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COVID 19: IMPACT ON THE INDIAN ECONOMY

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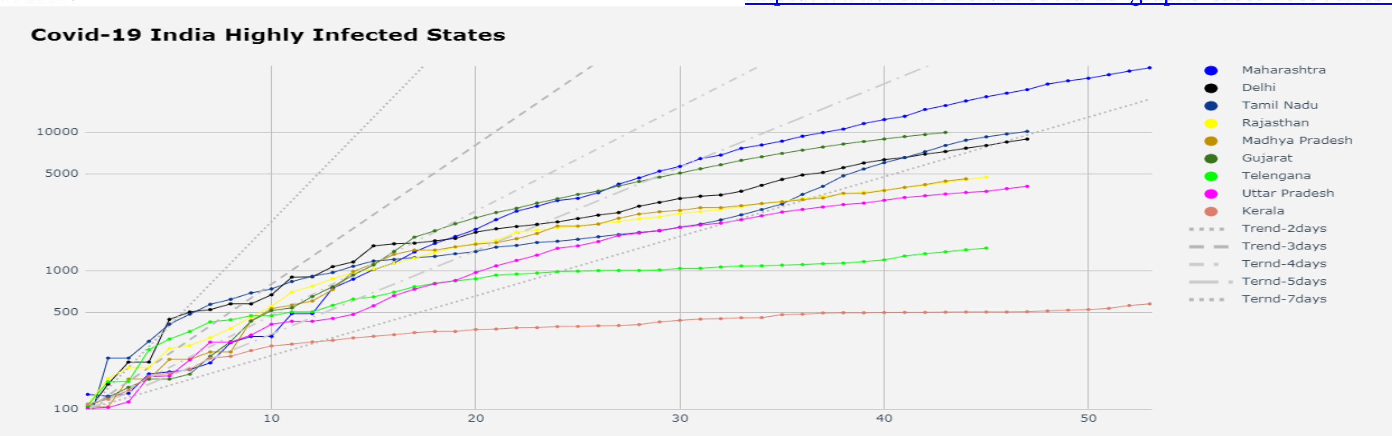
Abstract: The Indian economy is basically a mixed economy and its characterised as a developing market economy. It is the world's fifth-largest economy by nominal GDP and the third-largest by purchasing power parity. According to the IMF, on a per capita income basis, India ranked 139th by GDP and 118th by GDP in 2018. The sudden outbreak of the Covid-19 pandemic is an unpredictable shock to the Indian Economy. When we look upon the pre economy of India it was struck with decreasing rates of growth. With the prolonged country wide lockdown into several phases from March to June, the global economic downturn and it disrupted the demand and supply chain. The economy is likely to face the prolonged slowdown in the upcoming few years. In this paper we are going the discuss the various impacts of Covid-19 particularly on the Indian economy .

Index Terms – **Covid-19pandemic, impact on various sectors, Economic slowdown, economic package, economic recovery**

INTRODUCTION

We are in the midst of the Global pandemic Covid-19, which is indulging the countries in two kinds of shock: a health shock and an economic shock. Given that the nature of the disease is highly contagious, the ways to control the viral spread includes entire or part lock downs, self-isolation, restrictions on mobility,closure of companies and so on. Thus the economy has hugely affected. Many experts have already called this a Black Swan event for the global economy. However the Covid-19 which originated in China in December 2019 and over the next few months rapidly spread to almost all countries of the world can potentially turn out to be the biggest health crisis in our history. . This pandemic has triggered fears of a deep and prolonged global recession. On April 9, the chief of International Monetary Fund, Kristalina Georgieva said that the year 2020 could see the worst global economic fallout since the Great Depression in the 1930s, with over 170 countries likely to experience negative per capita GDP growth due to the raging coronavirus pandemic.34 The world has witnessed several epidemics such as the Spanish Flu of 1918, outbreak of HIV/AIDS, SARS (Severe Acute Respiratory Syndrome), MERS (Middle East Respiratory Syndrome) and Ebola. In the past, India has had to deal with diseases such as the small pox, plague and polio. All of these individually have been pretty severe episodes.

Source: https://www.newsclick.in/covid-19-graphs-cases-recoveries-deaths



INDIA'S RS.20 LAKHS CRORE PACKAGE:

The mega Rs 20 lakh crore stimulus package announced by PM Modi includes previously announced measures to save the lockdown-battered economy, and focuses on tax breaks for small businesses as well as incentives for domestic manufacturing. The combined package works out to roughly 10 per cent of the GDP, making it among the most substantial in the world after the financial packages announced by the United States, which is 13 per cent of its GDP, and by Japan, which is over 21 per cent of its GDP.The Rs 20 lakh crore package includes Rs 1.7 lakh crore package of free foodgrains to poor and cash to poor women and elderly, announced in March, as well as the Reserve Bank's liquidity measures and interest rate cuts. While the March stimulus was 0.8 per cent of GDP, RBI's cut in interest rates and liquidity boosting measures totaled to 3.2 per cent of the GDP (about Rs 6.5 lakh crore)."A special economic package is being announced to make India self -reliant," Narendra Modi said in his third address to the nation over COVID-19 pandemic. "This package, taken together with earlier announcements by the government during COVID crisis and decisions taken by RBI, is to the tune of Rs 20 lakh crore, which is equivalent to almost 10 per cent of India's GDP."

Size of India's fiscal stimulus (estimates)

Size of India's fiscal stimulus (estimates)

Source: wikipedia

SN	Entity	Fiscal cost as % of GDP
1	Goldman Sachs	1.3
2	Motilal Oswal	1.3
3	BofA	1
4	Kotak	1
5	Bernstein	0.9
6	Nomura	0.8
7	Barclays	0.75

PREPANDEMIC SLOWDOWN:

India had also been witnessing a pre-pandemic slowdown. Even before the pandemic, since FY 2018-19, India's growth was falling, 8% in Q4 FY18 to 4.5% in Q2 FY20. In January 2020 itself, well before India's lockdown or reactions to the pandemic, the International Monetary Fund reduced India's GDP estimates for 2019 and also reduced the 2020 GDP forecast. The 2016 Indian banknote demonetisation and goods and services tax enactment in 2017 led to severe back to back disruptions in the economy. On top of this there had been numerous banking crises such as the Infrastructure Leasing & Financial Services crisis and government scheme failures such as that of 'Make in India'. There was also a significant "income crunch" for both rural and urban sectors in the year prior to the lockdown.

GDP predictions for FY21 post announcement of economic package[179]

SN	Agency	Estimate
1	Bernstein	-7%
2	ICRA	-5%
3	Goldman Sachs	-5%
4	Nomura	-5%
5	Fitch	-5%
6	SBI	-4.70%
7	CARE Rating	-1.5%-1.6%

Economic danger versus health risk

"India risks economic hara-kiri [suicide] if lockdown extended for much longer." (11 May 2020) "Lockdown extensions aren't just economically disastrous, as I had tweeted earlier, but also create another medical crisis" (25 May 2020) Anand Mahindra, In March, Adar Poonawalla, CEO of Serum Institute of India said that "the economic danger of the outbreak was exponentially greater than its health risks".[251] On 29 April, Indian billionaire NR Narayana Murthy said that if the lockdown continues, India may see more deaths due to hunger than from the pandemic.

Restaurants Services: The National Restaurant Association of India (NRAI), which represents 500,000-plus restaurants across the country, has advised its members to shut down dine-in operations starting Wednesday till March 31, 2020. This will impact operations of thousands of dine-in restaurants, pubs, bars and cafes. By extension, food delivery platforms such as Swingy and Zomato that are by itself functioning -- have also taken a big hit. Orders on Swigy and Zomato have dropped 60 per cent amid the pandemic.

Food and Agriculture:

The food and agriculture sector contributes the highest in GDP i.e. 16.5% and 43% to the employment sector. The major portion of the food processing sector deals with dairy (29%), edible oil (32%), and cereals (10%). India also stands number one in dairy and spices products at a global scenario (export).
The supply of the food and Agri - the product will be affected in the coming seasons due to low sowing of the upcoming seasonal crops which will affect the mandi operations as said by the Ministry of Agriculture. The companies which deal with Agro-chemical depend on export for finished goods and import of raw materials. The food retail with the Central government and State governments allowing free movement of fruits and vegetables the Bricks and Mortar grocery retail chains are operating normally but with the shortage of staff is impacting operation.

It is expected that with prolonged lockdown the demand for the food supplies will increase. The online food grocery, on the other hand, suffers a huge loss due to the restriction of delivery vehicles. With the shortage of labour, the food processing units are facing a hunch in normal function but the government is trying to ease out the situation until that the factories have to adjust to working with low labour count. A major destination in the grapple of covid-19 for the next few months the Indian export is impacted due to low consumer demand the export-oriented commodities like seafood, mangoes, grapes are crashing this will impact the future crop availability.

MSME:

This sector contributes 30% to 35% of the GDP, showing a bifurcation of micro (99%), small (0.52%) and medium (0.01%) enterprise. If we see the sectorial distribution of MSMEs, it shows 49% from rural and 51 % from the semi-urban and urban areas.

Maharashtra, Uttar Pradesh, Bihar, Tamil Nadu, and Madhya Pradesh have the highest number of registered MSMEs, a study by the AIMO estimated that about a quarter of over 75 million is facing closure if the closure goes beyond four weeks and if the lockdown still extends the situation would worsen affecting the employment of 114 million people affecting the GDP. Consumer goods, garments, logistics are facing a sharp drop in the business and the MSMEs engaged in the service sector are still operating, however, is likely to isolate due to plunging liquidity constrains and purchasing capacity.

Sectors which depends on import such as electronics, pharma, consumer durables etc are facing a downfall causing a huge rapture across the value chain. As a splash of relief came the RBI announcement of a three-month moratorium on repayments of loan and reduction in the repo rate as most of the MSMEs depends on the loan funding from the government.

Online Business / Internet Business sector:

The online business in today's economy plays a major role in the economy with a market share of USD 950 billion. It contributes 10% to the Indian GDP and showed a drastic in the employment sector in the FY19 viz 8%. Its major segments are the household and personal care products (50 %), healthcare segment (31%) and the food and beverage sector (19%).

At mist the social distancing due to threat of covid-19 the tendency of the consumers to overstock on essential product and commodities viz rice, flour and lentils. This gave rise in the sales of the FMCG companies which it saw fall in the stoke in trade due to distorted supply chain .the e-commerce sector saw a dip in growth with pressure on the supply chain deliveries and the expectations of the consumers on the companies to come up with newer distribution channels focusing on direct to customer routes. In this soaring environment the managing and predicting of demand will play a vital role in the customer relation sector. Categorizing the commodities into part i.e. essential commodities and non-essential commodities showed different responses in the market.

Stock markets

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."

On 23 March 2020**,** stock markets in India post worst losses in history. SENSEX fell 4000 points (13.15%) and NSE NIFTY fell 1150 points (12.98%).However, on 25 March, one day after a complete 21-day lock-down was announced by the Prime Minister, SENSEX posted its biggest gains in 11 years, adding a value of Rs.4.7 lakh crore (US$66 billion) crore for investors. On 8 April, following positive indication from the Wall Street that the pandemic may have reached its peak in the US, the stock markets in India rose steeply once again. By 29 April, Nifty held the 9500 mark.

ECONOMIC RECOVERY:

In the beginning of May, Duvvuri Subbarao, a former RBI governor, said that India could look forward to a V-shaped recovery. A V-shaped recovery is the best outcome. Arthur D. Little, an international consulting firm, has suggested that India will most probably see a W-shaped recovery. Mythili Bhusnurmath writes in *The Economic Times* that U- shaped recovery is the most likely followed by an L-shaped recovery. CRISIL chief economist says if things go well, that if the virus is contained, we can expect a V- recovery, otherwise it will end up as a U-recovery.

In the second week of May, companies started preparations for restarting operations. Some companies have opened offices with the maximum permitted strength of 33% while others took a more cautious approach of as low as five per cent. The beginning of June saw companies further reopen and making plans to reopen. A study by Elara Securities Inc. found that five Indian states, Kerala, Punjab, Tamil Nadu, Haryana and Karnataka, are contributing 27% to India's GDP as India emerges from a total lockdown. By mid-June, unemployment levels were back to pre-lockdown levels.

Mobile manufacturing incentives were offered by the government to mobile manufacturers in the beginning of June 2020. This include a rs.50,000 crore (US$7.0 billion) production-linked incentive on goods made locally in India. Five Indian firms would also be selected for the scheme.

CONCLUSION:

Covid-19 has posed an unprecedented challenge for India. Given the large size of the population, the precarious situation of the economy, especially of the financial sector in the pre-Covid-19 period, and the economy's dependence on informal labour, lockdowns and other social distancing measures would be hugely disruptive. The central and state governments have recognized the challenge and have responded but this response should be just the beginning. Policy makers need to be prepared to scale up the response as the events unfold so as to minimise the impact of the shock on both the formal and informal sectors and pave the way for a V-shaped recovery. At the same time they must ensure that the responses remain enshrined in a rules-based framework and limit the exercise of discretion in order to avoid long-term damage to the economy.

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