IJCRT.ORG ISSN : 2320-2882

INTERNATIONAL JOURNAL OF CREATIVE RESEARCH THOUGHTS (IJCRT)

An International Open Access, Peer-reviewed, Refereed Journal

# Impact of Covid-19 on Indian Economy and Challenges Ahead

***Dr. Shahid Iqbal, (Ph.D, M.com, MBA)***

**Guest Faculty, Marwari College, Darbhanga, LNMU**

## ABSTRACT

*The COVID-19 outbreak, which started in China in December 2019, has spread to 203 countries. Till date, over 1.5 million people had been affected by COVID-19 and about 80,000 people had died worldwide. We are in unprecedented times. The Covid-19 pandemic is spreading across the world and India is no exception. With the cases also rising exponentially in India, the Government introduced a 21-day national lockdown in first phase. The Indian economy is going through a major slowdown with COVID-19 coming into the picture, which was evident over the recent quarters even before the crisis hit. The economy expanded at a six-year low rate of 4.7 per cent in the third quarter of the current financial year. The outbreak has now presented Indian economy with new roadblocks, creating destructive impact on the world of work. The organizations have gone on a backfoot with such a crisis at the country. The impact of COVID-19 would be felt across sectors such as logistics, auto, tourism, metals, drugs and pharmaceuticals, electronic goods, MSMEs and retail among others. However, the extent of actual impact would depend on the severity and duration of the outbreak, which is still unknown. The government and various regulators have announced a series of measures to support corporates and individuals during the lockdown.*

*This paper spotlights the impacts of COVID-19 on Indian economy sector-wise and discussed the various challenges Indian economy may face in coming time. It presents the so far impact made by the Covid-19 pandemic on the economy and how markets and the economy have reacted sharply to the pandemic and its implications for businesses. The relevant data have been taken up from various reports of authentic agencies, journals, newspapers and websites. The paper concludes and gives clear picture of the overall impacts of Covid-19 pandemic on Indian economy.*

**Keywords: Covid-19 pandemic, Demand, Global Economy, Government, Indian Economy,**

## Introduction

The COVID-19 outbreak, which started in China in December 2019, has spread to 203 countries. Till date, over 1.5 million people had been affected by COVID-19 and about 80,000 people had died worldwide. From being a largely regional outbreak, limited to China and neighbouring countries till February, it has since affected multiple countries in Europe, North America and Asia significantly, taking the form of a global pandemic. 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.

We are in unprecedented times. The Covid-19 pandemic is spreading across the world and India is no exception. With the cases also rising exponentially in India, the Government introduced a 21-day national lockdown from March 25, 2020 to curb the contagion. Accordingly, industrial operations (excluding essential services) in the country have come to a standstill, which coupled with fears of the disease outbreak, are likely to have prolonged repercussions on several industries. The shutdown of nearly 130 crore people and a large number of companies is leading to disturbances and dislocations on an unimaginable scale. It has slammed the brakes on economic activity and caused huge human sufferings.

The Indian economy is going through a major slowdown with COVID-19 coming into the picture, which was evident over the recent quarters even before the crisis hit. The economy expanded at a six-year low rate of 4.7 per cent in the third quarter of the current financial year. With all these issues hitting the world of work from multiple directions, businesses find it hard to survive in this setting. They are forced to take difficult decisions such as slashing salaries, giving workers pink slips and opting for other cost-saving steps. The government is taking necessary steps that will not damage the economy further but the damage that has been done in the previous few months will definitely last for a longer period of time.

## So Far Impact of Covid-19 Pandemic

The outbreak has now presented Indian economy with new roadblocks, creating destructive impact on the world of work. The organizations have gone on a backfoot with such a crisis at the country. As may be expected, both markets and the economy have reacted sharply to the pandemic and its implications for businesses. Some are:

**Since February 1, 2020**

- India's gross domestic product (GDP) growth for fiscal 2021 was pegged at 6% by the Reserve Bank of India (RBI) on February 6 and by CRISIL at 5.2%. CRISIL has since revised it lower to 3.5%, while the RBI in its monetary policy meeting in March, decided not to provide an outlook on GDP growth.
- In its South Asia Economic Update: Impact of Covid-19, the World Bank estimated the Indian economy to slow down to 5 per cent in 2020 and projected a sharp growth deceleration in fiscal 2021 to 2.8 per cent in a baseline scenario.
- S&P BSE Sensex is down over 30%, and most global indices have crashed and seen sharp volatility
- Crude oil is down 64%, while the rupee is trading 6% lower compared with the dollar
- In India Up to 53% of businesses have specified a certain amount of impact of shutdowns caused due to COVID-19 on operations **(FICCI survey)**.
- Various business such as hotels and airlines are cutting salaries and laying off employees.
- Live events industry has seen an estimated loss of Rs 3,000 crore.
- A number of young startups have been impacted as funding has fallen.

## Recent policy measures taken by Government and Regulators:

India's government has proposed a range of steps to resolve the crisis, ranging from food security and extra healthcare funds to sector-related incentives and extensions of the tax deadlines. The Reserve Bank of India also announced on 27 March a range of steps that would make Rs 374,000 crore available to the financial system of the country. On 1 April, World Bank approved $1 bn in support to India to tackle the coronavirus pandemic. On 3 April the central government released more funds to the states for tackling the coronavirus totalling to Rs 28,379 crore. On 6 April a 30% salary cut for one year was announced for the President, Prime Minister and Members of Parliament.

The government and various regulators have announced a series of measures to support corporates and individuals during the lockdown. At a glance, some of the initiatives include:

| Ministry/Regulator | Measures taken |
|---|---|
| **Ministry of Finance** | Pradhan Mantri Garib Kalyan package to address liquidity needs of the poor, provide insurance to health workers, and ensure adequacy of necessary utilities such as pulses and gas cylinders |
| **RBI** | Loan moratorium of three months ending May 2020<br>Banks may revise their working capital limits<br>Long-term repo operations extended to corporate debt securities |
| **Securities and Exchange Board of India (SEBI)** | Relaxation of default recognition norms for credit rating agencies(CRAs) during the moratorium period |

***Source: Websites of MoF, RBI and SEBI***

## Challenges Ahead of COVID-19 Pandemic

We can expect the following challenges Indian economy may face resulted in the effect of COVID-19 pandemic:

a) **Domestic demand slowdown** due to regulatory restrictions, lockdown and fear of contagion to impact certain sectors over the near-term, while purchasing power erosion due to job losses or pay cuts and trickle-down effect of demand deferral to have a longer-lasting impact on some other sectors, especially where demand is discretionary in nature.

b) **Global economic slowdown and lockouts** to impact sectors with high dependence on global demand, especially that of key impacted markets like Europe, North America and South-East Asia. Undoubtedly, this Coronavirus has put the world economy at a major risk. Coronavirus ravages the economic foundations of world trade. Commentators have identified this outbreak as an outcome of hyperglobalisation or starting of de-globalisation. However, the world is going to face recession and the global losses.

c) **Commodity Price Impact:** The disruptions in global demand have sent commodity prices crashing, which would offer respite on raw material price front of manufacturers, while squeezing margins of commodity-oriented sectors

d) **Foreign exchange rate fluctuations** to have bearing on import-heavy sectors with forex-denominated cost structure. Rapid spread of the pandemic has also resulted in the rupee crashing to record lows, adding dynamics of forex fluctuation to the evolving equation

e) **Supply chain disruptions** globally to impact sectors where there is import dependence for raw materials. Supply disruptions of key imported raw materials in electronics, renewable energy, automobile and pharmaceuticals sectors could adversely impact production even post lift of the lockdown

## Sector-Wise Impact Analysis:

### Aviation Sector

- Sector hit hard by service curtailment due to lockdown and travel restrictions, more so as it has coincided with peak summer break season. Besides this, the medium-term impact would be significant, given the economic shock to the global economy.
- Business travel likely to be curtailed even post lift of lockdown as part of cost-cutting by companies. Overall, the sector is likely to witness prolonged slowdown and elongated recovery cycle given likelihood of delayed confidence recovery.
- Adding to the sector woes, recent rupee depreciation would have an adverse impact on dollar-denominated costs of airlines. However, the softening of ATF prices would offer some respite.

### Hotels/Tourism Sector

- It is estimated that the loss to the tourism industry will be Rs 15,000 crore (US$2.1 billion) for March and April alone. CII, ASSOCHAM and FAITH estimate that a huge chunk of the workforce involved with tourism in the country faces unemployment.
- Likely to witness long tail period of impact, running into multiple quarters. Recovery cycle to start with individual business travelers, followed by group and leisure travel.

Recovery in foreign tourist arrivals likely to be slow and strained, further elongating the tail period of impact.

- Slightly faster recovery expected in mid-tier hotels viz-a- viz luxury and five-star hotels, given customer mix of former comprises domestic tourist and business travellers; Hotels with high dependence on MICE activities have been more impacted.
- Stock of stressed hotels to increase significantly.

**Automobiles and Auto-components Sector**

- Lockdown and risk aversion has significantly impacted footfalls at dealerships. Being discretionary in nature demand to be significantly impacted even post lift of lockdown, given likely erosion of purchasing power with lay-offs, pay-cuts etc.
- In addition to the demand shock due to the domestic contagion, the global spread of the pandemic poses risks of a supply shock since USA, Europe and China are key cogs in the global automotive supply chain.
- While benign prices of key raw materials like aluminium, steel, copper etc. would support margins to some extent, increase in prices of some components due to supply disruptions can offset this.
- Domestic production shutdowns to limit the contagion and demand shock from domestic spread of the pandemic has impacted domestic auto-component suppliers also.
- Large scale OEM plant closures in USA and Europe, apart from a global slowdown, will impact export of Indian auto-components as well. In this scenario, inventory build- up for export-oriented entities is expected going forward, leading to receivable stretch.
- Deferral in payments announced by some OEMs, coupled with fixed overhead outgo, would lead to increase in working capital requirements of auto-ancillaries, posing risks for smaller players which have limited liquidity and financial flexibility.

**Retail/Multiplex Sector**

- Risk aversion of people impacted footfalls at public places like malls, theatres etc. well before the lockdown and regulatory curtailments.
- Retail real estate players like mall operators expected to be significantly impacted as large tenants effect force majeure clauses in their contracts, thereby drying up entire

revenue streams for these operators.

- Extent of outbreak and lockdown to directly impact length of recovery cycle.

**Electronics & Consumer Durables Sector**

- Likely erosion of purchasing power with lay-offs, pay- cuts etc. to have some impact on discretionary purchases like consumer durables and electronics.
- In addition to the demand shock, supply chain disruption have also impacted the sector. Significant proportion of completely-built units and consumer durable components are imported by India, supply chain disruptions of which has impacted production, leading to price hikes of some products.
- However, consumer durable manufacturers are expected to benefit from drop in prices of key raw materials like copper, plastic and aluminium.

**Textile Sector**

- Seven of India's top apparel export destinations (accounts for ~50% of India's total apparel exports) are among the worst covid-affected regions globally. International buyers are deferring shipments and cancelling orders, till further notice.
- Tail period of impact expected due to a) subdued footfalls in offline retail due to consumer skepticism, even after the outbreak subsides and b) job losses/ pay cuts, besides overall stress in the economy, to affect discretionary consumer spending. Furthermore, being a labour-intensive sector, the initial restart post lift of the lockdown would be slow due to labour shortages

**IT Sector**

- Developed economies to see delayed offtake of scheduled new projects, reduced discretionary spend and overall lower spend owing to sluggish economic growth.
- Restrictions on movement of labour and office closures to also have adverse impact on project execution and commissioning.
- However, the sector is expected to benefit from the steep depreciation of Indian rupee against US Dollar as major proportion of revenue is USD denominated while costs (employee expenses) are denominated in local currency.

**Construction & Allied Sectors**

- In addition to the current domestic lockdown, migrant labour availability and likely deferral of capex cycle by companies to have a more sustained impact on construction.
- Depressed real estate activity and prices on the back of the pandemic, coupled with existing inventory overhang, to also keep further construction activity muted.
- The slowdown in construction activity will also have a cascading effect on allied sectors like tippers, construction equipment, building materials etc.

## Findings

The shutdown and subsequent policy decisions like the moratorium would have varied impact across sectors. Although companies profit from cash conservation, financial institutions face a double whammy of restricted collections, and no moratorium on capital market instruments. Recovery after the lockout will also differ across industries, depending on the sector's systemic resilience and improvement in the customer class underlying it. It is likely that the lock-down would have a major effect on the economy, most especially demand, which is the largest portion. Shutdown of factories and the resulting delay in the supply of goods may result in a shortage of raw materials in China for largely importing companies from that there. For most companies, the raging pandemic will threaten normal business operations. Steady economic growth, bouncing back in demand, and normalizing working capital cycles are crucial to growth in the Indian economy, and varying levels of resilience to the pandemic's market effect in the months ahead will be seen in different sectors.

Covid-19's high risk impact industries are aviation, hotels, restaurants, jewellery, retail, shipping, ports, and port services. The sectors of medium impact are cars, building materials, residential real estate, while the sectors of low impact include education, dairy products, fertilizers, FMCG and healthcare among others. According to the rating agency, in the current scenario, extended demand disruptions are likely to lead to elongated payment cycles.

Last but not the least, as Former RBI governor Raghuram Rajan has suggested to the government to call people with proven expertise and capabilities, including from opposition parties, to deal with perhaps the greatest emergency being faced by the country since Independence following the coronavirus outbreak.

## Conclusion

A COVID-19 outbreak affected not only India but the entire world, and was felt across industries. The economic impact of India's coronavirus pandemic has been tremendously destructive. That will have an effect on the Indian industry to a large extent. Its epidemic is declared by World Health Organization as a national emergency. India's real GDP decelerated to its lowest in over six years in 3Q 2019-20, and the outbreak of the COVID-19 posed fresh challenges. Steps taken to contain its spread, such as nationwide restrictions for 21 days and a complete lockdown of states, have brought economic activity to a standstill and could impact both consumption and investment. There are several initiatives being announced by various agencies to contain the economic fallout of it. The measures from various government agencies and the central bank have provided some relief. While Indian businesses, barring a few sectors, can possibly insulate themselves from the global supply chain disruption caused by the outbreak due to relatively lower reliance on intermediate imports, their exports to COVID-19 infected nations could take a hit. The impact of COVID-19 would be felt across sectors such as logistics, auto, tourism, metals, drugs and pharmaceuticals, electronic goods, MSMEs and retail among others. However, the extent of actual impact would depend on the severity and duration of the outbreak, which is still unknown.

***References:***


1. *ICRA, Reports on Impact of Covid-19 on India Inc. – What lies ahead?, April-2020*
2. *CRISIL Ratings Report, "Pandemic to weigh on India Inc credit quality", 03-Apri-l2020*
3. *KPMG in India analysis, 2020, Potential impact of COVID-19 on the Indian economy, April-2020*
4. *"Stock markets post worst losses in history; Sensex crashes 3,935 points amid coronavirus lockdown". The Indian Express. 23 March 2020. Retrieved 23 March 2020.*
5. *"Lockdown hurts economy but saving life is more important: PM Modi". India Today. 14 April 2020. Retrieved 14 April 2020.*
6. *"Covid-19: Govt allows transportation of all essential, non-essential goods". Business Standard India. PTI. 30 March 2020. Retrieved 30 March 2020.*
7. *https://economictimes.indiatimes.com/news/politics-and-nation/coronavirus-faced-with-an-unprecedented-challenge-how-is-india-faring/articleshow/74986805.cms?from=mdr*
8. *https://www.business-standard.com/article/economy-policy/covid-19-impact-indian-economy-likely-to-grow-2-in-fy21-says-icra-120040701598_1.html*
9. *https://en.wikipedia.org/wiki/Economic_impact_of_the_2019%E2%80%9320_coronavirus_pandemic_in_India*