to 4.5 in FY 2020. The industry is also facing demand problems, unemployment at its peak and exports which is consistently down for several months. The pandemic is already slowing economy may prove to be lethal for developing countries. The announcement of the economic package in mid-May, has downgraded India's GDP even more towards negative figures, alarming into a deep recession. On 26 May, CRISIL announced this as perhaps India's worst recession since independence.

What is COVID-19?

COVID-19 is a disease caused by a new strain of corona virus. 'CO' stands for corona, 'VI' for virus, and 'D' for disease. Formerly, this disease was referred to as '2019 novel corona virus' or '2019-nCoV.' The COVID-19 virus is a new virus linked to the same family of viruses as Severe Acute Respiratory Syndrome (SARS) and some types of common cold.

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As the number of COVID-19 cases leaning dangerously more than 200,000 and the worldwide death toll crossing more than 8,000, the World Health Organization (WHO) declared the virus outbreak a pandemic in the second week of March 2020, four months after the novel virus first made headlines.

Approximately 162 countries are going into lockdown, and also suffering from collapse of global financial markets due to fear of business against emendation. This problem, added to the sluggish economic growth in the previous year, mainly in the developing country like India, it has created an extremely volatile market conditions.

The economy of India has witnessed increasing unemployment, interest rates, and fiscal deficit, during previous years and above it the corona virus is adding fuel to this fire by sending tremors down the Indian trade markets.

Raw materials and spare parts

Approximately 55% of electronics was imported to India from China. These imports have already slid down to less than 40% in light of the coronavirus outbreak and subsequent lockdown. India is considering the promotion of indigenous production under 'swadeshi movement' so as to cut down the dependency on a single market. Additionally, China is the third largest export partner of India dealing in raw materials like organic chemicals, mineral fuels, cotton, etc.; and the lockdown of the countries would lead to trade deficit for India.

Pharmaceuticals

The pharmaceutical industry is a significant concern for India, as 70% of active pharmaceutical ingredients (API) are imported from China. These are useful and necessary to a large number of pharmaceutical manufacturing companies in the country. As COVID 19 is rapidly making its way to India, APIs to deals with production of drugs, the traders and the market are facing skyrocketing prices. The prices of vitamins and penicillin alone already see a 50% surge.

Tourism

India is a rich heritage of cultural and historical tourism, attracting domestic and foreign throughout the year. A large number of confirmed cases of COVID-19 in India include foreign tourists. Tourism, which accounts for roughly 9 percent of the GDP, may decimate at least for next 2-3 quarters. The increasing cases of COVID -19 has hampered the whole tourism value chain, which includes hotels, restaurants, attractions, agents, and operators facing great losses worth thousands of crores. Experts are in a view that the tourism industry has faced a massive hit, and it would end up crippling the industry for the foreseeable future.

Aviation

Airlines are working under pressure, after suspending tourist visas, an initiative taken by the Government of India. Aviation which contributes around 2.4 percent to GDP will also be severely impacted. Approximately 600 international flights to and from India were canceled for set of varying periods. Along with it various domestic flights have been canceled, leading to a sharp drop in airline fares and income.

Automobiles

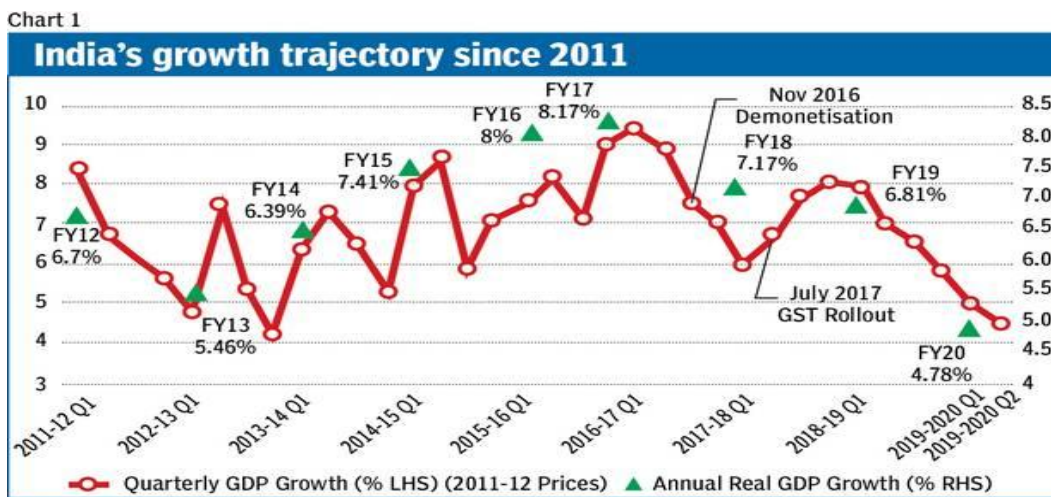
Sectors such as auto, that consists for about 10 percent of the GDP employs around 40 million people, is facing a consistent decline marked by dwindling sales quarter-on-quarter. Recent information by SIAM suggest that sales hit a two-decade low in January 2019. Lockdown and loss of income, discretionary consumption is likely to a hit for a couple of quarters. It may reveal big challenge for many auto companies to retain the workforce at a time when they are already in a deep slump.

- The projections replete with sharper declines in output in various countries, India is among the handful of countries that is projected to cling on tenuously to growth (at 1.9 per cent).
- According to UNCTAD estimates, due to COVID -19, the developing countries are expected to have a loss in export revenue of \$800 billion during time when their currencies are taking a massive hit due to sharp fall in the financial markets. Resulting into enhanced the cost of servicing their dollar-denominated debt. During normal days, these debts may get rolled over but now at present all economies are struggling to meet their own ends. The exponential spread of COVID-19 has led to a massive downfall in various main indices, indicating its impact as affecting GDP growth. The whole impact of COVID-19 on credit growth is suspected to be negative in most sectors, the degree and nature of the impact differs on the basis of the duration and extent of disruption.
- The contraction in exports in March 2020 at (-) 34.6 per cent has turned out to be very much critical than during the global financial crisis. Merchandise imports also fell by 28.7 per cent in March, barring transport equipment. Resulting in the trade deficit declined to US\$ 9.8 billion in March 2020 from US\$ 11.0 billion a year ago.
- Unemployment in India rose from 6.7% on 15 March to 26% on 19 April 2020. During lockdown, it is estimated that 14 crore (140 million) people lost employment.
- Fast-moving consumer goods companies in the country reduced operations and started focusing on essentials.
- 53% of businesses have specified adverse impact of shutdowns caused due to COVID-19 on operations as per FICCI survey.
- Revenue of Ola Cabs went down nearly 95% in March-April resulting in 1400 layoffs.
- According to a KPMG report venture capital in Indian startups has fallen over 50% in Q1 2020 from Q4 2019.
- The Centre for Sustainable Agriculture found that "10% of farmers could not harvest their crop in the past month and 60% of those who did harvest reported a yield loss".
- On 23 March 2020, stock markets in India witnessed worst losses in history due to COVID-19 as, SENSEX fell 4000 points (13.15%) and NSE NIFTY fell 1150 points (12.98%).



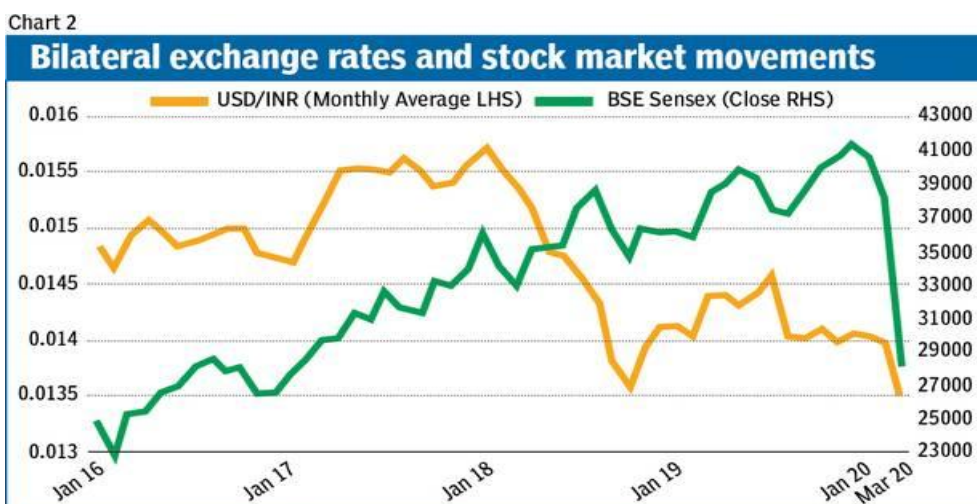
Impact of COVID-19 on National Stock Exchange of India NIFTY 50 (1 Jan 2020 to 19 May 2020). "The NIFTY 50 is NSE's benchmark broad based stock market index for the Indian equity market."

The economy was already on downward trajectory since the turn of FY 2018-19 as per (Chart 1). Mainly on quarterly basis, India's growth rate fell from around 8 per cent in Q4 FY18 to a new low of 4.5 per cent in Q2 FY20. January 2020 update to the World Economic Outlook, the International Monetary Fund (IMF) estimated India's growth for 2019 to 4.8 per cent — being lowest for over period of decade and sharply revising 2020 growth forecast to 5.8 per cent, down 1.2 percentage points against the previous forecasts. This downfall happened even before the onset of the pandemic is now being overly optimistic.



Source: Authors based on data from Central Statistical Office

The economic and market impacts of the corona virus have hit on India's financial markets and also for the rupee, that hit a new low in US dollar in March due to global risk-off sentiment(Chart 2). Dollar-denominated debts is continuously weakening the rupee is intensifying their struggles to repay their obligations. Apart from the financial shocks, India needs to urgently find a way to cushion the demand-side shocks induced by potential lockdowns and ongoing containment measures.



Source: Authors based on Pacific Exchange Rate Database and Bombay Stock Exchange
Note: A rise (fall) implies an appreciation (depreciation) of USD vis-a-vis INR

INITIATIVES TAKEN BY GOVERNMENT AGAINST COVID-19

Prime Minister Narendra Modi reviewed the impact of COVID-19 on the Indian economy as possible second stimulus to boost sectors hit hard by the pandemic. Prime Minister Narendra Modi held discussions with India's Finance Minister Nirmala Sitharaman as the pandemic hardly hampers sectors from small industries to the aviation sector resulting into millions of jobs at stake. The discussions came amidst through drastic decline in GDP growth forecast by various multi-lateral funding agencies due to the effect of COVID-19 and consequent lockdown.

According to the World Bank's latest assessment, India is expected to grow 1.5 per cent to 2.8 per cent. Accordingly, the IMF on Tuesday projected a GDP growth of 1.9 per cent for India in 2020, as the pandemic hits the economy in the form of creating recession since the Great Depression in 1930s.

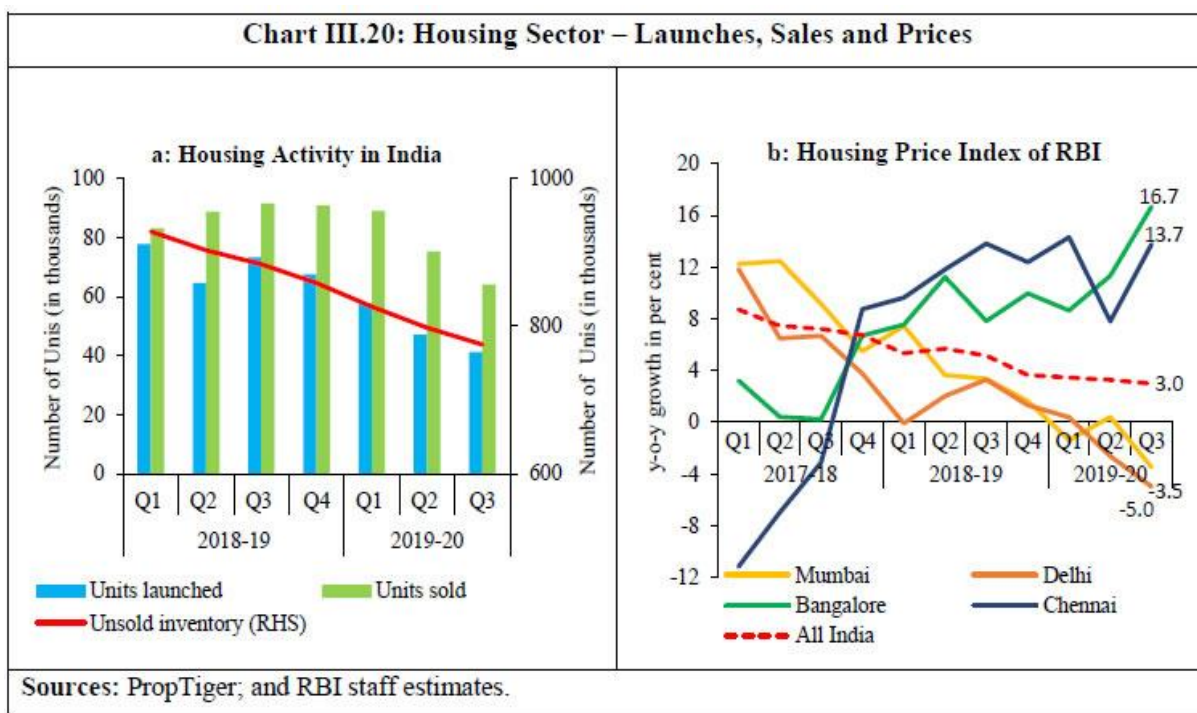
Besides, looking into the issues of economy recovery it was also asked to work on relief and welfare measures for different sectors of the economy as well as for the poor and needy ones. In regard to this view, the Prime Minister expressed concern over problems being faced by poor and daily wagers and farmers across the nation and took various initiatives to promote aids to them.

1. "The government has made every attempts to help them through Pradhan Mantri Gareeb Kalyan Yojana. PMGKY was taen as an initiative to foster aids to poor ones.
2. To ease the pain and misery, the Finance Minister Nirmala Sitharaman announced a sum of Rs 1.7 lakh crore including free food grains and cooking gas to poor for three months, and cash doles for women and poor senior citizens so as to provide relief against pain and misery so that it would ease the economic impact of the nationwide lockdown. 20.4 crore women under the Jan Dhan bank accounts would get cash help of Rs 1,500 spread over three months.
3. Around 8.3 crore poor women, who were provided free cooking gas connections since 2016, will get free LPG refills for the next three months, Poor senior citizens, widows and disabled ones will get an ex-gratia cash of Rs 1,000.
4. In order to save resources, the government has put restrictions on expenditure and funds so as to divert those towards the fight against COVID-19.
5. The Union Cabinet approved 30 per cent reduction in salary and allowances of Members of Parliament for one year. President, Vice President and Governors voluntarily decided to accept pay cut as a concerted effort to help the funds to fight against deadly virus.
6. The government has decided to suspend MPLADS and funds, and those are directed towards improving medical infrastructure. An MP gets Rs 5 crore every year as part of the Members of Parliament Local Area Development Scheme (MPLADS).
7. Uttar Pradesh government banned the manufacture and sale of pan masala, stating in the order that "Spitting pan masala can help in spreading Covid-19" on dated **25 march 2020**.
8. **On 25 March 2020-** Modi government announced the world's largest food security scheme for 800 million (800,000,000 people) across the country. Cabinet Minister Prakash Javadekar made the announcement in a press conference that the ration would be 7 kg every month (which includes wheat at a cost of ₹2 (2.8¢ US) per kg and rice at ₹3).
9. Prime Minister launched a new fund called PM CARES fund for combating such situations.
10. On **12 May 200**, the Prime Minister, in an address to the nation, said that the coronavirus crisis should be seen as an opportunity, laying emphasis on domestic products and "economic self-reliance", a Atmanirbhar Bharat (transl. Self-reliant India) through a Atmanirbhar Bharat Abhiyan (transl. Self-reliant India Mission).

INITIATIVES TAKEN BY RBI AGAINST COVID-19

1. All India financial institutions (AIFIs) such as the National Bank for Agriculture and Rural Development (NABARD), the Small Industries Development Bank of India (SIDBI) and the National Housing Bank (NHB) play an important role in meeting the long-term funding requirements of agriculture and the rural sector, small industries, housing finance companies, NBFCs and MFIs. Special refinancing facilities are provided for a total amount of ₹50,000 crore to NABARD, SIDBI and NHB to enable them to meet sectoral credit needs.

2. Maintaining adequate liquidity in the system and its constituents in the face of COVID-19 related disruptions.
3. Facilitate and promote incentivize bank credit flows.
4. On 23 April Confederation of Indian Industry (CII), in a paper titled "A plan for economic recovery", outlined three measures that the government should take such as cash transfers to JAM account holders, a credit protection scheme for Micro, Small and Medium Enterprises (MSMEs) and creation of a special purpose vehicle (SPV/SPE) to limit "Government exposure while providing adequate liquidity to industry".
5. Promoting ways to get rid of financial stress.
6. Promote the normal functioning of markets.
7. It has been decided to conduct targeted long-term repo operations (TLTRO 2.0) for an aggregate amount of ₹50,000 crores.
8. On April 1, 2020 the RBI announced an increase in the ways and means advances (WMA) limit of states by 30 per cent. It has now been decided to increase the WMA limit of states by 60 per cent over and above the level as on March 31, 2020 to provide greater comfort to the states going under COVID-19 containment and mitigation efforts so to plan their market borrowing programmes better. The increased limit will be available till September 30, 2020.
9. On 18 April 2020, India changed its foreign direct investment (FDI) policy to curb "'opportunistic takeovers/acquisitions' of Indian companies due to the current pandemic",
10. The Technology Information, Forecasting and Assessment Council (TIFAC), Department of Science and Technology, were given the task of preparing a white paper on the revival of the India economy; TIFAC has a "mandate to think for the future".



INITIATIVES TAKEN BY ORGANISATIONS AGAINST COVID-19

Talking on steps to confront the economic impact from the rapidly spreading corona virus, Chief Economist of the International Monetary Fund, Gita Gopinath said that Government policymakers need to implement a substantial targeted fiscal and also advised on broader monetary stimulus and policy rate cuts to help in normalizing the economic situation.

India is already running cut shot on GST revenue collection, and the corona virus scare had made it more worse. With more than 1.75 lakh active cases of COVID-19 cases in the population of 1.33 billion, has worsen the economic status of India. India has rescheduled the introduction of mandatory e-invoicing until October 1, 2020 due to impact of COVID-19.

The learning curve

Every crisis and problems act as a learning opportunity for organizations, and this pandemic has proved to teach a quite lesson. Here's how organizations are figuring out their next moves.

Remote working

With significant amount of cities on lockdown, organizations have no choice but to dig into their business continuity and contingency plans. Various companies constituted 'work from home' drill as soon as first COVID-19 case was confirmed in India, using critical resources to understand if remote working conditions are feasible. Remote working also has various limitations and cannot be carried out by various sectors like retail, hospitality, or manufacturing, leaving no choice with them than to face business interruption.

Safety measures for employees

Employee safety is an urge of the hour. Having no experience to deal with such virus that has potentially spread with rapid rate, many companies are brushing off their hands by asking employees to stay home. But there are some organizations, implementing measures such as temperature screening, disinfection of office premises, setting up COVID-19 response teams, distribution of COVID-19 precautionary packages etc

An open line of communication

Even though the mortality rate of COVID-19 is lower in India, but has caused a widespread panic due to unclear lines of communication. Organizations are taking initiatives to step up and generate an open line of communication with all their stakeholders, including employees as well as customers.

Opportunity in a crisis

Like India, various other international economies are becoming cognizant of the risk faced by being overly dependent on single market. In order to build this current situation a learning opportunity has been witnessed, CXOs of Indian multinationals, who recently attended the annual meeting of the Confederation of Indian Industry (CII), believed that at this time India can work on capturing 40% of their competitor's market share by introducing indigenous production of goods, furthering the country's Make in India campaign to be successfully and potentially implemented.

SUGGESTIONS

- Though online businesses is facing difficulties now due to supply chain constraints, but can emerge in the form of few beneficiaries if the sentiment and practice of social distancing continue after the pandemic.
- Financial institutions should initiate to respond to some of the immediate imperatives to facilitate business continuity. Approach of combination of tactical initiatives to address immediate concerns, strategic interventions should be practiced to explore potential interventions for banks and NBFCS to respond, recover and thrive. This pays attention on near-term initiatives needed to effectively respond to the crisis.
- Support continued access to quality education so as to accelerate learning by using online/e-learning strategies Radio, podcast or television broadcasts of academic content, Review/develop accelerated education strategies.

- Enforce regular hand washing with safe water and soap, alcohol rub/hand sanitizer and should ensure sanitation and waste management facilities and follow environmental cleaning and decontamination procedures as initiatives to be taken by individuals as a whole.

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