Economic Impact of the Covid-19 Pandemic in India

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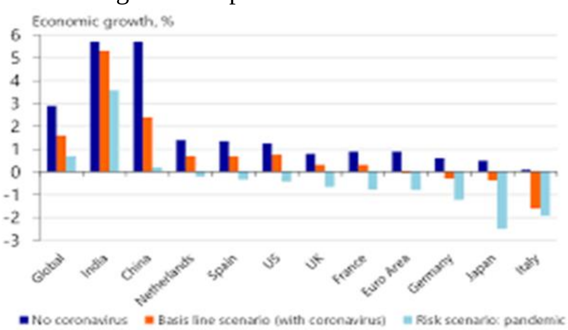
***Abstract*-The objective of this paper is to assess the impact of COVID-19 on the Indian economy in the short term and the long term. The effect of the novel corona virus on various aspects of the Indian economy is investigated in this research paper. Pessimism looms large all over. COVID-19 has been projected as worse than the Great Depression of 1930. Everyday analyst and agency reports are diving into new bottoms of a fall-down in economic activities. Indian economy, however, has a slightly different story to tell at this hour of crisis. The silver lining for the Indian economy comes from a steep fall in the crude oil prices from around $70 per barrel to a record 18 years low of $22 per barrel. This windfall gain can, to some extent, offset the direct losses due to COVID-19. At the same time, dreams like a $5 trillion economy no longer look even a remote possibility. This article takes stock of the likely impact of COVID-19 on the Indian economy in the short term and the long term. A decision-tree approach has been adopted for doing the projections.**

Keywords: Economics, Economics and Strategy, Macro impacts, COVID-19.

INTRODUCTION

COVID-19 has wreaked havoc on the economy in a variety of ways. The research question being addressed is What will be the impact of COVID-19 on the Indian economy in the short term and the long term? A decision-tree approach has been adopted for doing the projections that spell out the impact. Different scenarios have been considered for assessment of the economic impact. These scenarios have been constructed to follow the generally adopted standard pattern of ‘best’, ‘middle’ and ‘worst’ (Hyndman & Athanasopoulos, 2018). In most of the projections, a scenario framework of strong, moderate and weak recovery of the economy has been considered in line with the three general options that are used.

Since the Indian economy is a part of the global economy first a stock of the global impact has been taken. Before measuring the likely impact on the Indian economy, the methodology has been spelled out in the assessment part of the paper. A wide range of literature in the form of global and local reports from eminent financial experts has been referred. Tables 1 and 2 give details of these literature reviews. As a policy emphasis was given on reference to agency research rather than individual author opinions. Agency research offers more credibility and reliability. Five popular economic indicators: GDP growth rate, inflation, unemployment, interest rate and industrial output, were chosen for measurement of the impact. Findings for this paper are in the form of short-term and long-term projections for the key economic indicators. These have been given and discussed at the end of the assessment of each of the economic indicators. Moreover, they have also been consolidated before the conclusion. A few suggestions have been given as a part of the conclusion.



Ever since the breakout of COVID-19 virus pandemic, analysts and experts worldwide are in a race to project bigger and bigger economic troubles for the global economy. With each day passing, the new forecasts are showing a gloomier picture than the previous one. A decline of the global economy by 1% as compared to the previous projection of a 2.5% growth has been forecasted by the UN on 2 April 2020 (*The Economic Times*, 2020a). The net impact that is projected is around 3.5%. The size of the world economy in 2017 was $80 trillion, as shown in Figure 1.

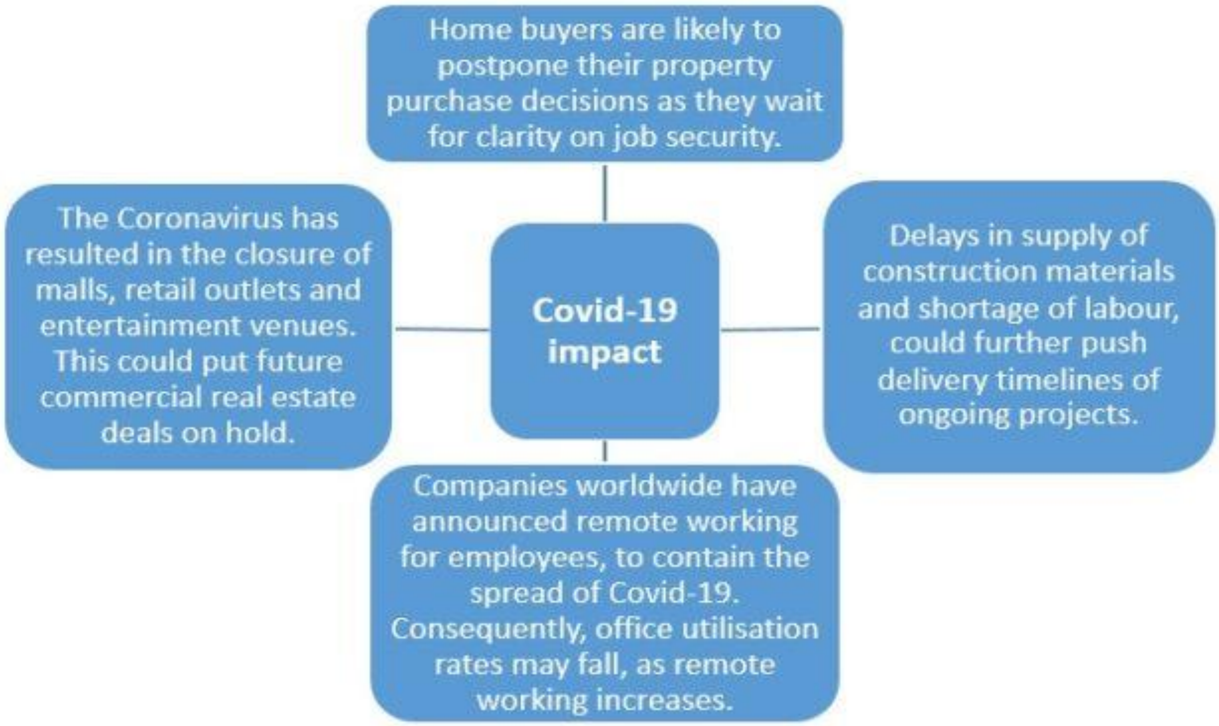
Figure: World GDP, 2017, Source: Howmuch.net (2018). COVID-19 and Its Impact on the Indian Economy

MATERIALS AND METHODS

Notwithstanding the silver lining in the form of low crude oil prices, the Indian economy is all set to follow global cues. This article tries to assess the impact from both short-term and long-term perspectives. Short term has been defined as the financial year 2020–2021. Long term has been defined as a 5-year period from 2020–2021 to 2024–2025. The assessment of the impact on the economy has been operationally defined as the impact on the following key economic indicators:

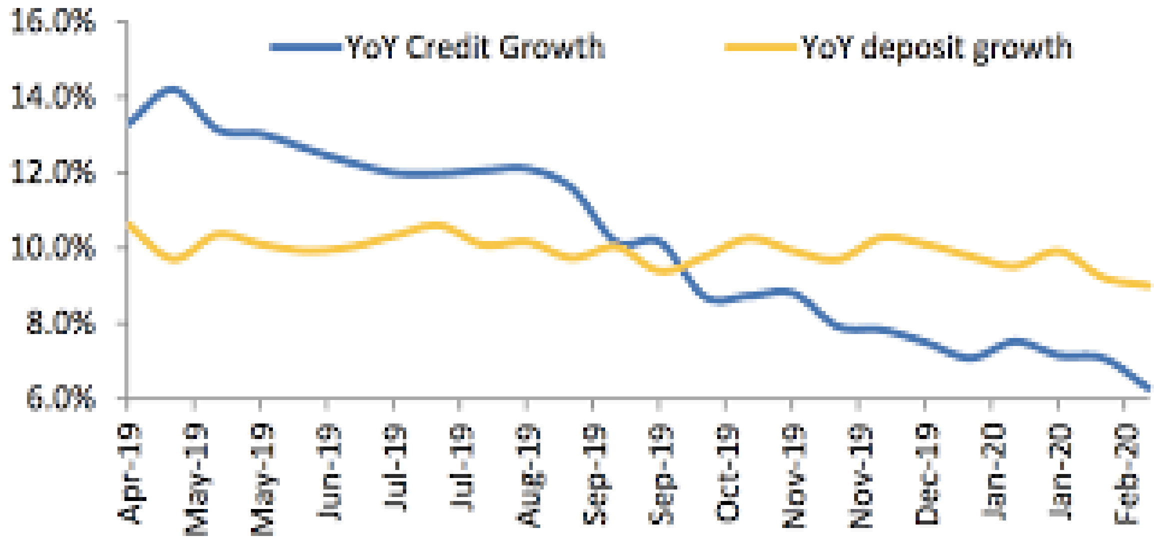
- GDP
- Unemployment rate
- Inflation rate
- Interest rate
- Industry output
- Theoretical Foundations

The method primarily applied for assessment of the impact is by way of forecasting through the decision-tree approach in which generally three possibilities have been assumed in the nature of 'best', 'middle' and 'worst' (Hyndman & Athanasopoulos, 2018). Probabilities have been estimated for the scenarios and expected values (EVs) have been calculated aggregating values of the three scenarios. The probabilities have been estimated assuming equal chance for all the three types of scenarios. The base values measuring the five parameters, namely, GDP, unemployment rate, inflation rate, interest rate and industry output have been estimated based on an incremental approach with more or less equal amount of intervals in the three base values. However, in some cases, where the impacts are estimated to be uneven, the base values for scenario forecasting have been estimated with different length of interval amounts (Van Asselt et. al, 2012).



INDIAN ECONOMY IN PRE-COVID-19 PERIOD

The shock is playing out in almost a similar manner in all countries of the world in terms of demand and supply disruptions and the consequent economic slowdown. In case of India however the problem might be more acute and longer lasting owing to the state the economy was in, in the pre-Covid-19 period. By the time the first Covid-19 case was reported in India, the economy had deteriorated significantly after years of feeble performance. GDP (gross domestic product) growth rate has been on a downward trajectory since 2015-16. According to the official statistics, GDP growth slowed down to 4.2% in 2019-20, the lowest level since 2002-03. Industry, which accounts for 30% of GDP, shrank by 0.58% in Q4, 2019-20. Unemployment reached a 45-year high. A major driver of growth in any economy is investment by the private corporate sector. In the pre-Covid19 period, nominal values of private sector investment have been declining. The total outstanding investment projects between 2015-16 and 2019-20 declined by 2.4%, whereas new projects announced fell by 4%, as per data from the CMIE (Centre for Monitoring Indian Economy). Consumption expenditure had also been falling, for the first time in several decades. High frequency indicators (figure 4) of urban consumption demand show that sales of passenger vehicles as well as consumer durables growth contracted in February 2020. Overall, urban consumption appears to have lost steam in Q4. Among the indicators of rural consumption, motorcycle sales and the consumer nondurable segment remained in contraction in February 2020, reflecting weak rural demand. The lock-down would have dampened any chance of revival of consumption demand and private investment.



OVERALL MACRO IMPACT OF THE CRISIS

The countrywide lockdown has brought nearly all economic activities to an abrupt halt. The disruption of demand and supply forces are likely to continue even after the lockdown is lifted. It will take time for the economy to return to a normal state and even then, social distancing measures will continue for as long as the health shock plays out. Hence demand is unlikely to get restored in the next several months, especially demand for non-essential goods and services. Three major components of aggregate demand-consumption, investment, and exports are likely to stay subdued for a prolonged period of time. In addition to the unprecedented collapse in demand, widespread supply chain disruptions will continue for a while due to the unavailability of raw materials, exodus of millions of migrant workers from urban areas, slowing global trade, and shipment and travel related restrictions imposed by nearly all affected countries. The supply chains are unlikely to normalise for some time to come. Already several industries are struggling owing to complete disruption of supply chains from China. The longer the crisis lasts, the more difficult it will be for firms to stay afloat. This will negatively affect production in almost all domestic industries. This in turn will have further spillover effects on investment, employment, income and consumption, pulling down the aggregate growth rate of the economy. At this stage, the possible duration of the underlying health crisis remains uncertain. In addition, there are multiple unknown factors such as the true extent of impairment suffered by the different sectors of the economy, the magnitude of deterioration of the balance sheets of economic agents such as firms and households, the ability of both the formal and informal sectors to bounce back to normalcy once the lockdown is fully relaxed and most importantly, the potential destruction of the productive capacity of the economy. Therefore, it is difficult to fully comprehend the extent of the damage that the Indian economy is currently incurring. Some of the statistics available now already highlight the severity and duration of the slowdown the economy may experience going forward. After some amount of recovery in economic activity in June 2020 it appears that the slowdown has resumed once again in most of the sectors. The improvement seen in most high-frequency indicators in June after the dramatic collapse in the April-May period has begun to wane since mid June. This is presumably due to the renewed lockdowns all over the country and damage to consumer sentiment and overall economic productivity.

INDIA VS THE WORLD

Here is how India's measures – divided by fiscal aid and monetary and macro policy assistance – compare with some other key nations

	FISCAL	MONETARY AND MACRO FINANCIAL
US	**2.3%** of GDP in Paycheck Protection Program and Healthcare Enhancement Act	Rate cut by **150 bps** in March
	11% of GDP in CARES Act	Facilities to ensure flow of credit
	Another **1%** in Families First Coronavirus Response Act and supplemental budgetary allocation made thereafter	
CHINA	**2.5%** of GDP in fiscal measures	**3.2%** of GDP in liquidity infusion
	Of which **1.2%** of GDP measures already being implemented	**1.7%** of GDP in re-lending and rediscounting facilities
	Additional measures such as announcement of local bonds worth **1.3%** of GDP	Rate cuts in the range of 10-150 bps
JAPAN	Emergency economic package of **21.1%** of GDP. In this, **16%** aimed at protecting employment and business	Host of measures including liquidity provision by increase in size and frequency of Japanese government bonds and concessional loan facilities for small businesses
GERMANY	Supplementary budget of **4.9%** of GDP focusing on providing short-term work and preserve jobs	Additional asset purchases
	Using government guarantees to increase credit volume by at least 23% of GDP	Extension of ECB norms which inlcude prohibiting banks from paying dividends for FY 2019 and 2020 and/or buying back shares. Conserved capital to be used to support households, small businesses and other borrowers
	State government packages over and above this	Payment moratorium on consumer loans established before March 15th is granted until June 30th
INDIA	**6.4%** of GDP **(₹12,95,450 crore)** Includes food security, direct cash transfer, money for rural job guarantee scheme, and credit guarantee to MSMEs	**3.9%** of GDP **(₹ 8,01,603 crore)** Policy rates cut and other measures to boost liquidity

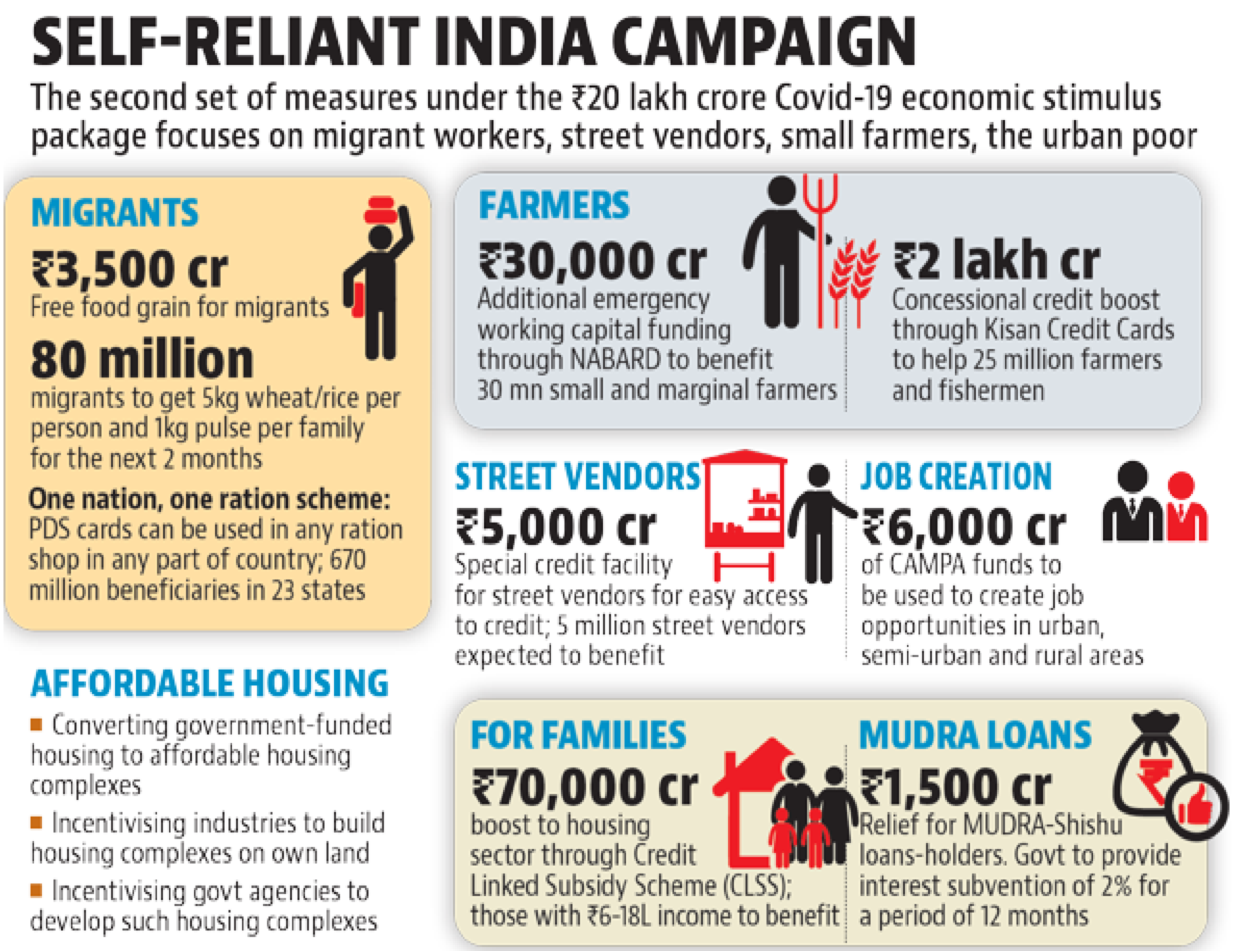
SOURCE: FINANCE MINISTRY, INDIA; IMF POLICY TRACKER. LAST UPDATED MAY 15, 2020

The central government and RBI have announced an initial round of fiscal and monetary policies respectively as well as some broader economic reforms. In addition, several state governments have also announced fiscal stimulus measures.

ANALYSIS OF POLICIES ANNOUNCED

Policy package for informal sector workers On March 26, 2020 the Finance Minister announced a Rs. 1.7 lakh crore package largely aimed at providing a safety net for those who have been worse affected by the Covid-19 lockdown i.e. the unorganised sector workers, especially daily wage workers, and urban and rural poor.27 The "Pradhan Mantri Garib Kalyan Yojana" contains the following components:

- Free additional 5 kg wheat or rice per person for 3 months.
- 1 kg free pulses per household for 3 months.
- Free LPG for Ujjwala beneficiaries for 3 months.
- Rs.2000 to 87 million farmers under PM Kisan Yojana in 10 days.
- Increase in MGNREGA wages to Rs.202 from Rs.182.
- Rs.500 per month to 200 million female Jan Dhan account holders for next 3 months.
- Ex-gratia of Rs.1000 to poor senior citizens, widows and disabled.
- Rs.20 lakh collateral-free loans to women self-help groups.
- Govt. to contribute EPF to companies with less than 100 workers.
- Non-refundable advances of 75%- or 3-months wages from PF account.
- States to use Rs.31 crore from construction workers welfare fund.
- States to use district mineral fund for medical activities.



CONCLUSION

Covid-19 has posed an unprecedented challenge for India. Given the large size of the population, 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, lockdowns and other social distancing measures are turning out to be hugely disruptive. The central and state governments have recognized the challenge and have responded but this response should be just the beginning. The eventual damage to the economy is likely to be significantly worse than the current estimates. On the demand side, the government needs to balance the income support required with the need to ensure the fiscal situation does not spin out of control. 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. Involvement of the state and local governments may also be crucial in the effective implementation of further fiscal initiatives. Policy makers need to be prepared to scale up the response as the events unfold so as to minimise the impact of the shock on both the formal and informal sectors and pave the way for a sustained recovery. At the same time, they must ensure that the responses remain enshrined in a rules-based framework and limit the exercise of discretion in order to avoid long-term damage to the economy.

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