Economic Challenges faced by Indian Economy during COVID-19

Dr. Jaskirat Singh Rai
Assistant Professor
Chandigarh Business School of Adminstration
Chandigarh Group of Colleges, Landran,
Dr. Komal Bhardwaj
Assistant Professor
Chandigarh Business School,
Chandigarh Group of Colleges, Jhanjeri,
Mr. Ankush
Assistant Professor
Chandigarh Business School,
Chandigarh Group of Colleges, Jhanjeri

Abstract

As COVID-19 spreads in nations around the globe, governments have just begun to address the financial and layoff challenges presented by limitations the pandemic has put on the business. In India, almost every sector of the economy is facing the problem of a slowdown. Due to the slowdown, India's investments are adversely affected, which can impact the employment generation of the country. Reduction in employment means lowers the income of the people of the country, which affects their purchasing power parity or consumption capacity. The opportunity has already come where the central government is utilizing the current circumstance as a chance. The vast majority of the measures are taken by the government, such as directed money moves and tax disruption, still puts on the stake of informal economy labourers. Apart from all the measures and initiatives are taken, the focus of the current time is to look over the different aspects that in one way or other affect the Informal Economy. The emphasis shall be made subsequently-Tax alleviation, and compensation subsidies usually are just offered to formal undertakings and don't arrive for the informal sector where the central part of the workforce is utilized. Instead of overlooking the issue of informal labour or conceive on as it doesn't exist, the time has now sought the layout to acquaint enactment with perceiving informal workers as noteworthy supporters of the economy.

Keywords: COVID-19, Informal Sector, Economic Challenges, Initiatives.

Introduction

As COVID-19 spreads in nations around the globe, governments have just begun to address the financial and layoff challenges presented by the limitations the pandemic has put on the business. Wealthier OECD nations are planning financial help measures to focus on the foundation of most economies–several thousand to a considerable number of companies. These endeavours expect to give a raft to assist organizations with enduring in the coming months, and critically to keep on paying their representatives as monetary life amenity back down at an appalling pace. While nations over the globe have looked to rapidly turn out aid ventures to help their economies and

ISSN- 2394-5125 VOL 6, ISSUE 01, 2019

workers, a considerable lot of these projects have not arrived at their informal economies. Informal businesses are not benefitting from tax alleviation, as they regularly do not pay the full arrangement of formal taxes (Gallien and Boogaard 2020).

During the last quarter of FY20, the growth rate of India has declined to 3.1% (The Economic Times 2020). India's economy is facing the worse situation at the period of COVID-19. During the period of the first lockdown of 21 days, the Indian economy was expected to lose $4.5 billion every day (The Hindu Business Line 2020). In this period, the expenditure on non-essential commodities have reduced, which causes a decline in the aggregate demand and its impact on every sector of the economy. The disruption was also noticed in the supply chain because some people stay at home, and the other moved to their native villages. It could negatively impact the production capacity of the industries. In India, almost every sector of the economy is facing the problem of a slowdown. Due to the slowdown, India's investments are adversely affected, which can impact the employment generation of the country. Reduction in employment means lowers the income of the people of the country, which affects their purchasing power parity or consumption capacity. In India, 53% of the businesses affected directly or indirectly during COVID-19 lockdown (Livemint, 2020). During this period, unemployment in the country has increased from 19% to 26% (Vyas 2020). Almost 14 crore Indians have lost their employment, and around 45% of households reported a drop in their income level in this period (Business Today 2020). The figures for unemployment are essential, because in India out of the total employed persons, 81% are working in the informal sector. In India, only 6.5% workforce is working in the formal sector (The Wire 2018). So at the time of slowdown, when every industry is facing a difficult situation by shrinking their profits, they are reducing their employee ratio. Most of the employees which are losing their jobs belong to the informal sector. They are non-skilled worker those are working for minimum wages with no job guarantee.

Economic Challenges During COVID-19 Pandemic

The disease of Coronavirus started in China in late 2019. However, in early 2021, it started to spread to other parts of the world. After China, Italy was the country, which faced the consequences of the deadly disease. Within a short period, this virus hit the other European countries like the UK, France, Spain and Germany and also spread in the American continent (America, Canada, Brazil and Mexico). In January 2021, India detected its first patient of Coronavirus. In February and March, the cases of Coronavirus have increased continuously in India. Because the entire world was coming under the threat of Conavirus and also non-availability of the medicine to fight it, the Indian government on 25th March, decided to lock down the country. The government has taken that decision because he needs some time to prepare the country with the medical facilities required to fight with the virus. However, when India is preparing itself to make the necessary arrangements to confront the Coronavirus, due to lockdown, India is also facing the economic crisis.

Moody's Investor Service revised India's gross domestic product (GDP) growth rate for the 2020 financial year (FY) from 5.3% to 2.5% (Business Today 2020). The World Bank and other rating agencies of the world have also degraded India's growth rate for the FY21, which expected to

ISSN- 2394-5125 VOL 6, ISSUE 01, 2019

grow at the rate of 1.5% to 2.8% (The Hindu 2020). The International Monetary Fund also projected India's GDP growth rate at 1.9% for the coming financial year (India Today 2020). The governor of the Reserve Bank of India (RBI), Investment Information and Credit Rating Agency (ICRA), world-renowned research agency Goldman Sachs, also estimated negative growth in Indian GDP (-5%) in the financial year 2021 (Ray 2020; Noronha 2020; The Daily Telegraph 2020).

Table 1: India's growth rate forecast by leading agencies

S. No	Agencies	Date of Report	India's GDP Forecast for 2020-21	Weights	Weighted Rate
1	Economic Research (NCAER)	21 February 2020	5.60%	1	0.056
2	CRISIL	20 March 2020	5.20%	2	0.104
3	S&P	23 March 2020	5.20%	2	0.104
4	Moody's	27 March 2020	2.50%	2	0.050
5	India Ratings	31 March 2020	3.60%	2	0.072
6	ADB	3 April 2020	4.00%	3	0.120
7	ICRA	7 April 2020	2.00%	3	0.060
8	Goldman Sachs	8 April 2020	1.60%	3	0.048
9	The UN Economic and Social Survey of Asia and the Pacific (ESCAP) 2020	9 April 2020	4.80%	3	0.144
10	Fitch	10 April 2020	2.00%	3	0.060

Source: Adopted from Barbate et al., 2021

The decline in Indian GDP has shown that India may face a recession in the coming period, which will impact all the sectors of the economy. It means India has to face serious economic challenges due to COVID-19 in the financial year 2021, rather the kind of economic challenges India is facing during COVID-19.

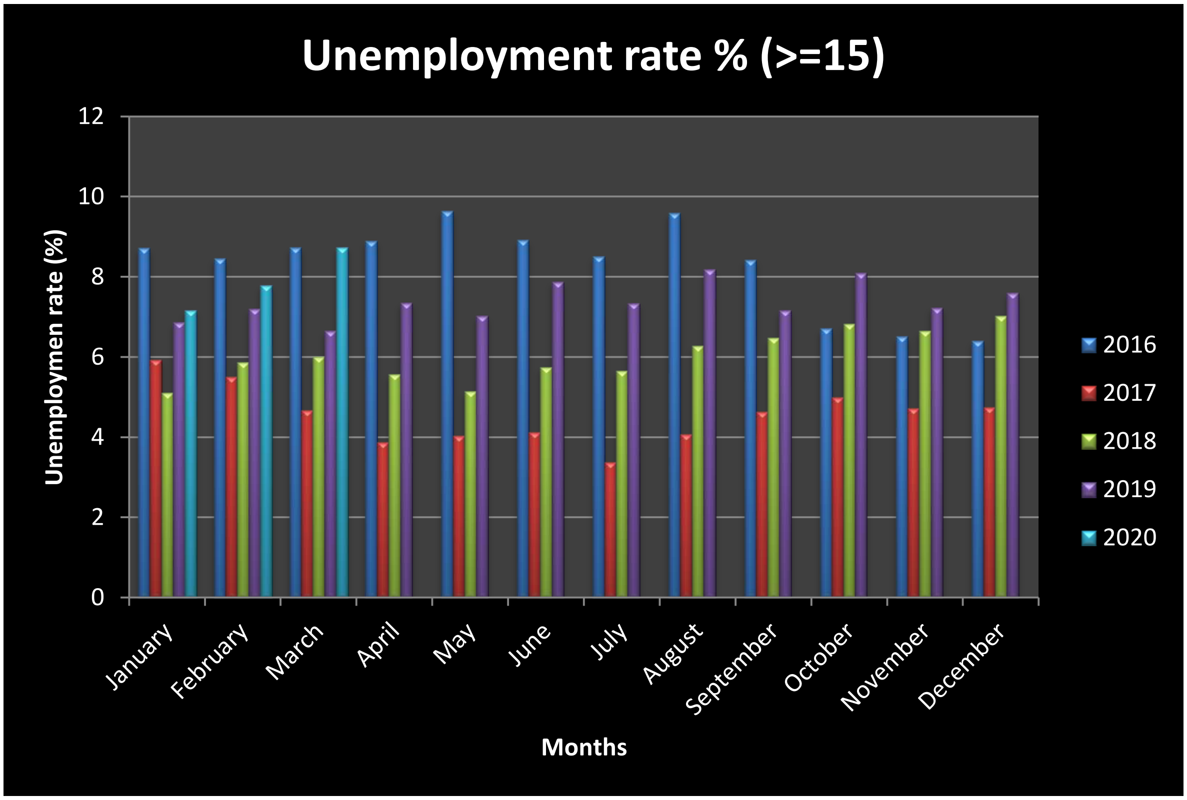
Rise in Unemployment

The national lock announced to restrict the spread of the corona virus has tainted organizations, as indicated by the ICRA, and their exercises came to a stop. The concerns in regards to Covid-19 have been diminished to a domestic and foreign market shock attributable with the impacts of imports from China with social removing and locks in specific regions adding to closures of yield and occupation misfortunes. At the national stage the impact of the crown pandemic could have had a more extended term impact on some different ventures, particularly if request is at an optional point, bringing about stagnation in domestic requirements, crumbling buying power because of misfortunes at employment or compensation chopping and the stream down results of interest suspension? The rating organization expressed that worldwide economic downturn and lockouts would impact regions that are profoundly subject to outer interest specifically those in significant impact markets like Europe, North America and Southeast Asia. It said lower

ISSN- 2394-5125 VOL 6, ISSUE 01, 2019

worldwide interest and the cost of merchandise like oil and gas, metals, would have a major impact. The below chart shows the rise of the unemployment in the time of Covid – 19, in comparison to the previous years.

Figure 1: CMIE Data



Fall in Financial Markets

Fall in Sensex: During the period of COVID-19, the fear of uncertainty prevails in Indian financial markets, resulted in a drop in BSE Sensex and Nifty 50 by 38% (Business World 2020). It shows the strong correlation of the Indian financial market with the trend and indices of the global markets. The drop in stock markets reflected the sentiments of investors, which were affected during the pandemic.

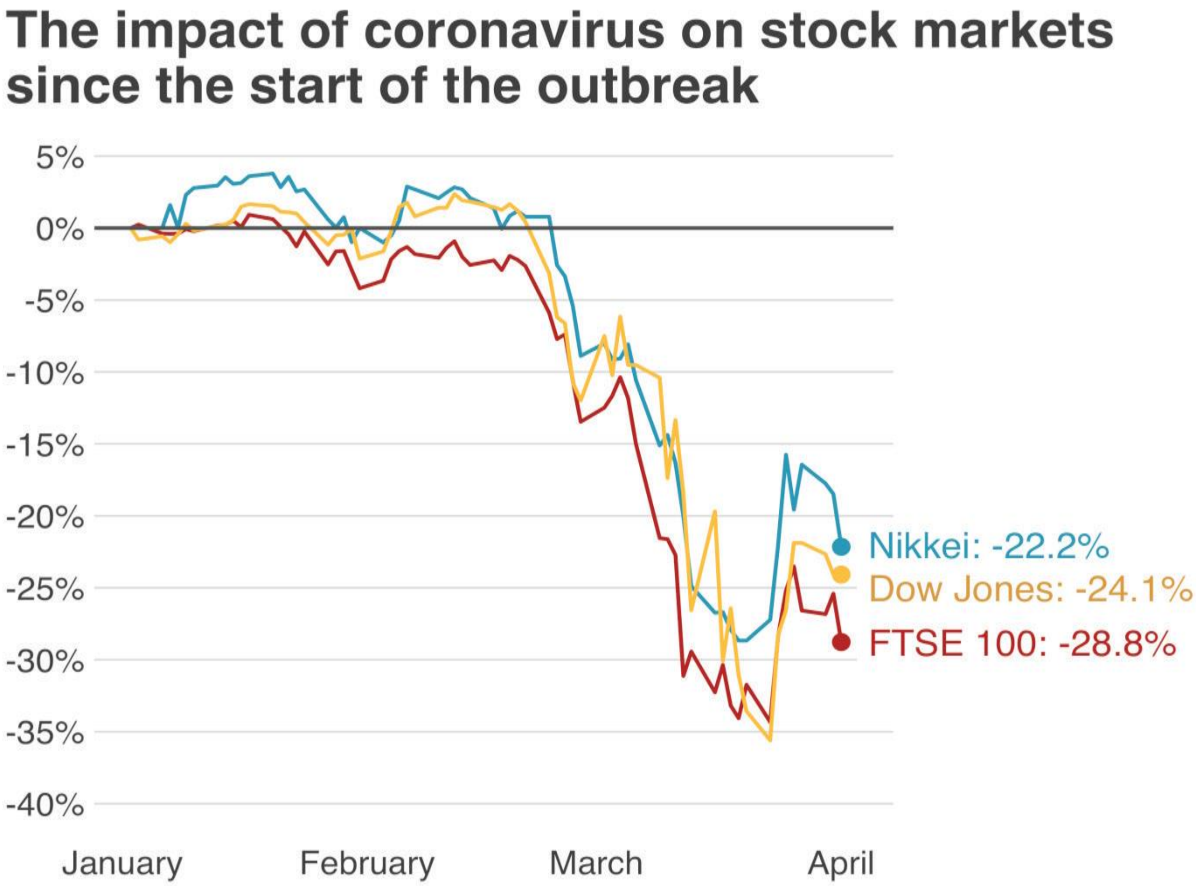
Table 2: A Comparison of Pre and Post COVID View of Indian Stock Markets

Sources	Indexes-14 Jan 20	Indexes-23 Mar 20	Indexes-24 Apr 20
Nifty 50	12,362	7,610	9,154
Sensex	41,952	25,981	31,327

Source: Business World

Figure 2

ISSN- 2394-5125 VOL 6, ISSUE 01, 2019

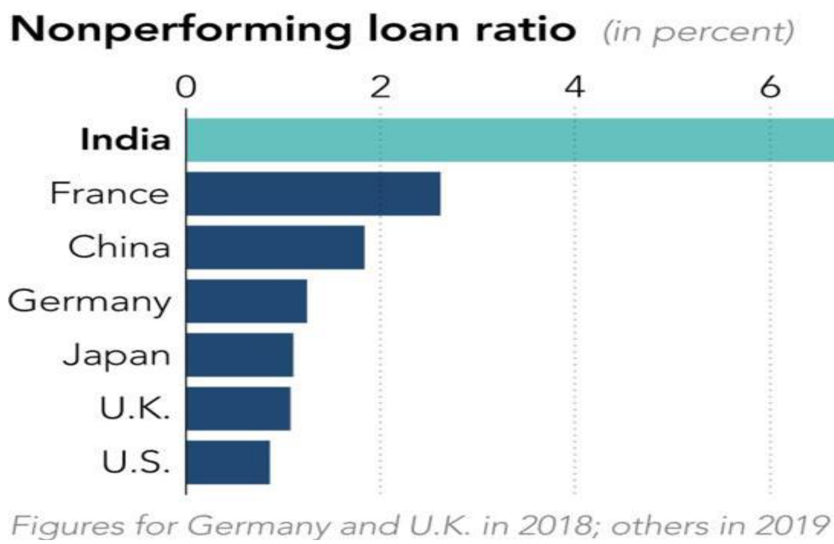


Source: BBC News

Non-performing Loan Ratio: To begin with the loan book of India even before the crisis hit, as per Nikkei information as of February 2020, the Indian telecom sector is in monetary danger the most with an expected $30 billion worth of awful loans, trailed by steel and foundation (~$15 billion every), energy (~$12 billion), and textiles (~$10 billion). Non-performing loans have risen in excess of 5 rate focuses to add up to a faltering 8.9% of in general bank lending in India, over the most recent five years. This is the biggest increment among the gathering of the universes 20 significant economies, as per the International Monetary Fund. This represents an enormous danger for the fate of awful loans in lending and how they will be rebuilt to diminish the impact on economy.

Figure 3

ISSN- 2394-5125 VOL 6, ISSUE 01, 2019



Source: International Monetary Fund

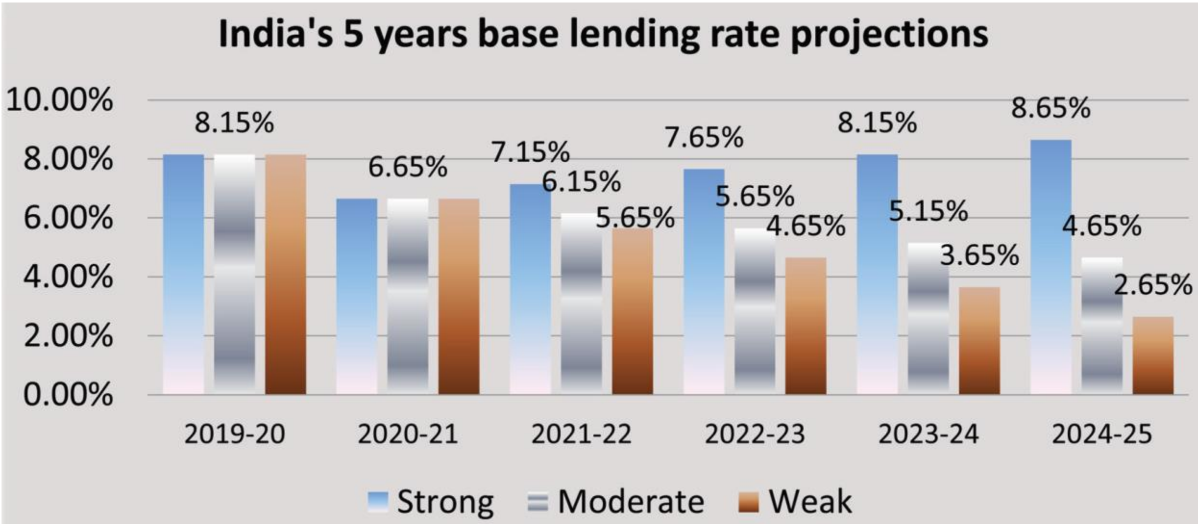
Outflow of Foreign Investment*:* Foreign investment is vital to boost the financial system of the country. Foreign direct investment (FDI), foreign portfolio investment (FPI) and foreign institutional investment are essential instruments which strengthen the economy through foreign currency and investment. Due to COVID-19, in March, around $15 billion foreign investment was an outflow from the Indian equity and debt market, which was highest ever; sell-off in a month (Livemint 2020). The 21-day period of lockdown disrupted the Indian economy, where investors were losing their confidence in Indian markets and withdraw their money from the stock and debt markets. In March, the Indian stock market drop by 25%. During this period, foreign investors sold equity shares worth $7.54 billion and debt instruments worth $7.36 billion. In 2020, the outflow of foreign investment was $14.69 billion, which was more than the 2008 financial crisis, where foreign investors sold equities worth $12.2 billion (Livemint 2020).

The outflow of money from the equity market can lead to extra pressure on the currency and depreciate its value. The depreciation in currency can impact the exchange rate, which causes an increase in the rate of inflation and adversely affect the exports and imports of the country.

Fall in Interest Rate: At the time of a pandemic when the Indian government has announced the 21-day lockdown in the whole country, it has become a crucial decision for RBI to increase the flow of liquidity in the Indian market. For this RBI revised its monetary policy and changed its repo rate (75 basis point) and reverse repo rate (90 basis point). However, the decline in repo rate and reverse repo rate can adversely affect the long-term bond prices and negatively hit the value of fixed income securities of the country.

Figure 4

ISSN- 2394-5125 VOL 6, ISSUE 01, 2019



Note: India's Base Lending Rate Forecast up to 2024–2025.

Financial deficit

COVID-19 pandemic hit hard financially to all countries of the world and unbalanced their economic growth. Every government tried to make a balance between its revenue sources and its expenditure. However, when expenditure exceeds its revenue, then governments borrow money from external sources which creates a fiscal deficit. Taxes are one of the primary sources of revenue for governments. In India, due to lockdown, the revenue from tax collection has declined sharply to Rs. 67,557 crore compare to Rs. 1.2 trillion in the same month (April) last year. India's significant share of taxes came from income tax, goods and service tax and customs collection, which declined to 58% (Rs. 26,978), 87% (Rs. 5,934) and 70% (Rs. 3,934) respectively during this period.

The fall in government revenue due to lower tax collection has increased its fiscal deficit. To provide the sufficient amount of funds to the health sector, entrepreneurs and the weaker section of the society, the central government has increased its borrowings to Rs. 12 trillion from Rs. 4.2 trillion in the financial year 2021. It can raise the fiscal deficit of the government at the level 5.5% of the GDP (Livemint 2020). Accordance of report by DBS bank, the fiscal deficit of central and state governments has increased 12% to the GDP in FY21 (Financial Express 2020).

References

Gallien, M., and Boogaard, V. V. (2020). To fight Covid-19, only the formal economy is getting tax breaks. The informal economy may be asked to foot the bill. Brighton: International Centre for Tax and Development.

The Hindustan Times (6 July 2020). Cycle traders propose 'restriction' on parts imported from China. https://www.hindustantimes.com/cities/cycle-traders-propose-restriction-on-parts-imported-from-china/story-%20IUzGpNhoTX2dVzRTK1qREP.html. Accessed 22 July 2020.

ISSN- 2394-5125 VOL 6, ISSUE 01, 2019

The Economic Times (2020). India's GDP growth in Q4 & FY20 sinks to 11-year low. https://economictimes.indiatimes.com/news/economy/indicators/indias-gdp-growth-in-q4-fy20-sinks-to-11-year-low/articleshow/76099894.cms?from=mdr . Accessed 21 July 2020.

Livemint (31 May 2020). Covid impact: India FY21 fiscal gap may breach level seen after financial crisis. https://www.livemint.com/news/india/covid-impact-india-fy21-fiscal-gap-may-breach-level-seen-after-financial-crisis- 11590931795426.html. Accessed 22 July 2020.

Vyas, M. (21 April 2020). Unemployment rate touches 26%. Centre for Monitoring IndianEconomy (CMIE). https://www.cmie.com/kommon/bin/sr.php?kall=warticle&dt=2020-04- 21%2010:40:01&msec=873. Accessed 22 July 2020.

The Wire (4 May 2018) Nearly 81% of the Employed in India Are in the Informal Sector: ILO. https://thewire.in/labour/nearly-81-of-the-employed-in-india-are-in-the-informal-sector-ilo. Accessed 22 July 2020.

Noronha, G. (20 May 2020). India's GDP to see 5% contraction in FY21, says Icra. The Economic Times. https://economictimes.indiatimes.com/news/economy/indicators/indias-gdp-to-see-5-contraction-in-fy21-says-icra/articleshow/75847028.cms. Accessed 20 July 2020.

Ray, A. (22 May 2020). India's GDP growth in 2020-21 to remain in negative territory: RBI. Livemint. https://www.livemint.com/industry/banking/india-s-gdp-growth-in-2020-21-to-remain-in-negative-category-rbi-11590122207688.html. Accessed 21 July 2020.

The Daily Telegraph (19 May 2020). Goldman report most damning. The Daily Telegraph. https://www.telegraphindia.com/india/goldman-on-economic-package-for-coronavirus-lockdown-narendra-modis-steps-smaller-than-upas/cid/1774089. Accessed 24 July 2020.

Business World (2020). Impact of COVID 19 On The Indian Stock Markets. http://www.businessworld.in/article/Impact-Of-COVID-19-On-The-Indian-Stock-Markets/11-05-2020-191755/. Accessed 15 July 2020.