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Impact of COVID-19 on Indian Economy

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ABSTRACT

As the global economy is falling into a phenomenal recession due to COVID-19 (coronavirus) which is rapidly spreading across the World, health Services worldwide are increasingly abashed, also leads India into an arduous situation. The country's growth rate has also reduced by 1.9% by International Monetary Fund from 5.8% for 2020-21. Businesses are in stress for their profit and trying to cover the operational cost, wondering if they will have customers which make them able to pay their employees. The informal sector especially the labourers are hurt the most as their wages are disappeared. Banks are realising, especially for small and medium sized (MSMEs), companies will default and that is why trying to protect the financial stability. Investors are in big confusion and badly hit in this situation. Meanwhile, the government of India is engaged to examine the impact of COVID-19 and improvising the tools to save economies from collapse. They know it well that this is unpalatable time, it will be known in the future only with the decision taken today.

Keywords: COVID-19, Indian Economy, Government of India

1. INTRODUCTION

COVID-19, popularly known as Corona Virus, is a transmittable disease initiated by a virus. Primarily, it was recognized in Wuhan City, China due to increased cases of respiratory illness (CDC, 2020). It was informed on December 31, 2019 to World Health Organization (WHO) for the first time. WHO has recognized it as public health emergency and declared it a epidemic on January 30, 2020 (Ramzy A& McNeil, 2020). It is again announced as a world-wide pandemic on March 11, 2020 by WHO. The Government of India has launched various measures to hold the situation and safe guarding the country. For upholding this, the Prime Minister Mr. Narendra Modi declared the Economic Task Force on 19 March, 2020. Due to this, a situation of danger is created across the country, due to which the stock market is also expected to deteriorate. Therefore, the ministry of finance acquire the shares of commanded sectors like Hospitality, Aviation, MSMEs, etc., in consultation with other ministries.

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The Government of India has taken care of various basic needs like food security of the country men and providing additional resources for Healthcare, extension of tax deadlines, etc. On 26 March, the government announced economic relief of rupees 170000 crore for the poor families living below poverty line, under which they will get ration including wheat, oil, sugar, rice, etc free of cost in this pandemic. On 27 March, 2020, The Reserve Bank of India declared Rs 3,74,000 crore for improving country's financial system. Various state governments like Uttar Pradesh, Punjab, Haryana, etc. have provided huge monetary support to the poor in the unorganised sector. Therefore, the Government of India has released rupees 28379 crore to the state government in taking care of Corona virus. For declining the fiscal influence of the endemic, the RBI Governor announced 50,000 crore as special finance to NABARD, SIDBI and NHB (Das, 2020).

2. OBJECTIVES OF STUDY

- To understand the impact of COVID-19 on Indian Economy.
- To extrapolate the impact of COVID-19 on Indian Industries
- To find out the reason of huge impact of COVID-19 on Indian Economy.
- To estimate growth projections of India for FY 2021.
- To insight the recovery measures Post COVID-19

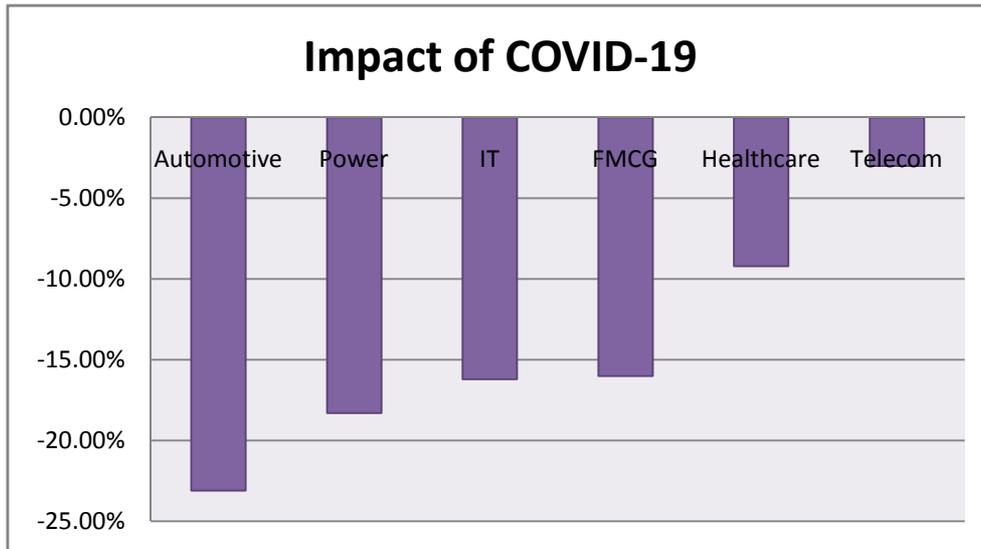
3. ECONOMIC ANALYSIS

The financial effect of COVID-19 pandemic is really troublesome in India during 2020. The growth rate of India for fiscal year 2021 is anticipated the lowermost by World Bank and other credit rating agencies since India's economic liberalization. This has been supported by the former Chief economic adviser of India with negative growth rate in financial year 2021 (Subramanian, 2020). According to the latter, India would need 710 lakh crore stimulus to overcome the contraction (Prasad & Chandra, 2020). Whereas according to the IMF announcement, India's GDP will continue to grow at the growth rate of 1.9% out of all the G20 nations (Das, 2020). The outburst of coronavirus is having a serious impact on people economy and businesses. All retail players are accepting necessary precautions to ensure safety of their employees and customers as responsible citizens of the country. Businesses across sectors are looking gloomy because of shutting down of malls and shops which are severely hurt the businesses especially of retailers. This leads to rise and unemployment from 6.7% on 15 March to 26% on 19 April 2020 (Vyas, 2020). Almost 44% of households have informed decrease in pay across the nation. 2.8\$ trillion economy is operational in whole lockdown, which is less a quarter of India's economy. Up to 53% of the country's businesses will be significantly affected (Mukherji, 2020). The endemic has entered in India and it's predictable that the country is going towards a major slowdown. In this situation the Indian markets and Industries are in huge pressure and going in downward direction.

3.1 IMPACT ON INDIAN INDUSTRIES

The impact of COVID-19 on industries is described in figure 1 sourced from MOSPI, Commerce Industry through Mint Research. According to this, the heavily affected industry is Automotive with 23.10%. Power, IT and Telecommunication are moderately affected, may be because of its continuous usage during lockdown. Telecommunication is the least affected sector by COVID-19. The reason of heavy effect on automotive sector can be seen because of its moderate dependency on China for automobile component imports (18%) and tyre imports (30%). Two wheeler segments are on first desk as far as import dependency is concerned. Almost four-fifths of the components are impacted more as they are imported from China. It will consequently affect the financial situation of the Indian economy.

Figure 1: Impact of COVID-19 on Industries (from 1 February to 15 March, 2020)

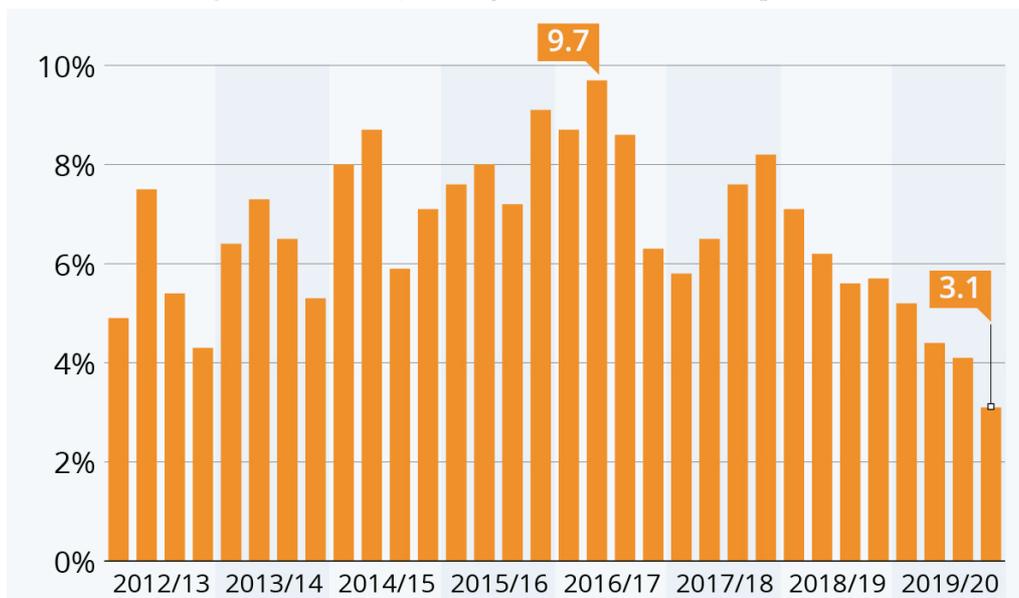


Source: MoSPI (Ministry of Statistics and Programme Implementation, Commerce Ministry), “Indian economy braces for coronavirus-induced shock as curbs set to pull down growth”, Mint, 15 March 2020

3.2 DECLINES IN GDP GROWTH RATE

The growth rate of India GDP is decreased to 3.1 in the last quarter of financial year 2019-20 as shown in figure 2. At the end of the march, India comes under Lockdown and the effect of the later can easily be seen in the GDP percent of first quarter of fiscal year 2020. This pandemic injured the economy especially at the time when the economy’s growth rate is already falling. But still there is a positive hope that the China, US, Japan and other European Countries are facing negativity in GDP growth. But the COVID 19 cases are gradually increasing in the month of April, this shows that the downward pattern of GDP is still to continue. According to the World Bank forecast, the global economy will be shrink by 5.2% this year due to COVID 19, which would be the significant recession after World War II.

Figure 2: Quarterly GDP growth rate in India (in percent)

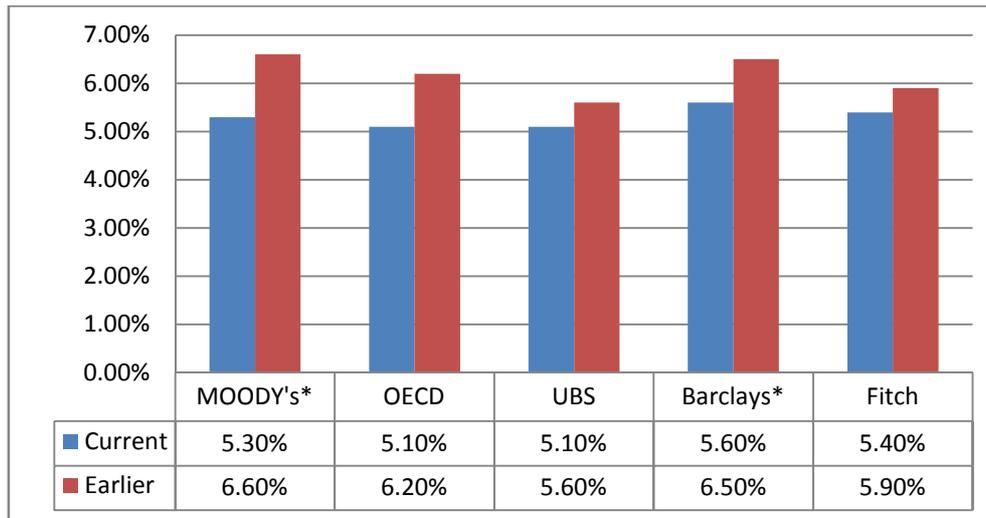


Source: MoSPI (Ministry of Statistics and Programme Implementation, Commerce Ministry).

3.3 GROWTH PROJECTIONS FOR FINANCIAL YEAR 2021

The growth projections are dropped by major financial institutions by 0.5–1.5 percent shown in Figure 3. MOODY, OECD are majorly affected by the situation. This pandemic has banged at that time in the economy when the growth rate is slow down to the lowermost in a decade with decreased investments and consumption with spluttering retrieval. This has trim the growth rate of India nearer to 5% for 2020-21 from approximately 6% earlier. According to Moody's Investors Service, this pandemic will probably dampen the world's growth by less than 2.5% in 2020, the recessionary inception for the world economy.

Figure 3: Growth projections of India (2021)



NNote*: FY20 Projections

Source: MoSPI (Ministry of Statistics and Programme Implementation, Commerce Ministry), "Indian economy braces for corona virus-induced shock as curbs set to pull down growth", Mint, 15 March 2020

3.4 FACTORS AFFECTING INDIAN ECONOMY

The COVID-19 has huge impact in India's economy due to the following four factors:

3.4.1 Worldwide and Domestic demand

- Reduction in Consumption leads to increase in unemployment, especially in informal sector and for contractual workers.
- Low productivity and profitability crushed business sentiments
- Low investment
- Consumers have decreased spending due to lockdown restrictions and fear of illness.
- Decrease in share prices leads to reduced wealth effect.
- Hospitality, Automotive and Tourism sectors collapsed badly.
- The top most exporting countries like China, Europe and United States, which is 40% of the total India, has been badly affected.

3.4.2 Supply Interruption

- Increased prices of input and decreased profitability leads to decline in profitability.
- Lots of supply disturbance because of imports of raw and intermediate goods from China. This may be temporary as China revives production unit.

3.4.2 Banking and Financial sectors

- Increased default of loan and NPAs due to increase in unemployment.
- The burden of credit growth has increased on banks. Bank margins are also reduced due to increased bond yields, making borrowing more expensive.
- The share market had fall down more than 30% since the pandemic started in the west.
- A rupee also depreciating against dollar, which deteriorates trade deficit, mainly due to exports, leads to decline in GDP.

3.4.3 Decline in Oil prices

- Oil prices have fallen sharply.
- Lower oil prices could be a boon to trade and current deficit.
- The depreciation of rupee can partially offsets the gains.

4. POST COVID-19 ECONOMIC RECOVERY

Providing a ray of hope in this corona virus pandemic, India has hurried to the aid of its friendly countries and also scheduled critical measures to lessen the problem within the country. If we look at the list of recovery, which is very long, as no sector has spared because of covid-19. But we have to focus on reviving the Indian economy. This is the time when the industries cannot manage to get up on its own but the government will have to lend their hand. According to confederation of Indian industry (CII) the economic package announced by Prime Mr. Minister Narendra Modi of 20 lakh crore will take back the country to the path of economic recovery (ET Bureau, 2020). Along with that, the Aatmnirbhar Abhiyan of the prime minister is based on five pillars of Infrastructure, Technology, Economy, Demography and demand. The finance minister Nirmala Sitharaman announces structural reforms in minerals, defence production, Coal, Civil Aviation, space, atomic energy and new policies of privatization, relaxation of foreign direct investment in defence, airports, which will spur Investments (Ohri, 2020). Along with this, the bold reforms in agriculture, taxation, infrastructure, human resource and financial system are also taken, which will attract investment and revive demand in the economy. It is also a possibility that this disaster has brought a huge opportunity for India to be self-reliant and it is our responsibility to complete it with all our hard work in a good way. Civilization has suffered numerous crises in the past, which we left behind, we will overwhelm again. This too shall pass.

5. CONCLUSION

COVID-19 has hit the economy significantly, decline in GDP with no extent of augmentation in financial year 2020. The economy has also gotten the spotlight with extended lockdown. Now, there is no way to get out of this pandemic in 2020, it's difficult to evaluate the seriousness of COVID-19 financial effect precisely. However, the country should learn to live with this disease but the economy will have to be opened with precautions for its revival. After all, survivors are the most brilliant who grasps, conceptualizes and adjusts to this difficult transitional stage.

DECLARATION OF CONFLICTING INTEREST

I (Bharti Rana) declare that there is no conflict of interest.

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