# IMPACT OF COVID-19 ON THE INDIAN ECONOMY

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## *Abstract*:

*The pandemic caused by COVID-19 has had a substantial influence on the Indian economy, generating disruptions across a variety of industries and affecting the dynamics of the economy. The purpose of this article is to investigate the myriad ways in which the pandemic has affected India's economy. These affects include the decrease of the gross domestic product (GDP), employment, the fiscal deficit, and the interventions of the government. A sudden halt in economic operations was brought about as a result of the lockdown measures that were adopted in order to prevent the virus from spreading further. This resulted to a reduction in the growth of the GDP. Small and medium-sized businesses (SMEs), workers in the informal sector, and those earning daily wages were the ones that suffered the most from the economic slump. They were forced to deal with the loss of jobs and the uncertainty of their income. The government's response consisted of fiscal stimulus packages and policy interventions that were designed to mitigate the harmful impacts of the epidemic. These interventions included relief measures for vulnerable people as well as assistance for enterprises. On the other hand, obstacles to economic recovery continue to be obstacles such as interruptions in supply chains, decreased consumer demand, and financial hardship on industries such as tourism and hospitality. In this study, we investigate the various options for creating resilience and sustainable growth in the post-pandemic age, as well as the short-term and long-term repercussions that COVID-19 will have on the Indian economy.*

***Keywords:*** *Covid-19, Indian Economy*

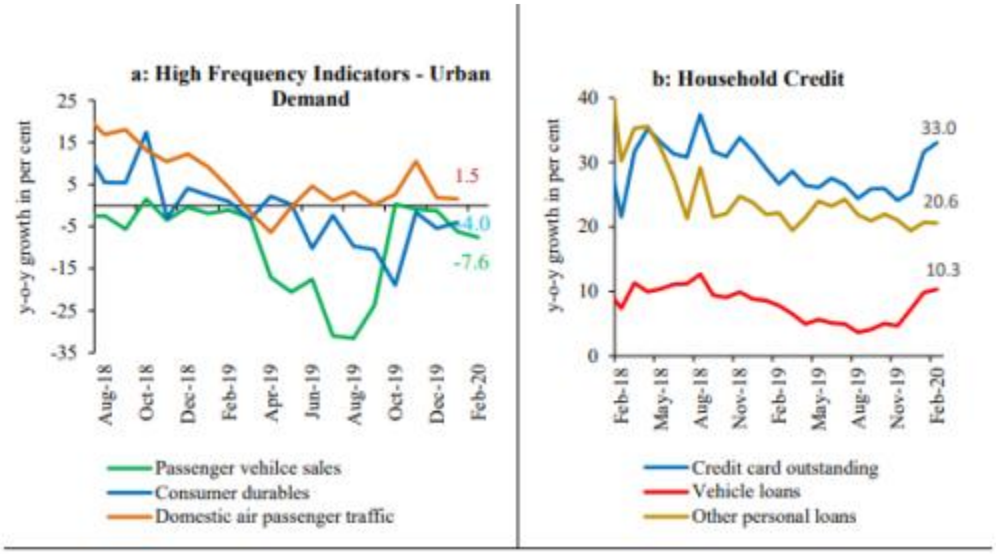
## Introduction

Pandemics caused by COVID-19 have had a significant influence on economies all across the world, and India has not been an exception to this rule. While India was dealing with the health crisis and the economic repercussions of it, it faced a unique set of issues due to the fact that it is one of the largest and fastest-growing economies in the world. The breakout of the new corona virus in late 2019 rapidly escalated into a global pandemic by early 2020. As a result, governments all over the world implemented stringent lockdowns, travel restrictions, and social distancing measures in an effort to prevent the virus from spreading further. India, with its enormous population and congested metropolitan areas, faced considerable hurdles in limiting the spread and alleviating the economic repercussions that it caused. Taking this into consideration, it is of the utmost importance to investigate the myriad ways in which the COVID-19 epidemic has impacted the economy of India. The purpose of this research is to investigate a variety of elements, including but not limited to the disruptions in supply chains, changes in consumer behavior, effects on important industries, reactions from the government, and the effectiveness of policy initiatives in resolving the economic slump. The lockdowns and limitations that were imposed as a result of the epidemic caused major disruptions to economic operations across all sectors, which contributed to disruptions in production, supply chains, and demand. In particular, disadvantaged groups such as informal laborers and small and medium companies (SMEs) were impacted by the unexpected halt in industrial and commercial activity, which led to the loss of jobs, a drop in income, and the closing of businesses. In addition, the epidemic brought to light and worsened pre-existing structural difficulties within the Indian economy. These challenges include poor healthcare infrastructure, the digital divide, the dominance of informal labor markets, and budgetary restrictions. The resolution of these fundamental problems became essential not only for the recovery of the near term but also for the development of resilience against the occurrence of future shocks. Policymakers in India are entrusted with the responsibility of developing effective policies to restore development, promote inclusivity, and safeguard the welfare of the population as the Indian economy navigates through the obstacles posed by the COVID-19 epidemic. The extent to which these initiatives are successful will determine India's capacity to survive future crises and have a significant impact on the country's economic trajectory in the post-pandemic period. In the following sections, we will look deeper into the precise implications that COVID-19 has had on various aspects of the Indian economy. With this, we will analyze the degree of the harm, the efficacy of governmental remedies, and the chances for recovery and long-term resilience.

## Indian economy in pre-Covid-19 period

In terms of interruptions to demand and supply, as well as the subsequent slowdown in economic activity, the shock is currently manifesting itself in a manner that is essentially identical in every country on the planet. It is possible that the problem is more severe and will endure for a longer length of time in the case of India because of the position the economy was in before to the implementation of COVID 2019. Although the economy had been performing poorly for a number of years prior to the first instance of Covid-19 being recorded in India, the situation had drastically worsened by that point. The pace of growth of the gross domestic product (GDP) has been on a declining slope since the 2015–2016 fiscal year. The growth of the gross domestic product (GDP) dropped down to 4.2% in 2019-20, according to the official figures, which is the lowest level since 2002-03. In the fourth quarter of 2019-20, the industry sector, which contributes for thirty percent of GDP, had a decline of fifty-eight percent. There was a 45-year high for the unemployment rate. When it comes to any economy, investment by the private corporate sector is one of the most important drivers of growth. Prior to the implementation of COVID19, the nominal values of investments made by the private sector have been on the decline. According to information provided by the Centre for Monitoring the Indian Economy (CMIE), the total number of investment projects that were still pending during the years 2015-16 and 2019-20 decreased by 2.4%, while the number of new projects that were announced decreased by 4%. Spending on consumption has also been decreasing, marking the first time in recent decades that this had occurred. During the month of February in the year 2020, the growth of sales of consumer durables and passenger automobiles both saw a decline, as shown by high frequency indicators (figure 1) of urban consumption demand. In general, it seems that urban consumption has slowed down during the fourth quarter. Motorcycle sales and the consumer nondurable category continued to decline in February 2020, which is a reflection of the weak demand in rural areas. This is one of the indications of rural consumption. Any possibility of a resurgence of consumption demand and private investment would have been thwarted if the lockdown procedure had been implemented.

**Figure 1: High frequency indicators: Consumption demand**




Source: RBI (2020)

There are a few key aspects that make India's situation particularly susceptible as it attempts to deal with the present economic crisis.

## Informal sector

A considerable portion of India's working population is employed by the country's informal sector, which is the largest in the world. This sector also contributes more than 45 percent to India's overall gross domestic product. Over the course of a very short period of time, from 2016 to 2019, this industry was subjected to two shocks in a row. Demonetization, which occurred in November 2016, was the initial shock. As a result of a decree issued by the government, 86 percent of the money in circulation became worthless overnight. This was followed by the haphazard implementation of the Goods and Services tax in 2017.7 Despite the fact that the demonetization constituted a significant monetary shock, it did not fundamentally affect the mechanics of demand and supply for an excessively long period of time. At the moment, there was a temporary shortage of payment methods. As a result of hindsight, we now see that people discovered ways to circumvent the system by utilizing electronic payments, informal credit, turning black money into white money, using outdated notes, and other similar methods. The current crisis is characterized by a lack of demand, a lack of supply, and consequently, a lack of underlying revenues. Both of these factors are absent. However, this presents a somewhat greater challenge. According to Ray and Subramanian's research from 2020, the informal sector, which was already struggling when the Covid-19 pandemic occurred, has been disproportionately affected.

## The banking and corporate sectors

When the real economy is under stress, the financial sector must step up to the plate and take a leading role in reducing losses. To enable all types of economic agents—households, businesses, and government agencies—weather this storm, it is critical to maintain a steady supply of credit. Most enterprises will resort to banks as their financial intermediaries in a bank-dominated economy, especially now when the stock market is hitting new lows every day. To overcome this economic obstacle, bank actions are essential. The involvement of banks, as institutions, in the debt market is crucial as well. The Indian financial system, though, is in a terrible state. The growing losses caused by non-performing assets have been a major problem for banks, particularly those in the public sector. Credit growth has been negatively impacted by banking sector concerns, and by the time the pandemic struck India, these problems had already started to impair the debt markets, which are equally crucial in the context of financial intermediation. In the wake of this extraordinary shock, the Indian economy may quickly reach a critical snag. In recent years, India's banking and business sectors have been grappling with the Twin Balance Sheet (TBS) pressures. The private business sector's over-leveraged and financially fragile enterprises and the banking system's inadequate capitalization led to significant levels of non-performing assets (NPAs) (Sengupta and Vardhan, 2017, 2019). In order to deal with the crisis, the government and the banking regulator (RBI) did a number of things. Among these measures were commanding banks to initiate investigations against senior bank officials under the Insolvency and Bankruptcy Code (IBC, 2016) and accept large haircuts from defaulting firms even when capital was insufficient, placing the ten weakest banks under a Prompt Corrective Action framework that prevented them from expanding their books, and so on. For allegedly fraudulent credit transactions, prominent bank personnel were arrested in a few instances. The highest court in India ruled in February 2016 that all bank workers, whether they are based in India or abroad, are considered "public servants" under the country's 1988 Prevention of Corruption Act ("POCA"). All bank personnel are now potentially subject to investigations and prosecution under the POCA for corruption-related offenses, as a result of this. Any move regarding non-performing assets might potentially be scrutinized. Bank executives will be discouraged from making business choices by this one step alone. This is especially concerning because, as pointed out by observers back then, POCA describes corruption rather broadly and places very little constraints on investigations. 10 Banking institutions become more risk cautious as a result of these policies (Sengupta and Vardhan, 2020b).

In September 2018, the financial sector took another hit when IL&FS (Infrastructure Leasing and Financial Service), a big NBFC, went bankrupt just as the non-performing asset (NPA) situation was starting to level off. The debt markets and the banking system, which provide the majority of funding for non-bank financial companies (NBFCs), were rocked by this. A dramatic widening of credit spreads among bond issuers in the banking sector mirrored the bond market's response. Bond issuance fell sharply across the board, impacting borrowers outside of the banking industry as well. Banks kept financing, mostly at the behest of the government and the RBI, but only to a small number of highly regarded NBFCs. Banks' risk appetites were already low before the IL&FS incident, and the debt markets became even more risk averse. Lack of expansion in the supply of commercial loans is one direct result of banks' increased risk aversion. A large portion of the nonperforming assets (NPAs) come from public sector banks (PSBs), which have drastically reduced their lending to private corporations. The annual growth rate of net bank credit had hit a 10-year low of 2.69% by FY 2017. As of fiscal year, 2018, private sector banks catered mostly to retail clients, while PSBs lent primarily to non-bank financial companies. There was a significant drop in lending to industry, with the personal loans category accounting for the lion's share (figure 3). Overall bank lending slowed after an early surge in the last quarter of FY2019, mostly due to lending to NBFCs, while credit spreads on corporate debt instruments stayed elevated following the IL&FS crisis. During the first half of FY2020, commercial lending fell by about 90%. A huge private sector bank, Yes Bank, came dangerously close to failing in February and March of 2020, threatening a deposit squeeze for other private sector banks and significantly limiting loan expansion. This meant that credit off-take in 2019–20 (up to March 13, 2020) was relatively low, with non-food credit growth of 6.1% compared to 14.4% in the same time last year (figure 2). Credit from sources other than food banks also grew at its slowest pace in almost sixty years.

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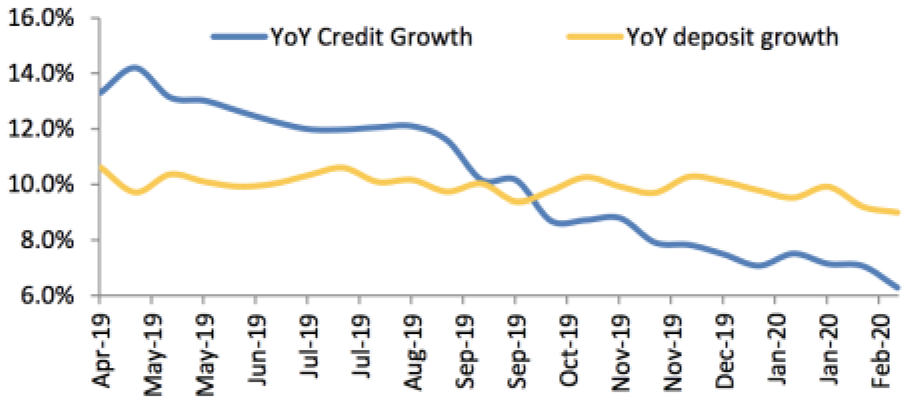
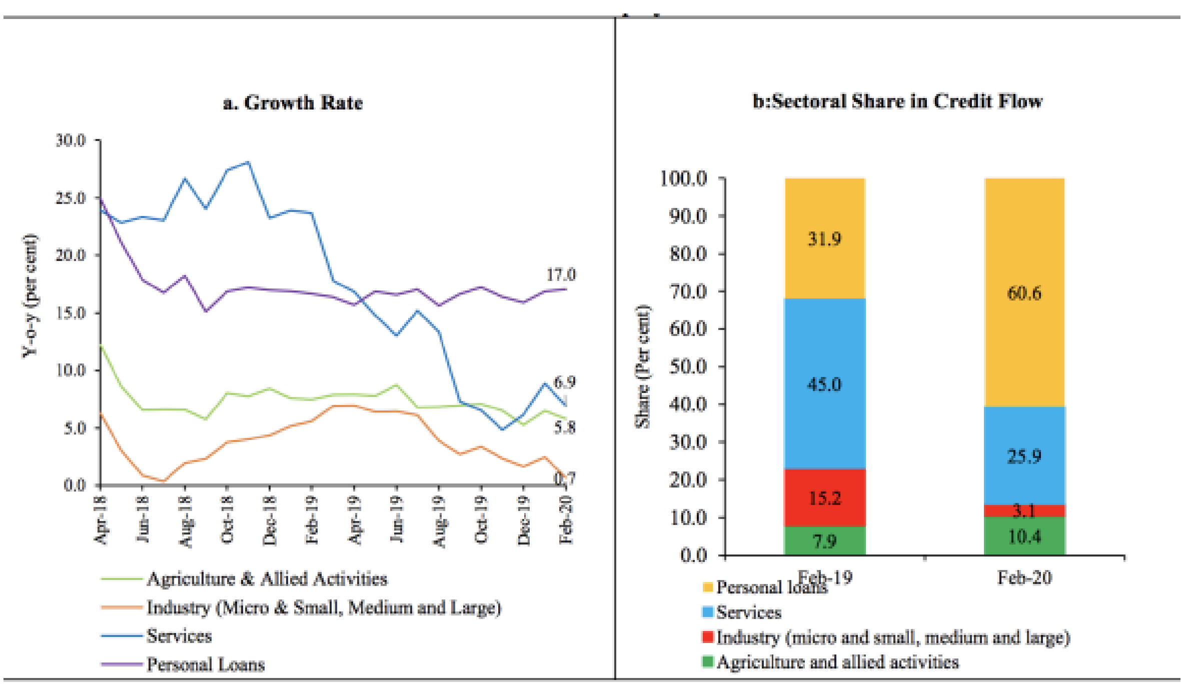
**Figure 2: YoY Credit and deposit growth of the banking sector**




**Source: ICRA report. This shows total non-food credit growth.**

**Figure 3: Sectoral deployment of credit**




Source: RBI (2020)

Although it is possible that a portion of the decline in commercial credit growth was caused by a lack of demand in the private business sector as a result of the balance sheet crisis, there is anecdotal information that shows that reluctance on the part of banks to provide credit has also been a significant influence during this period. As the Governor of the Reserve Bank of India (RBI) himself has recognized in recent times, *"In view of subdued profitability and deleveraging by certain corporates, risk-averse banks have shifted their focus away from large infrastructure and industrial loans and towards retail loans."*

It has become apparent that the debt markets are suffering as a result of the implications of increased risk aversion in the banking sector. In a context in which the expansion of bank credit has been at a low point for several decades, the debt market, particularly the short-term debt market, plays an essential role in the financing of businesses. The amount of non-SLR bonds that banks own has significantly decreased, which indicates that they are less willing to take on credit risk. Instead, banks are holding more G Securities than the SLR requirements, and the excess SLR of all banks, including PSBs, private banks, and foreign banks, has dramatically increased. This indicates that credit risk aversion is widespread across all institutions.

**Impact of COVID 19 on Indian Economy**

Nearly all economic activity has come to a sudden halt as a result of the lockdown that applied over the whole nation. Despite this, the government has made certain that there is no interruption in the delivery of basic goods such as medication. It is quite probable that the disruption of demand and supply factors will remain even after the lockdown process has been released. It will take some time for the economy to return to its usual condition, and even after that, social distancing measures will remain for as long as the health shock continues to play out. That being the case, it is highly improbable that demand will be recovered within the next few months, particularly demand for goods and services that are not essential. Consumption, investment, and exports are the three primary components of aggregate demand, and there is a possibility that they may remain at a low level for an extended length of time. In addition to the unprecedented drop in demand, there will also be widespread disruptions in supply chains as a result of the lack of availability of raw materials, the migration of millions of migrant workers away from urban areas, the slowing of global trade, and the restrictions on shipment and travel that have been imposed by nearly all of the countries that have been affected. Supply networks are not likely to return to their usual state for a considerable amount of time. The longer the crisis continues, the more challenging it will be for businesses to maintain their financial stability. It is almost certain that this will have a detrimental impact on production in all domestic industries. This may have additional repercussions for investment, employment, income, and consumption, which may ultimately result in a slowdown in the overall growth rate of the economy. The airline, hospitality, and tourist industries will also see large-scale cascading repercussions as a result of this circumstance. In addition to the challenges that are occurring within the country, the global recession that is looming huge on the horizon will also have an impact on the economy of India. It is certain that this would have repercussions that will be felt around the world as a result of India's financial and commercial ties to other countries. Foreign investors have already begun withdrawing their money from the Indian financial markets and are making their way to safe assets as a result of the disaster that has occurred in the stock markets. Given the current state of affairs, it is challenging to have a complete understanding of the magnitude of the harm that the Indian economy may sustain once the pandemic has subsided. The intensity and duration of the economic downturn that may occur in the future is anticipated to be highlighted by certain preliminary estimations. On the other hand, according to UBS, the Indian economy would be significantly impacted by the COVID-19 pandemic, and depending on the intensity of the pandemic, it would even enter a contraction. However, the duration of the recession would be the shortest on record.

## Following are some of the significant areas of the Indian economy that have been affected by the economic impact of COVID19:

## GDP Growth

With a warning that the "worst recession since the Great Depression" will exceed the economic damage suffered by the global financial crisis a decade ago, the International Monetary Fund (IMF) lowered India's growth projection for FY21 to 1.9% from 5.8% anticipated in January. This is a significant reduction from the previous estimate of 5.8% utilized in January. Additionally, it was stated that India and China would be the only two large economies that would likely see growth, while all other economies would be expected to collapse. It was the first time that the extent of the outbreak was made public, and the International Monetary Fund (IMF) stated in the April update of its World Economic Outlook (WEO) that the pandemic caused by the COVID-19 virus will reduce global production by 3% in the year 2020. In a similar vein, the domestic rating agency CRISIL reduced its forecasts for the pace of economic growth in India to 1.8%, down from the 3.5% that it had previously forecasted for the year of 2020-21. The growth prediction for India for the calendar year 2020 was reduced by Moody's Investors Service to 0.2

percent, which is a significant decrease from the 2.5 percent that was expected in March. With regard to the year 2021, the rating agency anticipates that India's growth would return to 6.2 percent.

## Agriculture and Rural Activities

Because of the vast number of workers and the fact that the whole population of the country is dependent on this industry, the agriculture sector is very important. It is quite possible that the situation in rural India will become substantially more dire as a result of the emergence of Covid-19. The lockdown and the attendant disruptions will have an impact on agricultural operations and the supply chains that are linked with them through a number of different routes, including input distribution, harvesting, procurement, transportation obstacles, marketing, and processing. It is possible that agricultural and food processing may be hampered by restrictions on migration and a lack of available labor (FAO, 2020). There will be a significant decrease in harvesting owing to the departure of thousands of migrant laborers, which will occur during the peak season for the selling of rabi crops, which is between March and April. The production of agricultural goods may also be impacted by shortages of inputs such as fertilizers, veterinary medications, and other materials. As a result of the closure of restaurants and transportation bottlenecks, the demand for fresh produce, poultry, and fishery goods might decrease, which has a negative impact on both producers and suppliers. According to the findings of a study conducted by Sudha Narayanan (2020) of the Indira Gandhi Institute of Development Research, farmers are unable to take advantage of harvesting opportunities because APMC (agricultural product market committee) mandis have been closed in a number of states, which has caused a disruption in the supply of food from the production centers to the consumption centers. According to the report that was presented earlier, the government ought to devote its attention on postharvest activities, wholesale and retail marketing, and the beginning of procurement operations. There are already actions that have been implemented by several state governments.

## Informal sector

A disproportionately large portion of India's workforce operates in an informal capacity. From 94% in 2004–05 to 91% in 2017–18, the percentage has dropped somewhat and includes agricultural laborers. In 2017 and 2018, 422 million out of 465 million workers were classified as informal laborers. The percentage of unofficial workers was close to 84% in the same year across all industries, including non-farming ones like manufacturing and services. Even before the COVID-19 pandemic, informal laborers were struggling with poor salaries and revenues. Informal workers, including those on a daily pay, will be the most negatively impacted by the lockdown and will feel its effects long after it ends. Large numbers of people have lost their jobs and salaries as a result of the lockdown, which has caused almost no economic activity, especially in metropolitan regions. India has an estimated 40–50 million seasonal foreign laborers. They are involved in a variety of service tasks and contribute to the creation of urban structures, highways, and factories. As a result of the shutdown, a mass migration occurred. Assuming businesses in the formal sector do not go out of business, workers there will continue to get their paychecks. The informal economy operates in a unique way. The everyday demand of individuals is a critical factor. As the health crisis and the accompanying lockdown continue, the viability of informal sector businesses will be increasingly doubtful, as a significant portion of their prospective consumers are now remaining at home and cutting back on non-essential spending. There will be a mass exodus of businesses from the informal sector.

## Micro, small and medium enterprises (MSMEs)

Overall, India's manufacturing sector is dominated by micro, small, and medium companies (MSME), which are crucial to the country's exports and the provision of large-scale employment. Small and medium-sized enterprises (SMEs) employ around half of India's industrial workforce and, according to recent annual statistics, contribute about 30% of the country's gross domestic product (GDP). A whopping 94% of MSMEs are unregistered and over 97% are micro companies, meaning they have an investment in equipment and machinery of less than Rs 25 lakh. Numerous micro-enterprises are sole proprietorships or very tiny firms owned by individuals. Limited financial flows due to the statewide lockdown would have a disproportionately negative impact on the micro, small, and medium enterprise (MSME) sector, even if the epidemic has touched all enterprises. A number of factors would have an impact on their supply chain, including the emigration of migrant labor, shortages of raw materials, delays or cancellations in exports and imports, travel bans, mall, theater, and school closures, and so on. The resulting impact on MSME enterprises will be devastating. This may lead to wage and employment cuts for hundreds of thousands of individuals employed by these tiny firms.

## Conclusion

Disruptions in several industries and a test to the nation's socioeconomic fabric have resulted from the COVID-19 pandemic's severe influence on India's economy. Vulnerable groups and small companies were hit the hardest by the unprecedented crisis, which caused GDP growth to slow down, caused many people to lose their jobs, and made inequality worse. In response, the government of India implemented legislative measures and fiscal stimulus packages to help impacted households and companies. Difficulties in restoring consumer spending, interruptions in the supply chain, and the continued unknown course of the epidemic are all obstacles on the path to economic recovery. The government and the business sector must work together to promote resilience and long-term growth in the aftermath of the epidemic. It will be crucial to implement structural changes that improve healthcare infrastructure, social safety nets, and economic resiliency. To make a full recovery and guarantee that no part of society is disadvantaged, it will be essential to use digital technology, encourage innovation, and promote inclusive growth policies. While dealing with the current crisis and its effects takes priority, India may use the lessons acquired from the COVID-19 epidemic to shape policies that will help the country's economy thrive in the long run. India can climb out of its crisis and into a brighter future for everyone if it embraces innovation, invests in its people, and encourages cooperation across industries.

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