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IMPACT OF COVID-19 ON THE INDIAN ECONOMY

G K Chaitanya Reddy, Sriya Maroju & Bolli Shiva Kumar

Research Scholar, Adarsh Nagar, Hyderabad, India - 500063

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ABSTRACT

Negativity and pessimism are prevalent everywhere. COVID-19 has been compared to the Great Depression of the 1930s. New bottoms of a downfall in economic activity are being reported by analyst and agency reports. The impact of the virus outbreak on the Indian economy is huge across sectors, in various scenarios of total, protracted, and partial lockdown, and at various levels of capacity utilisation. Indian economy, be that as it may, features a somewhat distinctive story to tell at this hour of emergency. The Indian economy has benefited from a sharp drop in crude oil prices, which have dropped from roughly $70 per barrel to a historic low of $22 per barrel. This godsend advantage can, to a certain degree, balance the misfortunes due to COVID-19. Simultaneously, fantasies such as a $5 trillion GDP now appears to be a distant reality. The article attempts to examine COVID-19's influence on the Indian economy by studying its impact on growth, manufacturing, trade, and the micro, small, and medium businesses sector.

KEYWORDS: *COVID-19, Indian Economy, Pandemic, Lockdown, GDP, Sectors*

INTRODUCTION

The COVID 19 has wreaked havoc on the Indian economy. The country's GDP growth is being harmed by the coronavirus-induced shutdown, which is causing considerable disruption across numerous industries. Around 60% of the world's population is either under severe or partial lockdown due to the lack of a medical remedy to the coronavirus, and economic activity has ceased or drastically slowed throughout countries, robbing millions of people of their livelihoods. The world economy is expected to collapse drastically by 4.9 percent in 2020 as a result of the pandemic, far worse than during the 2008–2009 financial crisis (International Monetary Fund [IMF], 2020)1. India, being a highly populated country with limited medical facilities, had little choice but to pursue the lockdown strategy. India was not immune to the global economic downturn. The present epidemic is spreading via a highly globalised society with integrated networks and financial systems. Because of its own shutdown, which was essential to control the spread of coronavirus, and India's interconnectedness with the rest of the world, the COVID-19 will have a tremendous impact on the Indian economy.

REVIEW OF LITERATURE

The current COVID-19 epidemic is creating enormous economic problems in a number of nations, including India. Global value chains, commerce, services, and local production networks have all been badly disrupted by the epidemic, which has had a negative impact on overall growth and welfare. The Indian economy is being impacted by both demand and supply side impacts as a result of the entire lockdown and the ongoing partial lockdowns. The production networks are harmed by limitations on the flow of products, services, and employees. The drop in economic activity and total production growth results in job losses. Demand-side impacts will be exacerbated by supply shocks, which will reduce the economy's disposable income, savings, and uncertainty. As a result, COVID-19's economic impact is projected to be felt across the board, including growth, international commerce, financial markets, unemployment, income, poverty, and a variety of other factors. The spread of the virus is predicted to result in a massive loss due to the disruption of global trade. Under optimistic and pessimistic scenarios, foreign commerce is predicted to drop by 13–32 percent, respectively.

In terms of the impact on employment and income, the International Labour Organization (ILO) estimates that worldwide unemployment might range between 5.3 million to 24.7 million in 2020, up from a base level of 188 million in 2019, driving people into poverty. The majority of prior research has concentrated on global growth, trade, and unemployment, with a few exceptions, particularly in India. In this backdrop, the current study intends to examine the impact of COVID-19 on the Indian economy and identify essential policy solutions to mitigate the potential economic consequences. The research adds to the body of knowledge by examining the influence on the Indian economy, with a particular focus on growth, trade, manufacturing, and SMEs.

METHODOLOGY

The majority of the data utilised in this study was secondary. Secondary data is gathered from a variety of sources, including the internet, books, newspapers, and public investigations. For the analysis and interpretation of the acquired data, several statistical tools and techniques were used.

OBJECTIVES

The following are the goals that are being pursued:

- To examine India's GDP as a result of COVID 19.
- The demand side impact, i.e. private consumption, will be analysed.
- Assess the short- and long-term effects on various industries.

IMPACT ON GDP

In the fourth quarter of this fiscal year, India's GDP growth is predicted to drop to 4.3 percent. The COVID-19 epidemic will cause a massive worldwide economic downturn. India's real GDP has been steadily declining, and the spread of the epidemic will exacerbate this trend. The government has taken efforts to stem the spread of the virus, including a 45-day national lockdown and a state-by-state shutdown. This has resulted in a lack of economic activity, which might have an impact on both consumption and investment. During the fiscal year 2015-16, GDP was 7.5 percent in Q1, 7.3 percent in Q3, and 7.9 percent in Q4, before rising to 7.9 percent in Q4. India's GDP has slowed to 5.00 percent in the first quarter of fiscal year 2019-20, the lowest level in five years. Furthermore, the GDP in the second quarter of fiscal year 2019-20, it fell to 4.5 percent, but it rose somewhat to 4.7 percent in the third quarter. Due to the fear of the fatal virus, a few industries have fallen behind the global chain, relying less on intermediate imports. To summarise, the three key sources to GDP, investment, private consumption, and foreign trade, may all be impacted. To combat the situation, the Indian government has announced a slew of revival packages, including increased funding for healthcare, food security, sector-specific incentives, and tax breaks.

The projected recovery rate is a key element impacting GDP predictions over the next five years. Strong, moderate, and weak recovery are three such situations that have equal odds. A positive average growth rate of 2% per year can be expected for a healthy recovery. A positive average growth rate of 1% per year might be projected for a moderate recovery. A positive average growth rate of 0.50 percent per year might be projected for a modest recovery.

IMPACT ON MACRO LEVEL

Almost all economic activity in the country have come to a standstill as a result of the nationwide lockdown. Even once the lockdown is removed, demand and supply factors are likely to be disrupted. It will take time for the economy to return to normal, and social distancing measures will persist for as long as the health shock lasts. As a result, demand, particularly for non-essential products and services, is unlikely to be recovered in the next months. Consumption, investment, and exports, three significant components of aggregate demand, are expected to remain sluggish for some time.

DEMAND SIDE IMPACT

The shutdown is expected to have a significant influence on the economy, particularly on consumer spending, which is one of the most important components. Consumption of non-essential products has slowed as a result of the abrupt halt in urban activities. The 45-day lockdown would have a significant impact on the domestic supply chain and the availability of critical goods.

IMPACT ON DIFFERENT SECTORS

The IMF's anticipated GDP growth of 1.9 percent for India in fiscal year 2021- 22 is the highest among G-20 countries. In a single month, unemployment soared from 6.7 percent on March 15th to 26 percent on April 19th. The consumer and retail business sector has the biggest GDP contribution of 18%, as seen in the graph above. Then there's the food and agricultural industry, which is a need that accounts for 16.5 percent of GDP. The transportation and logistics industry, which is also an important commodity, accounts for 14% of GDP. Telecom is one of the most important industries during this epidemic since it allows people to work from home, improves company communications, and contributes 6.5 percent to GDP.

India altered its foreign direct investment (FDI) policy on April 18, 2020, according to the DPIIT "Department for Promotion of Industry and Internal Trade," to restrict "opportunistic takeovers/acquisitions" of Indian enterprises because to the present epidemic." The telecom industry has the biggest FDI equity inflow, at 8%, as seen in the graph above. The consumer and retail industry appears to have the lowest FDI equity inflow, at 0.44 percent.

IMPACT ON GROWTH

The COVID-19 epidemic has hit the Indian economy at a critical juncture in its economic trajectory consumption, private investment, and exports have all slowed in recent years due to a lack of aggregate demand. When everyone was expecting the economy to turn around, the COVID-19 epidemic came as a shock, impacting economic activity across sectors and adding a supply shock to the economy. Since the first quarter of 2018, quarterly growth (YoY) of GVA has been continually dropping (from roughly 8% in Q1 of calendar year (CY) 2018 to 4.5 percent in Q4 of CY 20194). Mining and quarrying have had the greatest drop in recent quarters, followed by manufacturing and construction.

Overall, our analysis paints a picture of growth ranging from near 0% to 7% in the best- and worst-case scenarios. We estimate that India's GDP would contract by 3–5% in fiscal year 2020. The poor reaction of economic fundamentals is to blame for the slowdown in economic growth. The country's and the world's sluggish demand as a result of the closure will be a pull factor for a slowdown. With increased uncertainty, investment is more likely to be postponed, reducing job possibilities and further lowering disposable income, putting downward pressure on demand. Countless people have lost their jobs as a result of the COVID-19 outbreak. Furthermore, supply side pressure is increasing as a result of the lockdown in India and other nations, which has thrown the supply chain into disarray. Domestic manufacturing networks are facing a scarcity of raw materials and components, forcing them to increase their prices. The manual labour supply chain has been severely disrupted, and industry closures may result in the loss of skilled workers who are familiar with industrial operations. As a result, negative growth for CY 2020 appears to be a possibility. With diminishing corporate revenues, MSMEs, and family income, the banking industry may see an increase in nonperforming assets (NPAs).

IMPACT ON FINANCIAL MARKETS

There has been turmoil in the debt markets since the emergence of Covid-19. Corporate debt paper credit spreads have increased substantially to levels greater than those seen in the aftermath of the IL&FS crisis in September 2018. Debt mutual funds, including those that invest at the short end of the maturity spectrum – liquid funds, ultra-short duration funds, and so on – have seen their net asset values (NAVs) plummet, causing investors to become concerned. Because these funds are considered second only to bank deposits in terms of safety, a drop in their NAVs is cause for alarm. Tourism and hotels, real estate, asset finance services, banks, metals industry, vehicle and ancillaries, textiles, power, mining, and food product enterprises were among the industries that suffered the most from the Covid-19 outbreak and subsequent lockdown.

IMPACT ON MANUFACTURING

Basic metals and electric equipment (approximately 21% each) are expected to have the largest decline (percentage as compared to previous benchmark period—average NVA of 2014–2017), followed by textiles (18%), coke and refined petroleum products, and motor vehicles (approximately 15% each), and rubber and plastic products and other non-metallic products (approximately 11%), among others. Despite the industry's overall poor performance, the top value-added sectors, such as basic metals, electronics, equipment, coke and refined petroleum products, motor vehicles, and so on, are heavily reliant on imports.

IMPACT ON MSME

Both domestic demand and supply were impacted by the lockout for these tiny businesses. The MSME sector is similarly affected by the unexpected collapse of commerce. The MSME sector provides the majority of India's top exports, which include labour-intensive items ranging from gems and jewellery to garments/apparel and seafood. Similarly, the ban on imports of raw materials and intermediates had an impact on the MSME sector's supply chain. As a result, the COVID-19 will have an impact on the MSME sector and the millions of people that work in it. Indeed, if the situation worsens and lasts for a few months, many small and modest businesses may cease to exist since it will be impossible for them to survive and retain their employees and equipment.

IMPACT ON TRADE

In a typical environment, India's exports would have climbed by 0.43 percent in CY 2020, while imports would have decreased by 5.3 percent, since the country's import demand has been declining due to slowing domestic demand and escalating protectionist policies.

However, according to COVID-19, India's exports are expected to shrink by 13.7–20.8 percent in 2020 compared to 2019. This is based on scenarios A–D. The drop in imports is expected to be between 17.3% and 25%. In scenario E, assuming a U-shaped recovery comparable to the GFC, exports and imports are expected to decline 19.8% and 31%, respectively, in 2020 compared to 2019. Petroleum products, chemical products, equipment, electronics, and plastic and rubber products are expected to lose more than the national average of 20% owing to COVID-19 in terms of percentage drop in exports and imports across commodities. The top ten main commodities account for over 90% of India's exports and imports, respectively. Petroleum goods, chemical products, equipment, base metals, ores, and minerals will see the greatest drop in imports. The projected drop in India's commerce seems reasonable. The COVID-19 epidemic, which resulted in total and partial lockdown across the country, disrupting commerce, services, and people mobility, is harming India's trade, which has already seen negative growth in 2019.

CONCLUSION

The corona virus outbreak has thrown the entire planet into disarray. Covid-19 has presented India with an unparalleled problem. Lockdowns and other social distancing measures are proving to be extremely disruptive, given the population's size, the economy's perilous state, particularly in the financial sector in the pre-Covid-19 era, and the economy's reliance on informal labour. The federal and state governments have acknowledged the problem and are taking steps to address it, but this is only the beginning. The economic harm will almost certainly be far greater than the present projections. On the demand side, the government must strike a compromise between the need for income support and the requirement to keep the budgetary situation under control. The current balance appears to be fair, but the government has to develop more ways to boost poor people's earnings. The participation of state and local governments might be critical in the successful implementation of future budgetary measures. Policymakers must be prepared to scale up their reaction as events develop in order to reduce the shock's impact on both the formal and informal sectors and pave the path for a long-term recovery. Simultaneously, they must guarantee that the answers are established in a rules-based structure and that discretion is limited in order to minimise long-term economic damage. It is undeniable that we are adjusting to the changes in our lives in a permanent manner. Most businesses have improved their ability to operate remotely and allow workers to work from home. While many of these safeguards were already in place, they will soon become the new normal. Supply chain risks are serious and will have long-term consequences. As a result, it is critical that we increase our skills in order to mitigate the effects of unanticipated events. We must swiftly recover corporate profit and return to the original situation, which was obliterated by the danger. One little virus has wreaked havoc on the earth in ways that humanity could never have imagined. The most essential lesson we've learned thus far is the need of total cost control in company and living on the bare minimum. The study offers the potential to do a more detailed effect evaluation of the Indian economy.

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