

PROJECT REPORT ON
IMPACT OF COVID-19 ON INDIAN ECONOMY

2020-21

PREPARED BY
DEPARTMENT OF ECONOMICS



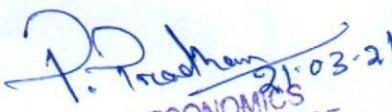
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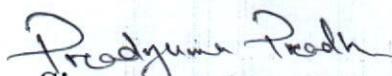
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REPORT

A project on “**Impact of COVID-19 on Indian Economy**”, prepared by the students of Economics Department during the month of February- 2021. Total 10 numbers of students participated in the project work. They collected the data from websites, news-paper articles, magazines, Government reports, journals, etc. In line of this, the use of extensive Literature Review method has been implemented to carry out the present research meaningful. Literature review methodology is a proven tool to do secondary data base reviews. India is already falling short in meeting its growth expectations in the last two FY. The GST collection is also not at par. The situation of COVID-19 is aggravating the financial health, of the country even more worsen. As per the UN report, India will be impacted by \$348 mn on its trade due to Corona Virus. The figure shall increased even further depending on the period of lockdown, locally & globally. The departmental faculties guided the students to conduct this project and the project is original.


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Signature of the Guide

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Impact of COVID-19 on Indian Economy

Introduction

Pandemics are large-scale flare-ups of irresistible illness that can enormously increase dreariness and mortality throughout the world and cause critical financial, social and political disturbance. Facts recommends that the probability of pandemics has expanded over the past century since of expanded worldwide travel and integration, urbanization and noteworthy misuse of the common environment. These patterns likely be proceed and escalating. Notable approach consideration has centered on to distinguish and restrain from development of flare-ups that might lead to pandemics. There is a need to grow and maintain attentiveness and well being capacity.

In spite of these changes, critical holes and challenges exist in worldwide widespread readiness. Progression toward assembling the IHR has been uneven, and numerous nations have found themselves incapable to meet essential necessities for compliance (Fischer and Katz, 2013' WHO 2014). Numerous episodes, eminently the West Africa Ebola plague (2014) have uncovered crevices related to the opportune discovery of malady, accessibility of essential care, following of contacts, isolate and confinement methods as well as worldwide coordination and reaction mobilization. These holes are particularly apparent in resource- limited settings and have postured challenges at local epidemic with desperate suggestions for what may happen amid a full-fledged worldwide widespread.

The first case in India was noticed on 30th January 2020. In the last two and a half month, the positive cases have risen to 10,000 and death toll to 400. Sensing the horrendous situation of near future, the Indian Government had taken the earliest decision to lock down the country along with other effective measures. The Central Government of India is monitoring the situation with a paramount The nationwide lockdown declared to hold the corona virus spread is already started affecting industries and economy. The Investment Information and Credit Rating Agency (ICRA) of India said that "the Indian economy will face a sharp down trend in Q4 of FY2020 and it is expected to be fallen to 4.5%". "They are also anticipating GDP growth for FY21 shall constrain to around 2%". ICRA have indicated their concern for the domestic market of India which shall witness high impact due to the broken logistic chain of China. This will not only slowdown the domestic production (since

the raw materials supply is affected badly) but also will undergo negative growth in the global export.

Literature Review

The current COVID-19 outbreak has provoked social stigma and discriminatory behaviors against people of certain ethnic backgrounds as well as anyone perceived to have been in contact with the virus. (Barrett R, Brown P J. 2008)

ICRA has also indicated their concern for the production, manufacturing and service industries amid the uncertainty of lockdown situation. They suspect that the situation will take a longer period to get normalization. "The negative trend of the economy will start giving indicators from 3rd week of the March 2020". The industries like construction, hotel, live event, travel, tourism will be the first one to be affected due to their nature of unessential.

The increasing number of emerging infectious disease events of international concern, such as severe acute respiratory syndrome (SARS) and the 2009 pandemic influenza A/H1N1, dictate a specific need to increase bidirectional communication between local governments and the international community. Recognizing this need, the Global Outbreak Alert and Response Network (GOARN) was formed in 2000 as a global collaboration to consolidate technical support for outbreak surveillance and response efforts (8), and the WHO's International Health Regulations (IHR 2005) were revised to update surveillance capacity standards and mandate reporting of disease events that may constitute "public health emergencies of international concern" (Chan E H, Brewer T F, Madoff L C, Pollack M P, Sonricker A L., and others. 2010).

The lockdown situation will lower the domestic demand. A situation of mass job losses and continuous cut in the pays for the next few months cannot be ruled out. Less money in the pocket of the consumer will defer the demand of unessential items and shall stick only to essentially of the livelihood. Since the impact of lock down will affect entire world hence the global demand will move to a historical slowdown. The markets of Europe, South East Asia and USA will be downsizing their import hence will be a big impact on Indian Export Houses.

Objectives

1. To focus on the impact of a pandemic on different sectors of the economy.
2. To reflect the need for policy intervention.

Methodology

The present Research Paper is using Secondary Data by collecting Information on the present issue like websites, news- paper articles, magazines, Government reports, journals, etc. In line of this, the use of extensive Literature Review method has been implemented to carry out the present research meaningful. Literature review methodology is a proven tool to do secondary data base reviews.

COVID-19 – An Economic Shock

The continued breakout of the COVID-19 pandemic has thickened the black cloud on the world economy. Global recession may return in most horrific appearance. This will bring disruptions in supply chain management by which the country like China will be affected badly. The lockdown condition of almost entire world will decrease the demand drastically which shall imbalance the financial situation of the world. The biggest currency of the world i.e. US dollar shall also be impacted.

The Indian economy had already been showing a down- ward trend in comparison to the last fiscal year 2018-19 from approx. 8% to 4.5% in Q2 & Q3 of the current fiscal year 2019-20. The world pandemic out brake has attacked India in a highly disadvantageous time.

The World Economic Outlook, “The International Monetary Fund (IMF) already down-ranked India’s growing progress to 4.8% for the FY2019 and revised it to more by 1.2% for the FY2020”. All these reports came even before the outbreak of the COVID-19. It is expected that after Corona; the situation will become more pathetic.

The Indian economy recently had faced the demonetization and GST implementation (an effort to overhaul the system holistically). Though the economy is progressing fast to absorb the impact of this transformation; however, the unorganized sectors still have to go a long way. This has led a difficult state of affairs to few banks and non-banking financial institutions. NPA for a few has started showing an upward trend since they were involved in the doubtful lending practices to ill business houses. India did come out with many schemes and plans to increase its presence in the global economy but eventually, those were not yielded enough compare to their expectation. 'Make in India' is one of the examples of such initiative which was aimed to boost the export of Indian makes.

Macroeconomic policy

In this turmoil time, it is necessary to accept the challenge to uplift the sentiment of the industries and the people. The target set by the FRBM (*Fiscal Responsibility and Budget Management Act, 2003 - Act of India to institutionalize financial discipline, reduce India's fiscal deficit, improve macroeconomic management and the overall management of the public funds by moving towards a balanced budget and strengthen fiscal prudence*) need to either put off or deferred for a while till the situation is consolidated and returned to the normalcy. The Reserve Bank of India (RBI) - the central bank of the country has started reforming to boost in this time of economic distress. The Bank has relaxed the long-term repo operation (LTRO) rate and offered \$2 billion for the next 6 months to support Indian rupee. The Indian Govt. has also announced historical economic & social packages to support various sectors of the industries as well as the livelihood of the country people.

Though the RBI and the Indian Government have rolled out various stimuli however it is not known if these are adequate. The impact of corona virus will only be estimated; exactly, once the economy is ready to move. It all depends on the Indian Government that how it will respond to the emerging challenges. The Government will require readjusting its focus to deal on the economic front; stabilize it and uplift from the darkest historical hole. Need to ensure balance in social and political agenda along with economic priorities.

Fitch Solutions: Fiscal deficit of India may rise to 6.2% of GDP in current year:

Fitch Solution said that “amid COVID-19 they have revised the forecast of fiscal deficit for India’s current financial year from 3.8% of GDP to 6.2%”. The lock down situation will bring massive backward push to the industries thus collection of revenue and taxes. The situation will only mount pressure to the Government to arrange more bank borrowings to settle expenses.

Moody’s downsized GDP forecast for India to 2.5%:

Moody’s Investor Service (Moody’s) has also remarked that India’s economic growth will be in depression in the current FY due to maximum contribution of Corona. “It is expected that it will go down to 2.5%. However, the agency has forecasted overall 5.8% growth for the FY2019-20. Moody has also predicted a negative growth in the global export to 0.50%”.

FICCI’s survey revealed that 53% of businesses will directly be affected:

As per the survey of FICCI (Federation of Indian Chambers of Commerce & Industry) done amid Corona; around 53% of industries and businesses are directly be got affected by the COVID-19 shutdown. The aviation and hospitality industries are finding it difficult to continue with the salaries of their employees hence the phenomena of laying off staff and downsizing of the salaries are either started or shall shortly be seen. It is estimated that the industry will have to lose US\$420 million.

Sector-wise impact of Corona

Manufacturing and Production

The manufacturing & production sector of India is tremendously suffering due to the lockdown situation. All big guns like L & T, ITC, Dabur India, Grasim Industries, Ultra Tech Cement, Aditya Birla Group, Bharat Forge and many others have put off the production completely. Many Logistics and Motor companies like Maruti, Hero Honda, Escorts left no other option but to abide by the lockdown situation for 21 days as declared

hence had shut down their production till the Government announce reopen. However, the lockdown is all set to go even further.

E-Commerce

From the 3rd week of March, almost all E-Commerce companies i.e Amazon, Flipkart, Big Basket, Grofers have decided to focus their sale only for essentials goods due to the legality involved in the essential and nonessential items during the lockdown situation. The Police are also giving permission only to those delivery persons who are carrying the essentials goods.

Agriculture

Due to the lack of logistics and the unavailability of labor; the agriculture sector which is the largest contributor in the economy with approx. 18% is finding it difficult to manage with this mammoth challenge. The crops are now all set and ready for harvesting. However, due to the unavailability of logistics, transport, packaging and labour, there is a fear that a big portion of the crops will rot in the field itself. Likewise; production of Tea & Coffee is also comes to a standstill.

Service and Live Event Sector

Though the service industry of India too shall not be able to get an escape from the hard bite of the lockdown situation of Corona Virus; however the organized sector in Education, IT and Knowledge shall able to perform its duties from the home to an extent and minimize the losses. The Live Events Industry has been closed down completely to maintain social distancing. It is estimated that the industry will lose around INR 3,000 crore. The App-based cab business is fully flattened due to COVID-19.

Aviation and Tourism

Tourism and Aviation is a big contributor to the Indian economy with 7.5%. KPMG has reported that the Indian Hospitality Industry is progressing with 16.1%. A large no. of national/international tourists and businessmen visits various places in India every year. The suspension of Tourism and Aviation activities shall hugely be impacting the Indian Economy and will take a lot of time to revive. There is a fear of an increase in the operations expenses thus ticket cost for the traveler which ultimately will lower the demand.

Stock Market

The Stock Market in India becomes volatile in this period. The SENSEX fell 4000 points (13.15%) on 23rd March 2020 which is the biggest dip in the history. The Sensex, however again on 25th March 2020 witnessed its biggest gain of the decade. The volatile situation is continuing; resulting in weaken confidence of the investor in the economy and its progress.

Since China is a big Import-Export partner of India hence Corona will bring a negative impact to the business balance of two big economies. India has already seen 40% slid in the import of electronics items from China and the reversal impact is possible to be seen in the export stock of Indian cotton and mineral. For pharmaceutical too, the Indian industries are dependent on China for API (Active Pharmaceutical Ingredients) which is 70% in present. The inaccessibility of logistics is making the situation even more worsen.

The companies are trying hard to manage the situation. They are supporting their staff to hold the nerves during this testing time. Companies like Hero Motocorp, Tata Group, Siemens, Infosys, Reliance, Bajaj Finance, Wipro have asked their workforce to work from home where ever is possible. The immature and recently started start-ups are affected maximum since their financial is sabotaged. For an example, 45% decrease is reported in the Datalabs report as compared to the last year growth. The Job Market in India too is fearful to face mass loss of jobs of around 50 million. The estimation is figured out by the Centre for Monitoring Indian Economy. CMIE has further analysand that the

unemployment rate shall rise from 8.4% to 23% and may continue declining.

The KPMG report on impact of COVID-19 found a paradigm shift. They predict that businesses will change their working style and strategy as under:

- The businesses will shift to localization.
- Digital will get a real push.
- Cash is king for business
- Cost model business
- Increasing sensing and control intelligence
- Supply Chain Resilience
- Building agility

Conclusion and Suggestions

India is already falling short in meeting its growth expectations in the last two FY. The GST collection is also not at par. The situation of COVID-19 is aggravating the financial health of the country even more worsen. As per the UN report, India will be impacted by \$348 mn on its trade due to Corona Virus. The figure shall increased even further depending on the period of lockdown, locally & globally.

It is expected that in the short term the price of logistics, transportation, freight and many other services will rise. The Government is taking all possible measures to handle it efficiently however the exact impact shall only be known once the corona period is over. The economy is expecting no. of financial packages (5% to 10% of GDP) to overcome this historical slowdown. The Government till date has announced two financial stimulus (INR 1.7 lack crore and approx. 1 lakh crore along with 17000 crores to the state governments) to boost the sentiment of the Industries and the people. More stimulus are expected and believe to be in pipeline. Apart to this, the Government should also consider few more steps as under:

1. To cut various fiscal rates such as repo rate.
2. The tax rebate in the export should be continued.
3. The tax collection may also be considered to be rationalized hence industries will look for relaxation in the GST as per the need of the hour.
4. DBTs (Direct Benefit Transfer) should be exercised more effectively.
5. Availability of Working Capital and Loan facilities shall require to be more friendly's.
6. The expenses on Govt. Machinery must be brought down especially on transportation, salaries, comfort, events, etc.
7. There should be a good coordination & belief situation between Central Government and the State Governments.

On positive side, India can also consider this situation as an opportunity to increase its export to the various part of the world. Overall it is expected that India will be able to curb this pandemic even more efficiently than its counterparts hence shall display speedy recovery on economic parameter too. The Government is required to give priorities to the economic measures to boost the economy along with obvious social & political agenda.

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