

Review Article

Potential Impact of COVID-19 on the Indian Economy

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Abstract

Coronavirus outbreak was first reported in Wuhan, China on 31 December, 2019. Before reading in detail about the impact, first, let us study about coronavirus. The first case of the 2019–20 coronavirus pandemic in India was reported on 30 January 2020, originating from China. As of 13 April 2020, the Ministry of Health and Family Welfare have confirmed a total of 9,546 cases, 1146 recoveries (including 1 migration) and 335 deaths in the country. In the fight against Coronavirus, there's a global consensus of a first half 2020 recession worldwide. This could be true for India, potentially more so because of the larger informal nature of its economy, and the aggressive lockdown initiated. India will likely record its lowest-growth year ever. The Indian economy is expected to lose over Rs 32,000 crore (US\$4.5 billion) every day during the 21-day-lockdown which was declared following the coronavirus outbreak. Up to 53% of businesses in the country will be affected. This paper is an attempt to know about the potential impact of COVID-19 on the Indian economy.

**Keywords:** Economy, Central Banks, Chemical and Auto Industry.

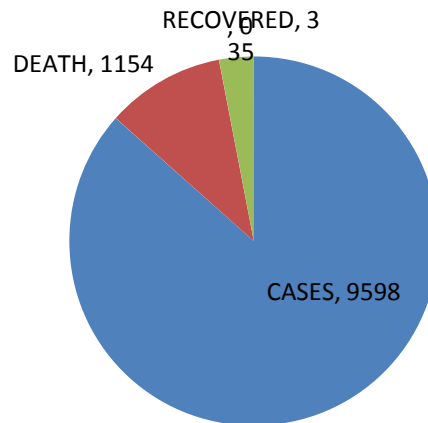
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Introduction

Corona virus outbreak was first reported in Wuhan, China on 31 December, 2019. Before reading in detail about the impact, first, let us study about corona virus. The first case of the 2019–20 corona virus pandemic in India was reported on 30 January 2020, originating from China. As of 13 April 2020, the Ministry of Health and Family Welfare have confirmed a total of 9,598 cases, 1154 recoveries (including 1 migration) and 335 deaths in the country. Experts suggest the number of infections could be much higher as India's testing rates are among the lowest in the world.

The infection rate of COVID-19 in India is reported to be 1.7, significantly lower than in the worst affected countries. Corona virus (CoV) is a large family of viruses that causes illness. It ranges from the common cold to more severe diseases like Middle East Respiratory Syndrome (MERS-CoV) and Severe Acute Respiratory Syndrome (SARS-CoV). The novel corona virus is a new strain of virus that has not been identified in human so far.

**Covid-19 In India, Till 13 April 2020**



WHO is working closely with global experts, governments, and other health organizations to provide advice to the countries about precautionary and preventive measures.

- WHO is working 24/7 to analyse data, provide advice, coordinate with partners, help countries prepare, increase supplies and manage expert networks.
- The outbreak was declared a Public Health Emergency of International Concern on 30 January, 2020.
- The international community has asked for US\$675 million to help protect states with weaker health systems as part of its Strategic Preparedness and Response Plan.
- On 11 February 2020, WHO announced a name for the new corona virus disease: COVID-19.

To help alleviate suffering and save lives, WHO has been working night and day in five key ways:

1. Helping build countries' capacity to prepare and respond
2. Providing accurate information and fight the pandemic, together with numerous partners
3. Ensuring supplies of essential medical equipment for frontline health workers.
4. Training and mobilizing health workers.
5. Accelerating research and development.

### The Crisis's Character

1. This is a health crisis which has turned into an economic one and is impacting markets as a second derivative. The other preceding crises (namely the 2000 dotcom bust and the 2008 GFC) were essentially market crises that ended up having economic repercussions. This is a more deep-seated economic event than anything in the past.
2. The world's oldest and most established democracies, so far at least, have had the most muddled/middle-of-the-road medical responses. It is China, India and the Far East that have been most clear-headed in rising to the occasion. A reflection of 'ageing' economies, or democracy's balance, or the start of a bigger shift to the developing world.
3. A local 'problem' that erupted in China is having global ramifications, and China is now clearly the world's biggest exporter, in more ways than one! Counter-intuitive, but does China get more important, or does it start getting shut out? And will this crisis open doors for India?
4. India's medical/lockdown response: Unusually aggressive, politically supported and, at least so far, fairly effective in containing the novel corona virus's spread. Is this a manifestation of a new India, a premature celebration, or an

economically expensive and naive approach?

### **Hits and Misses**

#### **Economy:**

In the fight against Corona virus, there's a global consensus of a first half 2020 recession worldwide. This could be true for India, potentially more so because of the larger informal nature of its economy, and the aggressive lockdown initiated. India will likely record its lowest-growth year ever, rural will fare better than urban, and India's growth will be contingent on the size and nature of the fiscal support/stimulus. The government's role will only go up.

#### **Equity markets:**

Globally, markets have taken a huge hit: 20-40%. Volatility is unnerving, and India has been among the weakest performers (-30% from peak, -33% in USD terms). The most extreme pain is likely over, valuations are attractive (though not compelling), and the market needs to show some stability. The risk-reward has become favourable-though given uncertainties on the economic damage and subsequent recovery, the markets' trajectory back could well be slow.

#### **FX and interest rate markets:**

The USD has strengthened the INR has depreciated 4% during the crisis, but outperformed EM currencies. And while the rates and yields have fallen, they remain among the highest worldwide. The INR should see some further depreciation (ex risk-on), and yields should fall 50-75bps as India starts aligning with the world, and as it faces up to lower growth.

The Playing Team

#### **COVID-19:**

Has gone truly viral and will start fading only when this curve starts flattening, and will be truly flattened only by a vaccine, but that is 2021. The impact of lockdowns, efficacies of treatments and healthcare

systems will determine the virus's contagion-health, economic, and mood. While best left to epidemiologists, in our view ending April we should see some relief in India and the US. Most importantly, expectations are probably at their lowest.

#### **Central banks:**

The most unambiguous and unquestioned liquidity, rate and backstop support globally, and it's here to stay. India has joined the party late and has done more than in the past, but the RBI would have to eventually cut more, be a constant source of liquidity, and is likely to take on some risk assets. That would be a first.

#### **Governments:**

Globally, unambiguous stimuli ranging from 5-20% of GDP (with Japan at higher end). These interventions have largely extended direct support to people (cash, jobs) than to businesses so far. India is lagging-at only 0.8% of GDP: expect a staggered approach up to 2-4% of GDP-predominantly direct, jobs and small business support. A cautious approach and a bigger and more-timely boost is needed, even at the expense of an already-wide fiscal deficit.

#### **Businesses:**

The complete lockdown, aggressive social distancing, the timing (end of the financial year) and pre-existing credit crises imply businesses, particularly small, will bear the brunt of the coronavirus crisis. Expect significant earnings cuts of 15-20%, sharpening cost focus, and a further-diminished risk appetite. Businesses will seek safety.

#### **Banks:**

Banks, globally, have always borne the fallout of such dislocations: asset quality pressures, regulatory forbearances, and revenue and capital squeezes. This time will be no different, and with India's banking system already under stress - asset

quality and depositor confidence - and the risks of socialisation of the economy's costs, the outlook has only become murkier for financial institutions.

### **Objective Of The Study:**

1. To study the background of COVID 19
2. To analyse the potential impact of COVID-19 on the Indian economy

### **Research Methodology:**

The study is mainly based on the secondary data. The secondary data collected from various reliable sources such as various study reports published by Government of India, newspaper, various institution, publication of various reports by state governments and other researches at national and international level.

Impact of COVID-19 on the Indian Economy

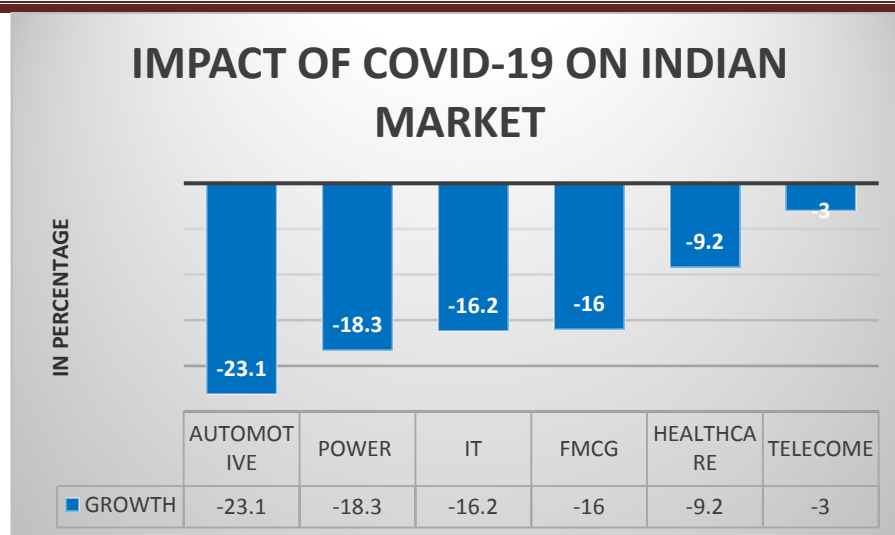
The economic impact of the 2019–20 coronavirus pandemic in India has been hugely disruptive. World Bank and credit rating agencies have downgraded India's growth for fiscal year 2021 with the lowest figures India has seen in three decades since economic liberalization in the 1990s. The Indian economy is expected to lose over Rs 32,000 crore (US\$4.5 billion) every day during the 21-day-lockdown which was declared following the corona virus outbreak. Up to 53% of businesses in the country will be affected.

Supply chains have been put under stress with the lockdown restrictions in place; initially there was a lack of clarity in streamlining what is an "essential" and what isn't. Those in informal sectors and daily wage groups are the most at risk. A large number of farmers around the

country who grow perishables are also facing uncertainty. Various businesses such as hotels and airlines are cutting salaries and laying off employees. The live events industry has seen an estimated loss of Rs3,000 crore (US\$420 million).

The World Bank estimates India's GDP growth to plunge to 1.5-2.8% in 2020-21 due to the impact of Covid-19 pandemic, while South Asia is expected to experience the region's worst economic performance in 40 years. As the world grapples with the unprecedented challenge of Covid-19, business leaders and management thinkers are helping navigate the crisis and plan for the future.

At a webinar by Harvard Business School (HBS) and Harvard Business Publishing, members of the HBS faculty and India Inc executives brainstormed on economic uncertainties resulting from the pandemic and the opportunities for countries like India. With Western countries, looking to diversify their manufacturing from China and Japan, earmarking \$2.2 billion to help its companies shift production, India could be a fertile ground for these supplies, said Sanjiv Mehta, CMD, Hindustan Unilever (HUL). He said this could well be a moment for 'Make in India' to shine. "If you look at the history, the impetus given to Y2K converted a challenge into an opportunity. We could significantly build on the credibility of our IT industry and prove how resilient and strong we are," Mehta said.



\*Source: MoSPI, Commerce Ministry, "Indian economy braces for coronavirus-induced shock as curbs set to pull down growth", Mint, 15 March 2020

### Chemical Industry:

Some chemical plants have been shut down in China. So there will be restrictions on shipments/logistics. It was found that 20% of the production has been impacted due to the disruption in raw material supply. US and EU will try and diversify their markets. Some of the business can be diverted to India which can also be taken as an advantage.

1. **Shipping Industry:** Corona virus outbreak has impacted the business of cargo movement service providers. As per the sources, per day per vessel has declined by more than 75-80% in dry bulk trade.
2. **Auto Industry:** Its impact on Indian companies will vary and depend upon the extent of the business with China. China's business no doubt is affected. However, current levels of the inventory seem to be sufficient for the Indian industry. If the shutdown in China continues then it is expected to result in an 8-10% contraction of Indian auto manufacturing in 2020.
3. **Pharmaceuticals Industry:** Despite being one of the top formulations of drug exporters in the world, the pharma industry of India relies heavily on import as of bulk

drugs. Due to the coronavirus outbreak, it will also be impacted.

4. **Electronics Industry:** The major supplier is China in electronics being a final product or raw material used in the electronic industry. India's electronic industry may face supply disruptions, production, reduction impact on product prices due to heavy dependence on electronics component supply directly or indirectly and local manufacturing.
5. **IT Industry:** The New Year holidays in China has been extended due to coronavirus outbreak that adversely impacted the revenue and growth of Indian IT companies.
6. **Tourism and Aviation:** Due to the coronavirus outbreak, the inflow of tourists from China and from other East Asian regions to India will lose that will impact the tourism sector and revenue.

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. On 27 March the Reserve Bank of India also announced a number of measures which would make available 374,000 crore (US\$52 billion) to

the country's financial system. On 29 March the government allowed the movement of all essential as well as non-essential goods during the lockdown. On 1 April, World Bank approved \$1 bn in support to India to tackle the corona virus pandemic. On 3 April the central government released more funds to the states for tackling the corona virus totalling to 28,379 crore (US\$4.0 billion). On 6 April a 30% salary cut for one year was announced for the President, Prime Minister and Members of Parliament.

### **Conclusion:**

The Covid-19 crisis is also an urgent call-to-action moment to pursue innovative policies and jumpstart Asian economies once the crisis is over. Failure to do so can lead to long-term growth disruptions and reverse hard-won progress in reducing poverty. It is expected that the course of economic recovery in India will be smoother and faster than that of many other advanced countries".

An outbreak of COVID-19 impacted the whole world and has been felt across industries. In India the three major contributors to GDP namely private consumption, investment and external trade will all get affected. India is already running short on its GST revenue collection, and the corona virus scare could make matters worse.

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. World and Indian economy are attempting to mitigate the health risks of COVID-19 with the economic risks and necessary measures need will be taken to improve it.

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