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IMPACTS OF CORONOVIRUS ON THE INDIAN ECONOMY

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ABSTRACT:

The COVID-19 pandemic in India is part of the worldwide pandemic of coronavirus disease 2019 (COVID-19) caused by severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2). The lockdown and the downturn in economic activity has hit all in the world hard. The COVID-19 spread disrupted the status quo activities in Indian states — the immediate effect created chaos among people and states to develop strategies accordingly. Covid 19 impact on India`s economy to shrink by 3.2% in FY 21. Estimated cost of full lockdown was 26bn USD. Global economic output to contract by 3% due to coronavirus pandemic. Prime Minister Modi announced an economic package of ₹20 trillion (US$280 billion) for 'Atma Nirbhar Bharat' (self reliant India). The economic package is nearly 10% of the GDP. Govt. aid as May 6 2020 was 348 bn INR lending institutions to extend the moratorium on term loan instalments by another three months, i.e., from June 1, 2020 to August 31, 2020. The Indian economy has started showing signs of normalcy with ease in lockdown restrictions across the country. April was the worst month, things had slightly improved in May, while the recovery started from June. Five Indian states contributing nearly 27% of the country's gross domestic product are leading a recovery in the economy as it slowly emerges from the world's biggest lockdown,

Keywords: Covid, Lockdown, GDP, Unemployment, Moratorium, RBI

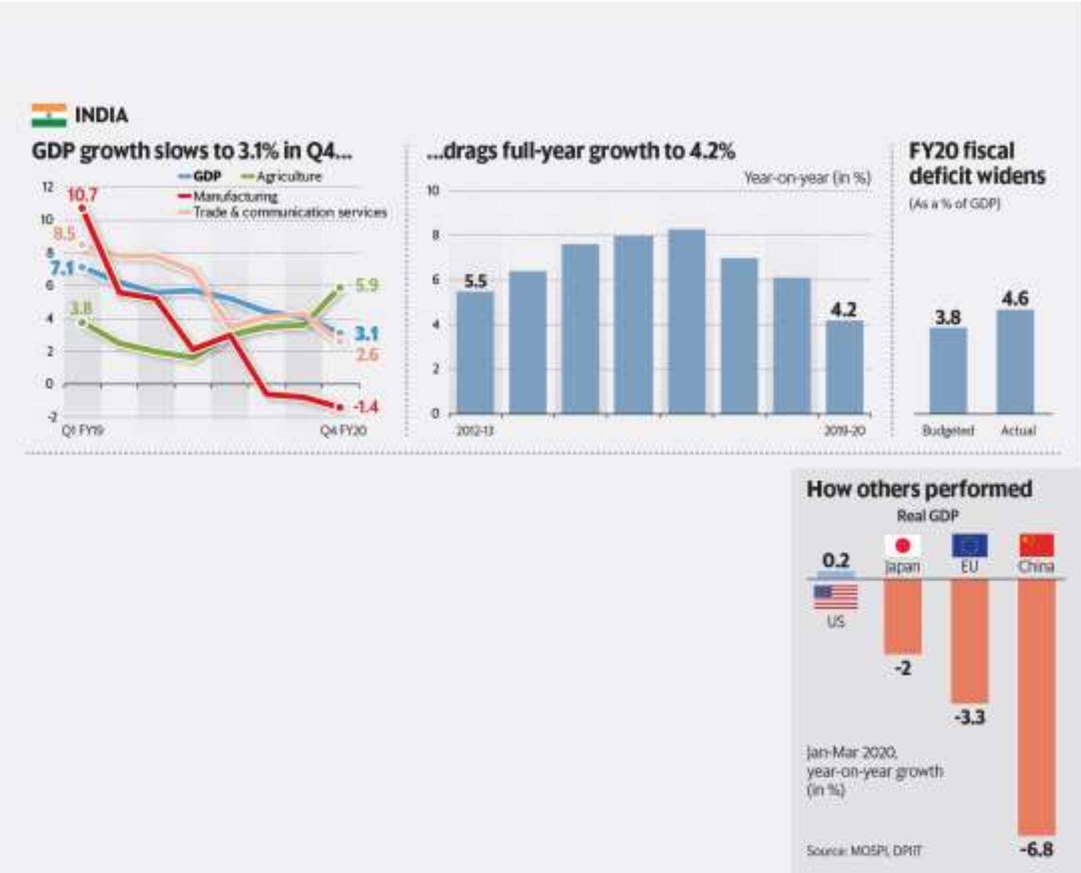
The COVID-19 pandemic in India is part of the worldwide pandemic of coronavirus disease 2019 (COVID-19) caused by severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2). The first case of COVID-19 in India, which originated from China, was reported on 30 January 2020. As of 17 July 2020, the Ministry of Health and Family Welfare (MoHFW) has confirmed Active of 3, 42,473 cases, 635756 recoveries (including 1 migration) and 25,602 deaths in the country. India currently has the largest number of confirmed cases in Asia, and has the third highest number of confirmed cases in the world after the United States and Brazil with the number of total confirmed cases breaching the 100,000 mark on 19 May and 200,000 on 3 June. India's case fatality rate is relatively lower at 2.80%, against the global 4.7%, as of 6 July. Six cities account for around half of all reported cases in the country – Mumbai, Delhi, Ahmedabad, Chennai, Pune and Kolkata. As of 24 May 2020, Lakshadweep is the only region which has not reported a case. On 10 June, India's recoveries exceeded active cases for the first time reducing 49% of total infections followed by recovery rate crossing 60% till early July. Although, active have continued to increase persistently.

The lockdown and the downturn in economic activity has hit all in the world hard. The coronavirus pandemic, which was first detected in china, has infected people in 188 countries Relief to all households, Industrial sector, Manufacturing sectors etc.., deprived suddenly of livelihoods and incomes has been difficult to deliver, with major gaps in coverage as well as in nourishment. Uncertainty of what is permitted under lockdown, lack of clarity as administrative guidelines are fine-tuned and genuine fear of infection, have all contributed to slowing down the pace of the rural economy. The disruption of value chains that are crucial to enable market access to Agriculture products and poultry, fish produce has been staggering for small and marginal farmers, agricultural labourers and fisher-folk. Access to markets has become a major safety issue as well, as some wholesale and retail markets to which supply their perishable products to take their produce are potential centres of infection. If local supply chains have to benefit small producers, they also have to be sanitised and safe.

The COVID-19 spread disrupted the status quo activities in Indian states — the immediate effect created chaos among people and states to develop strategies accordingly. But, a country like India which composed mainly of workforces in the organized and unorganized sector implicated generous concerns over the rural half of the country urban as well. On 24th March 2020, Indian Prime Minister Narendra Modi announced a nationwide lockdown and extended subsequently. The decision was a ‘necessary evil’ which inflicted on the daily wage earners and farmers across the country.

Initially during the lockdown period the common people like rural mass, daily earners had undergone untold misery and suffered a lot even without proper food to eat. The migrant labours throughout the country had taken extreme steps to move on to their native places by walking 100`s of miles with their families in spite of warning from the government. By early to mid-March, the government had drawn up plans to deal with a worsening of the pandemic in the country. The Nationwide lockdown was imposed on March 24 and it extended till May 31. Prime Minister Modi announced an economic package of ₹20 trillion (US$280 billion) for 'Atma Nirbhar Bharat' (self reliant India). The economic package is nearly 10% of the GDP. Govt. aid as May 6 2020 was 348 bn INR .He added that Special economic package was for labourers, farmers, honest tax payers, MSMEs and cottage industries. Mr.Modi added that the five main pillars India stands on are – economy, infrastructure, governing systems, vibrant democracy and supply chain.

India's gross domestic product (GDP) grew 3.1 per cent in January-March reflecting the partial impact of the COVID-19 lockdown on the manufacturing and services sectors. That was much better than economists' estimates, but still lower than 4.1 per cent in the previous quarter. The annual expansion in the GDP stood at 4.2 per cent in fiscal year 2019-20 - the lowest pace of growth in 11 years, as against a previously projected 5 per cent. The official rate of GDP expansion comes days after the country entered a third month of lockdown with few exceptions to curb the spread of the coronavirus pandemic, which has hampered an already-slowing economy and forced many businesses to trim their operations leading to thousands of job losses. Covid 19 impact on India`s economy to shrink by 3.2% in FY 21, World Bank sharply scaled down its projections for India`s economy forecasting 3.2% in the fiscal year 2020-21 because of the covid induced lockdown .Earlier it had predicted 1.5-2.8% growth. Impact on GDP growth from April to June 2020 was -9.3% and estimated cost of full lockdown was 26bn USD.

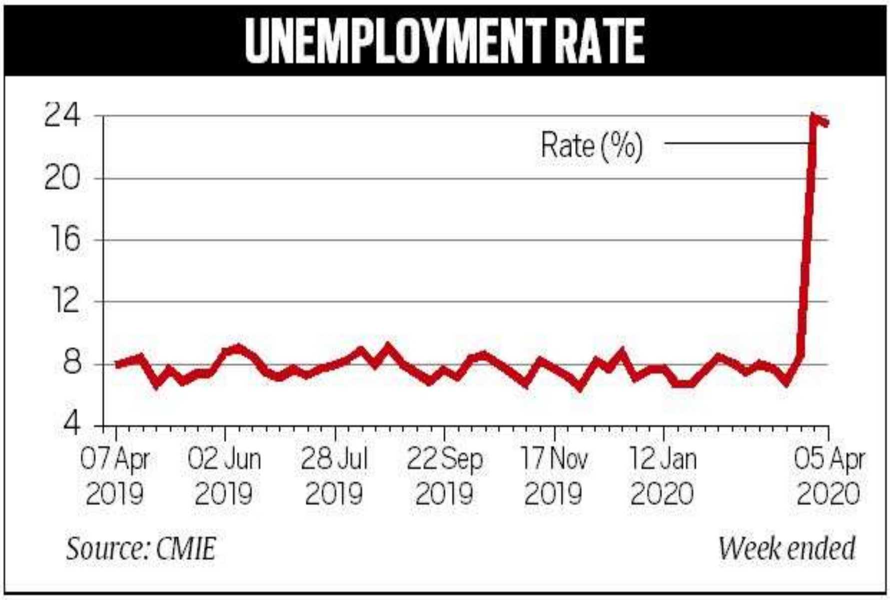


Global economic output to contract by 3% due to coronavirus pandemic. The COVID-19 pandemic is having a "severe" effect on the world economy and is expected to cause a -3% change (i.e., a contraction) in global output in 2020, "much worse" than the 2008-09 financial crises, as per the International Monetary Fund's (IMF) World Economic Outlook (WEO). India's growth is expected to dip to 1.9% in 2020 and rebound to 7.4% in 2021, as per the WEO.India's growth projection for 2020 is 3.9% less than what was projected for the country in the January update to the WEO while its rebound in 2021 is 0.9 % higher than the January projection (for India, forecasts on a fiscal year basis). World growth rates have been revised downwards by more than 6 percentage. Economies such as the US, Japan, the UK, Germany, France, Italy and Spain are expected to contract this year by 5.9, 5.2, 6.5, 7, 7.2, 9.1 and 8 per cent respectively. Advanced economies have been hit harder, and together they are expected to grow by -6 per cent in 2020. Emerging markets and developing economies are expected to contract by -1 per cent. If China is excluded from this pool of countries, the growth rate for 2020 is expected to be -2.2 per cent.

Covid 19 pandemic perhaps represents so for the biggest test of robustness and resilience of our economic and financial system. The Reserve Bank of India (RBI) has cut the repo rate by 135 basis points since February 2019 till the onset of COVID-19. The RBI Governor said that repo rate was cut overall by 250 basis points since February 2019 to alleviate liquidity stress and provide financial stability in the economy. The main aim behind the move was to tackle the slowdown in economic growth. Das added that such measures would have positively impacted the economic activity in the country but the coronavirus crisis followed. Das stated that they had elaborately touched upon issues concerning economic growth during the meeting of the Monetary Policy Committee (MPC). The MPC has decided to cumulatively, cut the policy repo rate by 115 basis points.

Data from the Reserve Bank of India showed consumer confidence collapsed last month. The current situation index and the future expectations index were both below 100, indicating that consumers were pessimistic. Consumer perception on the general economic situation, employment scenario and household income plunged deeper into contraction zone the RBI said in its release. "While expectations on general economic situation and employment scenario for the year ahead were also pessimistic." Millions of people in India lost their jobs due to the lockdown. Experts said that would disproportionately affect daily wage earners and low-income households.

Industries severely affected were Construction, Finance, Real estate, Professional services, Telecom. According to the MRD report there is a job loss of 40 million people in the country mostly in the unorganized sector, which provides more job opportunities. Millions of people in India lost their jobs due to the lockdown. Experts said that would disproportionately affect daily wage earners and low-income households .Information compiled by the Centre for Monitoring Indian Economy showed that the unemployment rate in both rural and urban areas rose sharply in late March. It remained relatively high in April, before showing signs of improvement starting in May when some activities resumed. CMIE said unemployment is "witnessing a very rapid fall" in June, accompanied by an increase in the labour force participation rate. India`s economy is ailing from more than covid-19. Stringent restrictions halted most economic activities and caused millions of people, many of them daily wage earners, to lose their jobs and revenue streams. The informal industry in cities being badly affected has resulted in loss of rural income. What's more, massive layoffs and lack of relief measures are pushing migrants to return to their villages, which would increase the risk of the spread of the virus.



Investment bank Goldman Sachs last month predicted a massive 45% economic decline in the three months between April to June. Ratings agency Moody's slashed India's credit ratings to the lowest investment grade level. Alarming fact is that Indian economic growth rate would be in negative and the economy would shrink 5% to 12%. So that unemployment arises with loss of income there by creating decrease in demand. Covid had caused two types of damage to the economy one with Demand contraction that will lead to negative growth and supply to be stagnant. It can be overcome by measures taken by the government as they already created the ways and mean but to the demand it is in vain.

In view of the extension of the lockdown and continuing disruptions on account of COVID-19, it has been decided to permit lending institutions to extend the moratorium on term loan instalments by another three months, i.e., from June 1, 2020 to August 31, 2020. It may be a current relief but the borrowers should remember that moratorium is not the waiver of the loan, it is only a grace period. Experts have voiced that if borrowers accept and enjoy moratorium announced now they have to repay more than the amount what actually fixed as repayment originally. People have been cautious about increasing their liabilities by opting for the moratorium, especially in retail, Agriculture and MSME sectors. The country will now face multiple challenges in terms of financial crises, health crises, collapse in commodity prices and much more. The banking system has increased the surplus liquidity because of the demand-side shocks that arises due to uncertainties as well as lock down in the market. There is a huge impact on the financial shock that includes stock market crash, liquidity crises as it began to drain out from global market in banking system and various changes in monetary policies. The country`s baking and financial system is capable of rising to the occasion in meeting this challenge. Banks will also have to raise capital in an anticipatory basis instead of waiting for a situation to arise. The economic impact of the pandemic due to the lockdown and anticipated post lockdown compression in economic growth may result in higher NPA and capital erosion of the banks. A recapitalization plan for public and private sector banks has therefore become absolutely necessary.

RESULT OF REVIVAL ECONOMY:

The Indian economy has started showing signs of normalcy with ease in lockdown restrictions across the country. April was the worst month, things had slightly improved in May, while the recovery started from June. Five Indian states contributing nearly 27% of the country's gross domestic product are leading a recovery in the economy as it slowly emerges from the world's biggest lockdown, a study by Elara Securities Inc. Kerala, Punjab, Tamil Nadu, Haryana and Karnataka have seen a pickup in activity, based on an analysis of indicators such as power consumption, traffic movement, arrival of farm products at wholesale markets and Google mobility data. Punjab and Haryana were among states that saw an improvement in electricity requirement, reflecting demand from farm operations. National capital Delhi also showed an increase in power demand as well as mobility trends.

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