*International Journal of Commerce and Management Studies (IJCAMS)*
*Volume 5, Issue 4; ISSN 2456-3684*
*www.ijcams.com*

# Impact of COVID-19 on Indian Economy

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***Abstract:***

*The recent COVID-19 pandemic has not only resulted in the loss of human lives but also distressed economies globally. The impact of this crisis is even higher in emerging economies like India already slowing growth rates, poor health infrastructure, curtail of jobs causing unemployment, a significant population living in extreme poverty and uneven income and wealth distribution, etc. The Government of India has announced a variety of measures to tackle the situation, from food security and extra funds for healthcare, to sector related incentives and tax deadline extensions, providing loans to business sector, direct transfer of subsidy to accounts, etc. With the prolonged country-wide lockdown, global economic downturn and associated disruption of demand and supply chains, the economy is likely to face a protracted period of slowdown. This study revealed the potential impact of the shock on Indian economy and put forward a set of policy recommendations that have to be systematically implemented to revive the entire economy in future.*

***Key Words:*** *COVID-19 Pandemic, Indian Economy, Economic Downturn and Government Initiatives.*

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## Introduction:

The Corona Pandemic has probably given the biggest blow to the World economy after the great depression of 1930's. Around sixty percent of the world population is either under severe or partial lockdown without having medical solution to the Corona virus and economic activities across countries have either stalled or significantly decelerated taking away millions of livelihoods. As a result of the pandemic, the global economy is projected to contract sharply by –3 percent in 2020, much worse than during the 2008–09 financial crises (IMF, 2020). The fall out of the Covid-19 on Indian economy is going to be huge because of its own lockdown, which was necessary to minimize the Corona spread and also because of India's integration with the rest of the world. The Indian economy has been experiencing significant slowdown of economic activities over the past few quarters. In the third quarter of the current fiscal, the economy grew at a six-year low rate of 4.7% and there is a strong hope of recovery in the last quarter of the current fiscal. However, the new coronavirus epidemic has made the recovery extremely difficult in the near to medium term. The outbreak has presented fresh challenges for the Indian economy now, causing severe disruptive impact on both demand and supply side elements which has the potential to derail India's growth story. The impact on the Indian economy could be significant if the virus continues to penetrate the country which will have a longer lasting effect.

## Literature review:

There are so many studies conducted all throughout the globe regarding the impact of covid-19 on global economy, some of the welreputed studies in India are as under:-

**Sahoo and Ashwani (2020)** made an attempt to measure the impact of covid-19 on Indian economy especially on trade, manufacturing and MSME sector. The article concluded that the economy is heading towards a recession and the situation demands systematic, well targeted and aggressive fiscal-monetary stimulus measures.

**Dev and Sengupta (2020)** tried to analyze the magnitude of the economic impact of covid-19 on the various segments, analyze the policies that have been announced so far by central Govt. and RBI to ameliorate the economic shock and put forward a set of policy recommendations for specific sectors.

**Jadhav (2020)** made an attempt to measure the challenges and opportunities impacted by covid-19 on Indian industry. The study revealed the potential impact of the shock on various sectors like manufacturing, financial services, banking, infrastructure, real estate and services and put forward a set of policy recommendations for specific sectors.

**Kumar, Thombare and Kale (2020)** investigate the impact of covid-19 on Indian economy with selective sectors viz. chemical industry, auto industry, electronic industry, foreign trade and effects on poultry. The trade impact estimated to be about 348 million dollars in India.

**Mandade, Pande, Singh, et.al (2020)** depicted the condition of Indian economy in the pre-covid period, survey of potential effect of the stun on different portions of the economy, examine the arrangements that have been reported by the focal Govt. and the hold bank of India to enhance the monetary stun and set forward a lot of approach suggestions for explicit segments.

**Rakshit and Paul (2020)** analyze the impact of covid-19 on various sectors of Indian economy and business survival strategies. They studied the primary and secondary sectors and suggest survival strategies that are essential for a business to cope up the present situation.

**Cheakraborty and Thomas (2020)** tried to study the fiscal and monetary policy during the covid-19 and macroeconomic uncertainty period. They suggest more of fiscal-monetary policies coordination is required to scale up the policy response to the emerging crisis.

Innovative sources of financing the deficit including money financing of fiscal programmes, a variant of 'helicopter money', need to be explored.

## Objectives of the Study:

The major objectives of this study are:

1. To understand impact of Covid-19 on overall Indian Economy

2. To understand the monetary and fiscal policy framed by government to combat the crisis

3. To suggest appropriate measures to revive the Indian economy in future.

**Research Methodology and Data Base of the Study:**

In this study I have taken survey reports and study reports by various agencies like CRISIL, CII, FICCI, RBI, SEBI, ASSOCHAM, FAITH and Ministry of Finance, Govt. of India for procuring data relevant to Indian economy. Also, I have studied few research papers, news articles and daily e-newspapers which have published in the last seven-eight months to understand the severe impact of covid-19 almost throughout the entire world. Internet surfing has also been used for procuring data relevant to the present study.

## Impact of the Crisis on Indian Economy:

**Overall Macro Impact:**

Due to the measures adopted to prevent the spread of the Coronavirus Disease 2019, especially social distancing and lockdown, non-essential expenditures are being postponed. This is causing aggregate demand to collapse across the India. In addition to the demand reduction, there will also be widespread supply chain disruptions, as some people stay home, others go back to their villages, imports are disrupted and foreign travel is stopped. Gradually the shock will negatively affect to manufacturing, mining, agriculture, public administration, construction, stock markets, tourism, hospitality and aviation industry, etc.-almost every sectors of the economy. This will adversely affect investment, employment, income and consumption and pulling down the aggregate growth rate of the economy.

**Estimate of Economic Losses:**

The Indian economy is expected to lose over ₹32,000 crore (US$4.5 billion) every day during the first 21 days of the lockdown (according to Acuité Ratings, a RBI approved credit rating agency). Barclays said the cost of the first 21 days of shutdown as well as the previous two quarters will be total to around ₹8.5 lakh crore (US$120 billion). On 27 March, Moody's Investors Service downgraded its estimate of India's GDP growth for 2020 from 5.3% to 2.5%. Fitch Ratings revised its estimate for India's growth to 2%. India Ratings & Research also downgraded the FY-21 estimate to 3.6%. On 12 April 2020, a World Bank report focusing on South Asia said that India's economy is expected to grow 1.5% to 2.8% for FY-21. This will be the lowest growth for India in 30 years.

The World Bank report said that the pandemic has "magnified pre-existing risks to India's economic outlook". Confederation of Indian Industry (CII) has estimated that India's GDP for FY-21 will be between 0.9% and 1.5%. On 28 April the former Chief Economic Advisor to the Government of India has said that India should prepare for a negative growth rate in FY-21. CII has sought an economic fiscal stimulus package of 1% of India's GDP amounting to ₹2 lakh crore (US$28 billion). Jefferies Group said that the government can spend ₹1.3 lakh crore (US$18 billion) to fight the impact of coronavirus. Bloomberg's economists say at least ₹2.15 lakh crore (US$30 billion) needs to be spent. Former CEA Arvind Subramanian said that India would need a ₹720 lakh crore (US$10 trillion) stimulus. It is estimated that the loss to the tourism industry will be ₹15,000 crore (US$2.1 billion) for March and April alone.

**India's Growth Projections Revised Down:**

Most multilateral agencies and credit rating agencies have therefore revised their 2020 and 2021 growth projections for India keeping in view the negative impacts of coronavirus-induced travel restrictions, supply chain disruptions, subdued consumption and investment levels on the growth of both global and the Indian economy.

**Fitch Ratings -** Fitch has also cut its forecast for India's economic growth to 4.9% for 2019-20 from 5.1% projected earlier.

**Moodys -** Moody's Investors Service has revised down its growth forecast for India to 5.3% for 2020 from its earlier estimate of 5.4% made in February.

**S&P Global Ratings** – S&P has lowered India's economic growth forecast to 5.2% for 2020 as against 5.7% projected earlier.

**Barclays** – Barclays has lowered India's economic growth forecast to 5.6% for 2020 as against 6.5% projected earlier. The trade impact of the coronavirus epidemic for India is estimated to be about 348 million dollars and the country figures among the top 15 economies most affected as slowdown of manufacturing in China disrupts world trade, according to a UN report. Whereas according to Asian Development Bank (ADB) the Covid-19 outbreak could cost the Indian economy between $387 million and $29.9 billion in personal consumption losses. A survey by FICCI (2020) found that most industry respondents did not foresee positive demand account during the entire fiscal year. Demand side impact on tourism, hospitality and aviation is among the worst affected sectors that are facing the maximum brunt of the present crisis. Consumption is also getting impacted due to job losses and decline in income levels of people particularly the daily wage earners due to slowing activity in several sectors including retail, construction, entertainment, etc. Some sectors like automobiles, pharmaceuticals, electronics, chemicals products etc. are facing an imminent raw material and component shortage.

**Table-1: COVID-19 Fiscal Package 2020 in India: An Illustrative Mapping with Demand for Grants (Rs. Cr)**

| Sl.No | Scheme/ Programme ./ Beneficiary | Ministry/ Dept./ Act | 2018 Actual | 2019 Budget | 2019 Revised | 2020 Budget | Relief Package –Illustrative Estimate (Crores) | Comments |
|---|---|---|---|---|---|---|---|---|
| **1** | PM Jan DhanYojana (cash transfers to savings account of women) | Ministry of Finance -Dept. of Financial Services | 0 | 0.01 | 0 | 0.01 | 30600 | |
| **2** | Ujjwala (clean fuel to low income households - LPG subsidy) | Petroleum and Natural Gas | 3200 | 2724 | 3724 | 1118 | 13000 | |
| **3** | Cash transfers to Senior Citizens, Widows & Physically Handicapped | - | - | - | - | - | 3000 | |
| **4** | Food subsidy | Consumer Affairs, Food and Public Distribution | 101327 | 184220 | 108688 | 115569 | NA | Cost of three months off-take of Cereals and Pulses |
| **5** | PM-KISAN (income support transfer to farmers ) | Agriculture and Farmers' Welfare | 1241 | 75000 | 54370 | 75000 | 17500 | Only front-loading of expenditure |
| **6** | NREGA (employment guarantee scheme) | Rural Development | 61815 | 60000 | 71001 | 61500 | NA | No Additional Expenditure now |
| **7** | Self Help Group - Loans | | | | | | NA | Banks expected to lend more |
| 8 | Employer’s Provident Fund (EPF) | EPF regulation to be amended to allow higher non-refundable withdrawal | | | | | NA | No Expenditure |
| 9 | Organized Sector-PF 24% of salary | Govt. will pay 24% of salary to EPF for next 3 months, of those with salary less than 15K working in establishments with less than 100 employees | | | | | NA | Involves Expenditure |
| 10 | Health Insurance | Insurance cover of 50 Lakh for govt. health workers fighting Covid19. | | | | | NA | Involves Expenditure for paying premium |
| 11 | Construction workers | Building and Construction Workers Welfare Act | | | | 31000 | 31000 | (max if States spend whole |
| 12 | District Mineral Fund (DMF) | National Mineral Policy/Act | | | | 35925 | 35925 | (max if States spend whole) |
| **Total** | | | | | | | 1,70, 000 (including the missing values) | |

**Source:** Finance Minister's announcement and Budget Documents of Various Years; NA = Breakup not Available in Covid19 Relief Package Announcement.

**Table- 2: COVID-19 Monetary Policy Response in India, 2020**

| **Policy Response** | **Policy Change** | **Effect / Impact** |
|---|---|---|
| **Policy Rate** | Repo rate reduced to 4.4 by .75 bps<br>Reverse Repo rate reduced by .9 bps | With inflation target at 4, India is close to a zero interest rate. |
| **Liquidity** | 1. Cash Reserve Ratio (CRR) cut by 100 bps to 3<br>2. Targeted Long Term Repo Operations (TLTRO) of 3 years tenor<br>3. Marginal Standing Facility (MSF) increased to 3% of Statutory Liquidity Ratio (SLR) | Infusion of 3.74 Lakh Crore liquidity |
| **Widening of Monetary Policy Rate Corridor** | The corridor raised to 0.65 from 0.5 | Makes it less attractive for banks to park funds with RBI, nudging them to lend more. |
| **Regulatory Easing** | 1. Moratorium on term loans & working capital loans for 3 months<br>2. Implementation of NSFR deferred by 6 months<br>3. Deferment of last tranche of capital conservation buffer | Eases the balance sheet of banks while regulatory forbearance provides relief to borrowers. |
| **Review of the limits of monetization** | Reviewed the limits of Ways and Means Advances to State Governments and Union Territories by 30% | To increase fiscal space of subnational governments through alternative models of "financing" the deficits. |

**Source:** RBI (2020), Seventh Monetary Policy Statement of RBI and related documents, 2020.

**Table-3: Key Fiscal Indicators – Central Government Finances**

| | | | Per cent to GDP |
|---|---|---|---|
| **Indicator** | **2019-20 (BE)** | **2019-20 (RE)** | **2020-21 (BE)** |
| 1. Revenue Receipts | 9.3 | 9.1 | 9.0 |
| *a. Tax Revenue (Net)* | 7.8 | 7.4 | 7.3 |
| *b. Non-Tax Revenue* | 1.5 | 1.7 | 1.7 |
| 2. Non-Debt Capital Receipts | 0.6 | 0.4 | 1.0 |
| 3. Revenue Expenditure | 11.6 | 11.5 | 11.7 |
| 4. Capital Expenditure | 1.6 | 1.7 | 1.8 |
| 5. Total Expenditure | 13.2 | 13.2 | 13.5 |
| 6. Gross Fiscal Deficit | 3.3 | 3.8 | 3.5 |
| 7. Revenue Deficit | 2.3 | 2.4 | 2.7 |
| 8. Primary Deficit | 0.2 | 0.7 | 0.4 |

Source: RBI (2020)

**Monetary Policy Response:**

The economy is heading towards a recession and the situation demands systematic, well targeted and aggressive fiscal-monetary stimulus measures. The economic impact of the 2019–20 coronavirus pandemic in India has been hugely disruptive. World Bank and credit rating agencies have downgraded India's growth for fiscal year 2021 with the lowest figures India has seen in three decades since India's economic liberalization in the 1990s. However, the International Monetary Fund projected for India for the Financial Year 2021-22 of 1.9% GDP growth is the highest among G-20 nations. Within a month unemployment rose from 6.7% on 15th March to 26% on 19th April. During the lockdown, an estimated 140 million people lost employment. More than 45% of households across the nation have reported an income drop as compared to the previous year.

It is revealed that when the global economy is on a slowdown mode no emerging economy can grow at its normal pace. The Indian economy was grappling with its own issues and covid-19 made the matters worse. India’s GDP has been on a consistent decline after peaking out at 7.9 in Q4 of FY 2018 to 4.5 in Q2 of FY 2020. The industry was facing demand problems, due to which business houses were reluctant to formulate plans, unemployment was at its peak and exports which were consistently down for several months.

Table-1 depicts the fiscal package announced by the central government to revive the India economy after covid-19 pandemic. Banks are directed to lend more of fund to self help group. Employees provident fund (EPF) regulation has been amended to allow higher non-refundable withdrawal, government will pay 24% of salary to EPF for next three months health insurance cover of 50 lakhs for government health workers fighting covid-19.

Reduction of the cash reserve ratio (CRR—the average daily balance that banks are required to maintain with the RBI— by 100 basis points (bps) to 3% will infuse liquidity to the tune of Rs. 1.37 lakh crore into the banking system (at Table-2). Similarly, Targeted Long-term Repo Operations (TLTRO) that allows banks to keep funds borrowed at repo rate for a longer period of time at the current rate of three-year tenor will add another Rs. 1 lakh crore. Accommodation under marginal standing facility (MSF) allows scheduled banks to borrow additional amounts, over and above liquidity adjustment facility (LAF) at a punitive interest rate, which has been raised to 3% of the statutory liquidity ratio (SLR) portfolio from the earlier 2%. This can infuse a liquidity of Rs. 1.37 lakh crore. Although MSF is not used by banks on a regular basis, these three steps together can infuse a liquidity of Rs. 3.74 lakh crore to Indian economy.

Table-3 shows that tax revenue has decreased in the FY 2020-21 by 0.1 as compared to last FY Rs. 9.1 Crore and non-tax revenue has remained unchanged in 2020-21 at Rs 1.7 Crore. Revenue expenditure, capital expenditure and total expenditure all have increased in the FY-2020-21 as compared to last FY. Gross fiscal deficit and primary deficit have increased in FY 2020-21 and revenue deficit has increased by 0.3% to GDP in FY 2020-21 as compared to last FY.

In response to the growth slowdown, the Reserve Bank of India (RBI) embarked on a path of monetary expansion. Between October 2018 and December 2019, it freed up around Rs. 4 trillion of liquidity through open market operations and reduced the repo rate by 135 basis points to 5.15% – the lowest since March 2010. Yet, credit growth did not pick up, primarily due to the heightened risk aversion in the banking sector, as discussed earlier and low credit demand from the stressed private corporate sector.

Pending its final recommendations, the RBI, through an announcement on 1 April, has raised the WMA limits for states and union territories by 30% to help them tide over the situation. However, as the calendar for market borrowing for the first quarter of the new fiscal shows, the yield curves in the bond market are likely to face an upward pressure. During this period, union government will borrow Rs. 3 lakh crore and all state governments together are expected to borrow about Rs. 1.27 lakh crore. The nominal value of exports of goods and services – another important driver of growth – witnessed a decline by 8.49% in Q4, 2019-20. The likely impact (deceleration) of Covid-19 from best case scenario to worst scenario are follows - manufacturing sector may shrink from 5.5 to 20 percent, exports from 13.7 to 20.8 percent; imports from 17.3 to 25 percent and MSME NVA from 2.1 to 5.7 percent in 2020 over previous year.

**Recommendations:**

Here are a few recommendations that the policymakers can consider as they gear up to deal with the economic crisis:-

1. The first and foremost measure must be to protect the workers in the informal sector as this sector is the backbone of Indian economy, who have badly affected and lost their jobs due to several phases of lockdown and yet have little savings to tide them over the shock over a period of five-six months or more. This will not be easy to do, but Government can deploy several mechanisms like MNREGA (Mahatma Gandhi National Rural Employment Guarantee Act), Jan Dhan accounts to provide guaranteed wage to the workers, distribution of food grains to poor people, direct transfer of subsidy to accounts, provide short-term loans to poor people at low rate of interest and easy condition, etc. so that purchasing power of informal workers can be enriched. Government has already been taken a

lot of revival strategies but the allotted funds are not sufficient enough to mitigate the severe losses. Government should allocate more of fund for that purpose to revive the entire economy.

2. For organized sector, the objective should be to provide loans at comparatively easy condition and low rate of interest by banks and financial institutions leading to smooth functioning and growth of GDP in the long run.

3. To increase liquidity, consumer confidence and demands of entire economy, eminent economists recommend that Government should provide subsidy money to poor people's bank accounts through direct transfer, so that purchasing power can be enhanced resulting more of demands and production, more of GST collection, GDP growth rate will increase leading to growth of entire economy.

4. India Government Finance Minister also announced the extension of the last date to file belated Income Tax Return for all businesses for the FY 2019-20 from March 31 to August 31. The deadline for GST returns filing for March, April and May was June 30. While these measures give some hope to MSME sector, there are a few more steps that the government can take to ensure aid to this worst affected business sector to strengthen the backbone of entire economy. Most MSMEs are looking for financial support from the government and doing this can help them cope with cash flow problems as already RBI spread more of funds to the organized sector. India's leading industry body, FICCI came forward with a list of demands and appealed policymakers to provide loans to MSMEs at a comparatively easier condition to revive and sustain this sector so that they can be functioning well in future.

5. CSR spending by corporate organizations should be directed towards a response fund dedicated for the benefit of employees, workers and poor people before distribution of profit and dividend as the mission of corporate bodies not only to serve for the shareholders' but also to the society at large to revive and strengthen the whole economy.

6. A disaster management framework focused on managing disease outbreak has already been outlined by Govt. of India and funds have been allocated for such purpose. But the allotted fund is not sufficient for a large population density country like India. So, Govt. and other govt. agencies should look into that matter deeply to allocate adequate fund for revival of human civilization and overall economy in the long run.

**Conclusion:**

By rationalizing tax rates or providing tax relief curb the impact of covid-19 on the Indian economy might know after implementation of suggested measures systematically and properly. About necessary measures to combat the economic impact from the rapidly spreading coronavirus, the Government policymakers would need to implement a substantial targeted fiscal, broader monetary stimulus and policy rate cuts to help normalize the economic situation. As the covid-19 crisis continues to expand, business enterprises will likely face challenges on numerous fronts and will also need to look beyond their own economic viability. They will need to coordinate closely with the public sector to frame plans that are essential to both public safety and the solvency of their workforce, while keeping the lights on their operations in long run to grow and sustain in the present competitive and changing environment.

In a largely populated country 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, various phases of lockdown and other social distancing measures are turning out to be hugely disruptive for the developing economy like India. The central and state governments have recognized the challenge and have responded but this response is just in preliminary stage. The eventual damage to the entire economy is likely to be significantly worse than the current estimates. The balance struck so far seems to be a reasonable one but the government needs to find a greater scope for supporting the incomes of the poor, keeping in mind that 90% of total income and wealth goes to 10% of people and 10% of total income and wealth goes to 90% of people, the income and wealth distribution in India is very much alarming as the gap between rich and poor people is very high. Involvement of the state and local governments may also be crucial in the effective implementation of further fiscal initiatives to minimize the gap as far as practicable. Policymakers need to be prepared to scale up the response as the events unfold so as to minimize the impact of the shock on both the formal and informal sectors and pave the way for a sustained recovery and long term growth in the entire economy.

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