COVID-19 Impact on the Indian Economy

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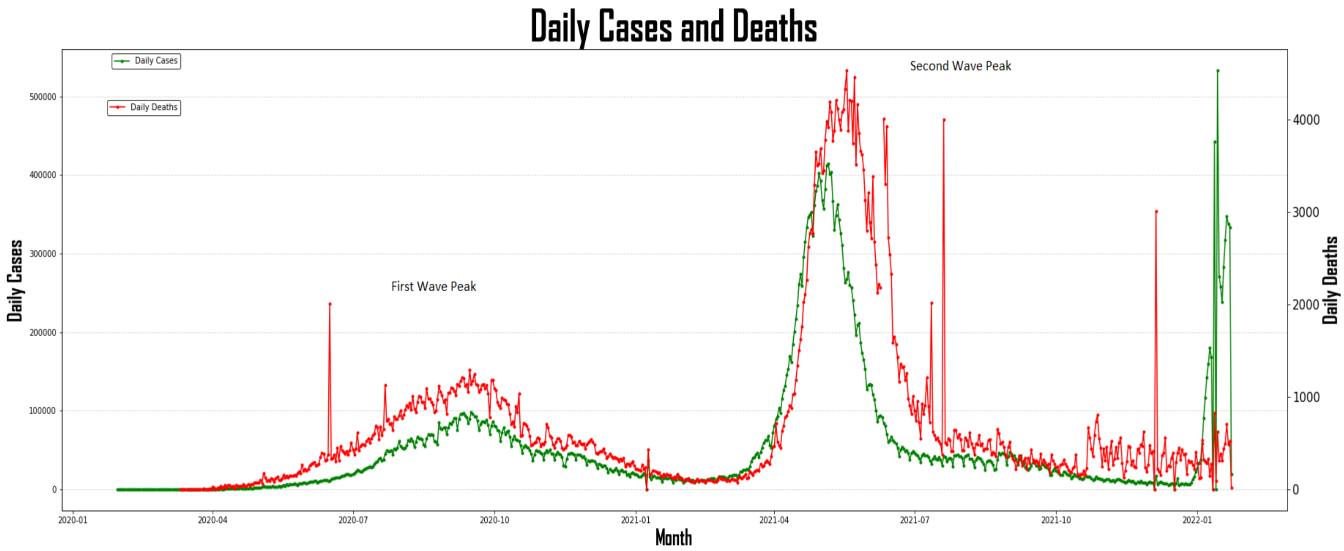
Abstract: ***COVID-19 has influenced economies around the globe. The pandemic has brought into notice the vulnerabilities in the Indian economic development. The country, despite being the sixth largest economy as per the Gdp at market prices, has been deeply affected by it. In this research paper, we will analyse the scenario of the country before the pandemic and what is changing during the ongoing pandemic.***

Keywords: Indian Economics, India, COVID-19 Impact on the economy, economy, India's economic scenario

COVID-19 took the world by surprise. It belongs to the coronavirus family which had two predecessors to the COVID-19, the MERS [1] and SARS [2]. The virus turned out to be highly contagious and in a few time period it became a pandemic. Almost all countries responded by imposing measures to ensure Social Distancing. This led to hampering the international and the intra-national trade, which had serious repercussions on the countries and its people worldwide.

In this research paper, we will try to examine the impact of COVID-19 on the Indian Economy and the countercyclical policy that our policymakers have adopted.



Source: Our World in Data

1. Introduction

Global Financial Crisis of 2008 has left a deep impact on the world. It did not affect India directly, but had indirect effects on the economy. The private sector had over-borrowed during the boom period and was suffering from debt hangover. The household sector in India had reached the highest gross domestic saving rate (34.37%) just before the crisis was shattered by its aftereffects. According to the Keynesian model, it should be the Govt. who should take the task of reviving the demands. The Govt. borrowed large with expectation to revive the demand, but the demand throughout remained sluggish and the borrowings soon became a burden which till dates consumes a large part of the expenditure. The earlier anticipation that the economy will rebound back to 8-10 percent growth ended and the policymakers accepted the fact that 5-7% growth will be the new normal. The new government came in mid-2014 with a huge mandate. Some of the prominent programs were Make in India, Startup India, Digital India and Sanitation Drives for inculcating the behavior of hygiene among the masses.

		Fiscal Position		
				Value in Crores (₹)
Deficit Type	2019-20 (Actuals)	2020-21 (Budget Estimates)	2020-21 (Revised Estimates)	2021-22 (Budget Estimates)
1. Fiscal Deficit	933651 (4.6)	796337 (3.5)	1848655 (9.5)	1506812 (6.8)
2. Revenue Deficit	666545 (3.3)	609219 (2.7)	1455989 (7.5)	1140576 (5.1)
3. Effective Revenue Deficit	480904 (2.4)	402719 (1.8)	1225613 (6.3)	921464 (4.1)
4. Primary Deficit	321581 (1.6)	88134 (0.4)	1155755 (5.9)	697111 (3.1)

Source: Ministry of Revenue

Since 2010 the country has been suffering from the Twin Balance Sheet Problem [3] on account of low demand and cannot fix it immediately through fiscal or monetary expansion as the position may deteriorate as per the J curve

Effect [4]. The Government has repaid much of the old borrowings. We reflect this from the fact that despite the fiscal deficit being higher than the target agreed at the FRBM Act [5]. The primary deficit is very low, which shows very few fresh loans are being issued. With the pandemic, the government whose funds have already been squeezed in various activities has gone for raising fresh loans, which increases its burden in the future as the interest payments in the old loans have not been written off. The primary deficit of the 2020-21 revised estimates is around 5.9% of the GDP.

Savings, Investments and Consumption

Since 2015, the gross domestic saving rate is dropping gradually and the consumption rate has been increasing. During the pandemic year we see a behavioral change in the people as the saving rate for the first time in the past 5 years sees a rise and consumption rate shows a dip which shows the fact that people because of the uncertainty caused by the pandemic have reduced their consumption. Reduction in the savings rate is not a positive sign as it will reduce the financial investments made by the households. These investments contribute significantly to the velocity of money and also provide liquidity in the markets.

The FDI flows which have been declining in the past years have reversed, which showed the optimism that investors place in the Indian market post pandemic. It also shows that the volume of investment brought to India post pandemic will be high

Year	Gross Domestic Savings (% of GDP)
2015	30.56442821
2016	30.39617069
2017	30.50765137
2018	29.7944106
2019	28.28841028
2020	28.91785599

Year	FDI (Net Flows % of GDP)
2015	2.092115758
2016	1.937363198
2017	1.507316581
2018	1.559263523
2019	1.763127508

Year	Consumption (USD)
2015	$1, 460, 638, 226, 562.39
2016	$1, 597, 267, 269, 306.12
2017	$1, 842, 570, 823, 752.73
2018	$1, 896, 331, 447, 405.64
2019	$2, 058, 484, 120, 655.32
2020	$1, 890, 959, 358, 869.65

Source: WorldBank

Foreign Trade

Over the years, the volume of imports and the exports have skyrocketed. It illustrates the aim of increasing trade that policymakers had in mind during the LPG Reforms [6] have well paid off. The only problem being that we have is that we import more than we export. Our Foreign trade is still too much affected by oil price shocks, we even after so many years of having moved from export-import policy to foreign trade policy we could not diversify the supply of oil. It is noteworthy to note that Machinery, Transport, Metal Manufacturing has become an important category of exports. The Current Account was positive in 2020 for the first time in many years. This was due to low price of oil worldwide due to lack of economic activity and the oil price war between Saudi Arabia and Russia.

Inflation

Year	Inflation Rate (Average)
12/31/2015	4.907
12/31/2016	4.9482
12/31/2017	3.3282
12/31/2018	3.9451
12/31/2019	3.7233
12/31/2020	6.6234

Year	Current Account Deficit (USD)
2015	-22456838010
2016	-12113787707
2017	-38167659224
2018	-65599439053
2019	-29762864650
2020	32730048588

RBI in 2016 notified inflation targeting as its primary target to maintain stability Monetary Policy Committee [7] was formed, which was assigned keeping inflation at 4% with 2% deviation from the period from August 5 2016 to March 31 2021. In the year 2020 it went beyond the target that RBI has specified. The reason being that inflation takes CPI as the core inflation and in CPI there is a high weight of foods and fuel. Globally the price of certain essential items is rising and this has also led to inflation rising in India. The RBI in the future will be forced to increase the interest rate which it had intentionally kept low to encourage economic activity and rapid economic recovery in the country

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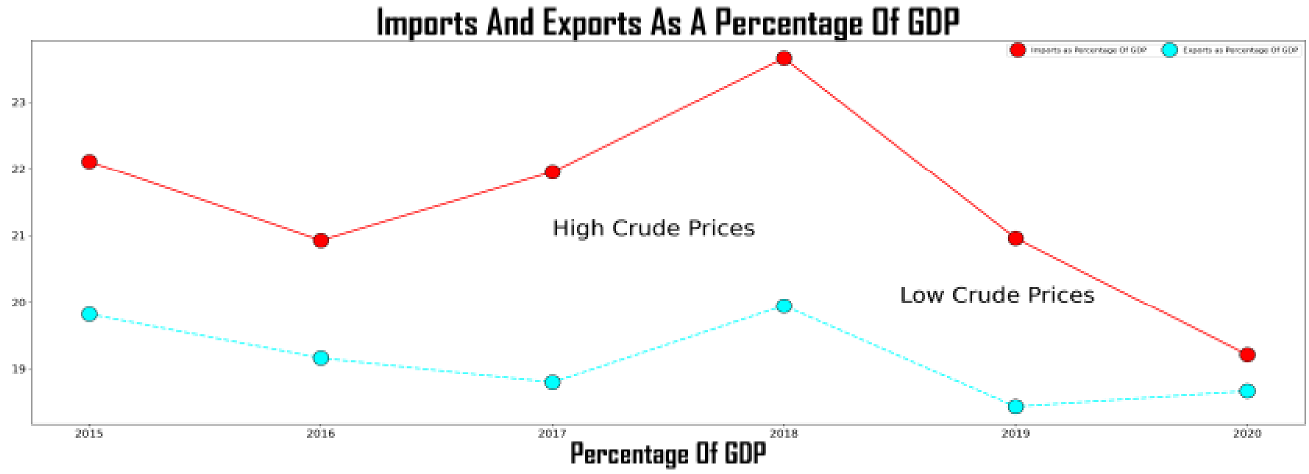
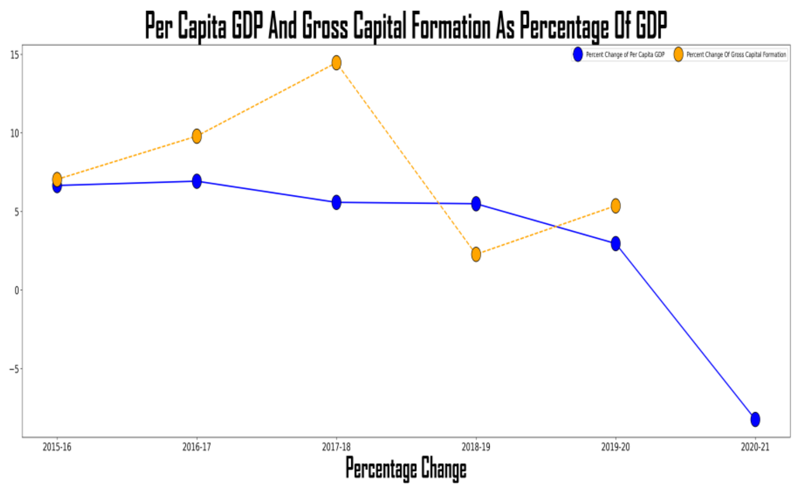


Source: World Bank

Per capita GDP and Gross Capital Formation

Since the coming of the new government in the mid-2014. One of its mandates has been to improve the ease of doing business in India. The country has made deep inroads by leaping from a rank of 142 in 2014 to 63 in 2020. Despite having offered incentives to the business to be conducted in India there had been a declining gross capital formation. We can explain this by the fact that there has been a rise of protectionism globally and the trade wars between US and China make it worse off. The per capita GDP has been reduced significantly in the post demonetization years. The demonetization conducted by the Govt. of India was a highly unsuccessful experiment as according to the RBI reports, over 99% of the currency that was demonetized was returned to the banks



Source: World Bank

Income Inequality

The country since 1990 has had an enormous growth in all the sectors, but the growth turned out to be jobless and hence from 2009 onwards, for the first time, inclusive growth was introduced in the budget. The country has been planning for financial inclusion since 2005, but very few inroads have been made so far. The country, through Sarva Siksha Abhiyan and Right to Education Act, has been steadily improving the literacy rates, but the financial literacy among the masses remains low. With very few% of the masses being financially literate, it becomes an enduring task for the country to overcome inequality. Hardly any dent could be made in income inequality in the last 5 years and with the pandemic the divide between the rich and the poor will look to increase. With lack of resources available and huge gaps in the healthcare systems in the rural area, the out-of-pocket expenditure of doors has increased further. With reduced incomes, people have taken loans to cover their finances and since they don't have the collateral, most of the loans come from moneylenders who charge a high rate of interest. The government responded to the situation by launching Pradhan Mantri Gareeb Kalyan Yojna [10] and increasing the wage rate offered in the MGNREGA [11], but to most of the economist's the increase in the wage rate looks very low and believe that more safety Net can be provided.

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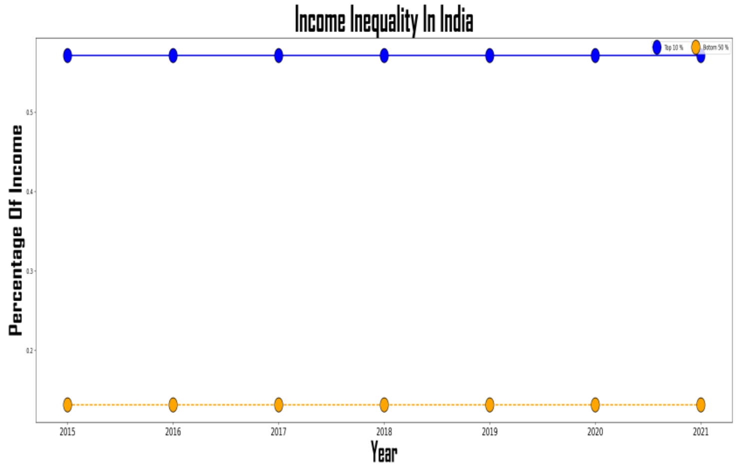
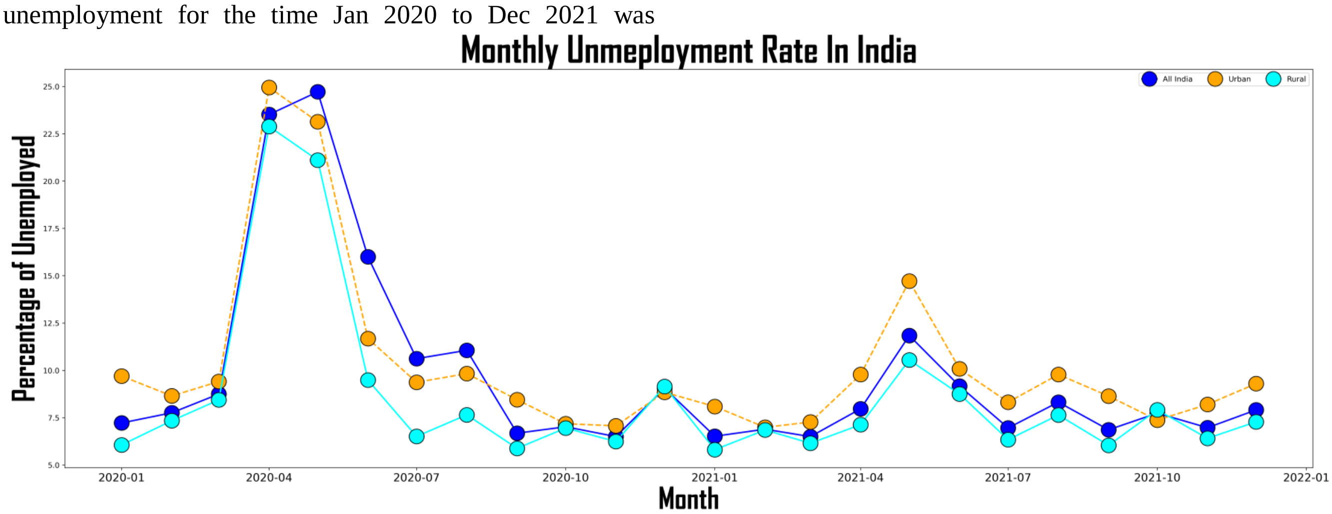


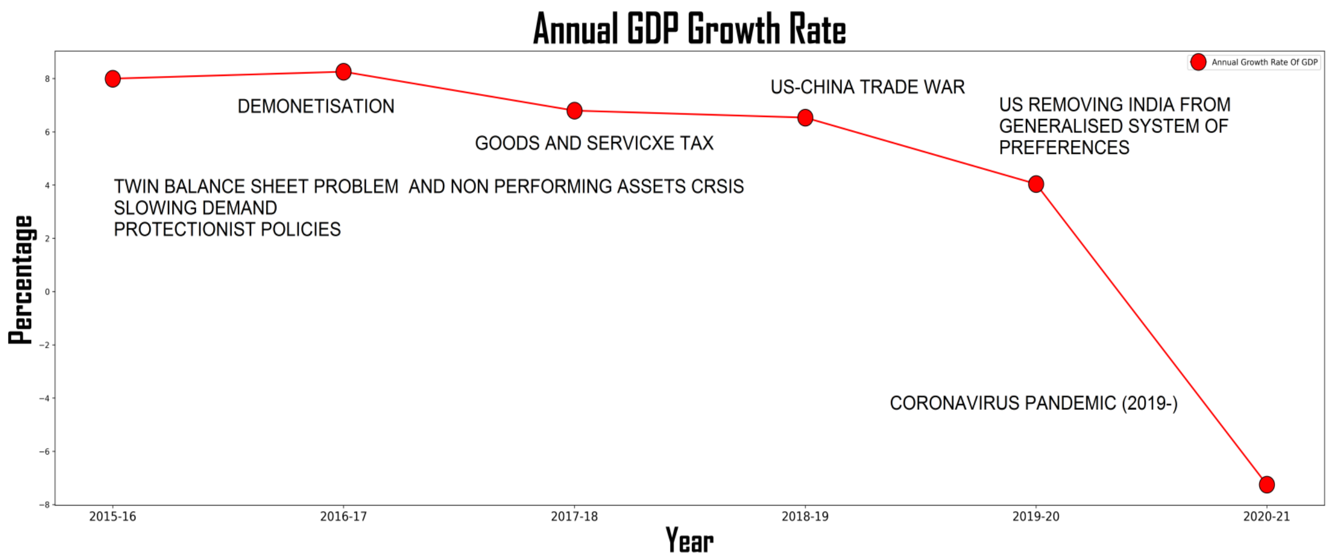
Source: World Bank

Unemployment Rate

The country was gradually reducing the unemployment rate in the past 5 years but with the onset of the pandemic, there were layoffs by the businesses on a large scale due to which the unemployment rate shot upwards. The most seriously affected were the urban areas where the average rate of unemployment for the time Jan 2020 to Dec 2021 was 10.28%. The maximum unemployment rate (urban) 24.95 % in April 2020. The maximum unemployment rate all India was 24.72% was in May 2020. With the onset of the omicron many economists believe that the Unemployment Rate will rise bringing financial hardships to the people.



Source: CMIE



Source: RBI

2. Conclusion

The global demand is slowing down and the twin balance sheet problem will further lead to a four-balance sheet problem. NPA crisis does not look to be phased out soon. The NPA's in the future will rise as RBI has warned the Govt. about rising defaults from the Pradhan Mantri MUDRA Yojna. Despite launching the Indradhanush scheme, the problem has not been solved yet. The Banks issued moratoriums to those who found it difficult to pay loans during pandemic. Hence, we cannot predict the accurate size of defaults.

The unemployment rate will remain high in the future and onus will be on the government to revive the demand by carrying fiscal expansionary policies which indicate that fiscal deficits target set under the FRBM Act will not be met in the near future.

The foreign trade is still vulnerable to oil price shock. We will have to diversify our oil purchases. To combat the negative Current Account RBI is trying to reduce the Non-essential imports through various schemes. The trend of protectionism is again resurfacing with countries imposing tariffs. This will reduce international trade and will raise the prices of goods.

We need to coordinate by placing or faith in international institutions and combat the challenges caused by the Pandemic together.

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