International Journal of Science and Research (IJSR)
ISSN: 2319-7064
SJIF (2022): 7.942

The Comparative Analysis of Economic Dropdown in Recent Global Epidemic and it's Immediate Impacts on Financial Environment and Different Sections of the Society

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Running Title: *The comparative analysis of economic dropdown in recent global and it's immediate impacts on financial system*

Abstract: ***An economy encompasses all activity related to production, consumption, and trade of goods and services in an area. An economy applies to everyone from individuals to entities such as corporations and governments. The economy of a particular region or country is governed by its culture, laws, history, and geography, among other factors, and it evolves due to necessity. For this reason, no two economies are identical. Financial markets (such as those that trade stocks or bonds), instruments (from bank CDs to futures and derivatives), and institutions (from banks to insurance companies to mutual funds and pension funds) provide opportunities for investors to specialize in particular markets or services, diversify risks, or both. Financial markets help to efficiently direct the flow of savings and investment in the economy in ways that facilitate the accumulation of capital and the production of goods and services. The combination of well-developed financial markets and institutions, as well as a diverse array of financial products and instruments, suits the needs of borrowers and lenders and therefore the overall economy. With the recent downfall in the economic growth of a country due to global epidemic outbreak, the impact on financial markets has resulted to a huge drawback for a country's overall aspects . This is a truly global crisis as no country is spared. Countries that are completely relied upon tourism, travel, hospitality, and entertainment for their growth are experiencing huge downfall. Economic recovery and earnings growth in India are likely to be a bit slowed down, as the virus has a huge impact on economic activities in India - travel, tourism, hotels, manufacturing and services having global dependence and now even the corporate sectors starting to lower down the operations and productivity with work-from-home policy. The worst affected will be those who lose their job or see their hours/self-employed income dramatically fall.***

Keywords: economic downfall scarcity economy pandamic stock bond business cost cutting imports tourism aviation

1. Literature Review

- **Jonathan Michie (20th April, 2020)** "Writing during the covid-19 lockdown puts many things into perspective, and changes those perspectives. Firstly, at a time of such crisis, aren't there other things more important to worry about than economics? Clearly, the health of the population is paramount, and saving lives must come first. But economic factors remain central. The need to prepare for pandemics had been known for years; it was in part an economic decision as to how much to invest in the necessary preparations. Had more been invested, fewer lives would have been lost. Further, the crisis will create recession, and recessions generally lead to higher death rates (through a deterioration in physical and mental health, a rise in suicides, and so forth). Next, there required to reduce government debt, a policy which led to an will be economic arguments used by politicians in defence of their response to recessions, and last time it was that austerity was increase in the death rate of many thousand a year within single countries. So, the economy, economics, and economic policy remain important. Arguably more so at times of crisis."
- **Peter.S.Goodman (1st April, 2020)** "the world is almost certainly ensnared in a devastating recession delivered by the corona virus stock. Now, enduring into next year, and even beyond as governments intensify restrictions on business to halt the fears are growing that the downturn could be far more punishing and long lasting than initially feared potentially spread of the pandemic, and as fear of the virus reconfigures the very concept of public space, impeding consumer-led economic growth. Stock markets have reflected the economic alarm. The S&P 500 in the United States fell over 4 percent on Wednesday, as investors braced for worse conditions ahead. That followed a brutal March, during which a whipsawing S&P 500 fell 12.5 percent, in its worst month since October 2008."
- **Martin McKee, David Stuckler (9th April, 2020)** **"**Previous crises have shown how an economic crash has dire consequences for public health. But in the COVID-19 pandemic, the world is entering uncharted territory. The world's leaders must prepare to preserve health. The COVID-19 pandemic is, first and foremost, a health crisis. However, it is rapidly becoming an economic one too. This is not, of course, the first global economic crisis. However, this time it is different. It is important to note that an outbreak that requires social distancing and quarantine for control is likely to develop very differently in a setting in which there is a workforce with access to free healthcare and income protection than in one in which much employment is casual and people must choose whether to go to work when ill or to starve."

2. Preface

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With the recent downfall in the economic growth of a country due to global epidemic outbreak, the impact on financial markets has resulted to a huge drawback for a country's overall aspects . This is a truly global crisis as no country is spared. Countries that are completely relied upon tourism, travel, hospitality, and entertainment for their growth are experiencing huge downfall. Economic recovery and earnings growth in India are likely to be a bit slowed down, as the virus has a huge impact on economic activities in India - travel, tourism, hotels, manufacturing and services having global dependence and now even the corporate sectors starting to lower down the operations and productivity with work-from-home policy. The worst affected will be those who lose their job or see their hours/self-employed income dramatically fall.

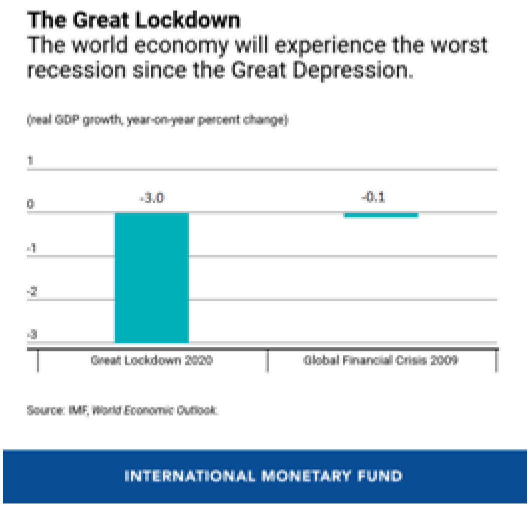


Diagram 1: Showing the fall of economy around the world compared to the great financial crisis in 2009

Overview of global financial crisis:

The global spread of the virus is a human tragedy unfolding across the world. The economic impact is complex, giving rise to uncertainty about the economic outlook and its associated risks. The sudden rise in uncertainty can put both economic growth and financial stability at risk. In addition to economic policies and fiscal measures, the right monetary and financial stability policies will help the global economy.

In addition, many countries now face multiple crises—a health crisis, a financial crisis, and a collapse in commodity prices, which interact in complex ways.

Policymakers are providing unprecedented support to households, firms, and financial markets, and, while this is crucial for a strong recovery, there is considerable uncertainty about what the economic landscape will look like when we emerge from this lockdown.

Under the assumption in the second half of this year, in the April World Economic Outlook we project global growth in 2020 to fall to -3 percent. This makes the Great Lockdown the worst recession since the Great Depression, and far worse than the Global Financial Crisis.

Assuming the epidemic fades in the second half of 2020 and that policy actions taken around the world are effective in preventing widespread firm bankruptcies, extended job losses, and system-wide financial strains, global growth in 2021 to rebound to 5.8 percent. This recovery in 2021 is only partial as the level of economic activity is projected to remain below the level projected for 2021, before the virus hit. The cumulative loss to global GDP over 2020 and 2021 from the pandemic crisis could be around 9 trillion dollars.

This is the deepest global recession in decades, despite the extraordinary efforts of governments to counter the downturn with fiscal and monetary policy support. Over the longer horizon, the deep recessions triggered by the pandemic are expected to leave lasting scars through lower investment, an erosion of human capital through lost work and schooling, and fragmentation of global trade and supply linkages. A particularly concerning aspect of the outlook is the humanitarian and economic toll the global recession will take on economies with extensive informal sectors that make up an estimated one-third of the GDP and about 70% of total employment in emerging market and developing economies.

Effect of economic recession on Indian financial markets

The government of India declares nationwide lockdown with complete halt of all economic activities. According to the analysts, the government must consider more measures to tackle the situation, if third round of effects – job losses, stretched balance sheets, lower capex and weak consumer demand are to be taken under control. It is obvious that when the global economy is on a slowdown mode no emerging economy can grow at its normal pace. Moreover, the Indian economy was grappling with its own issues and COVID-19 made the matters worse.

Table 1: Showing the comparison of GDP percentage across different countries around different years

Country	GDP growth percentage in 2017	2018	2019
USA	2.4	2.9	2.3
Germany	2.8	1.5	0.60
UK	1.9	1.3	1.4
China	6.9	6.7	6.1
India	6.5	6.7	5.3

India's GDP has been on a consistent decline after peaking out at 7.9 in Q4 of FY 2018 to 4.5 in Q2 of FY 2020. Though subject to corrections, what they suggested is that real GDP growth will contract from around 5.5% in 2019-20 to –0.4% in 2020-21. That assumes a wasted first quarter (April-June

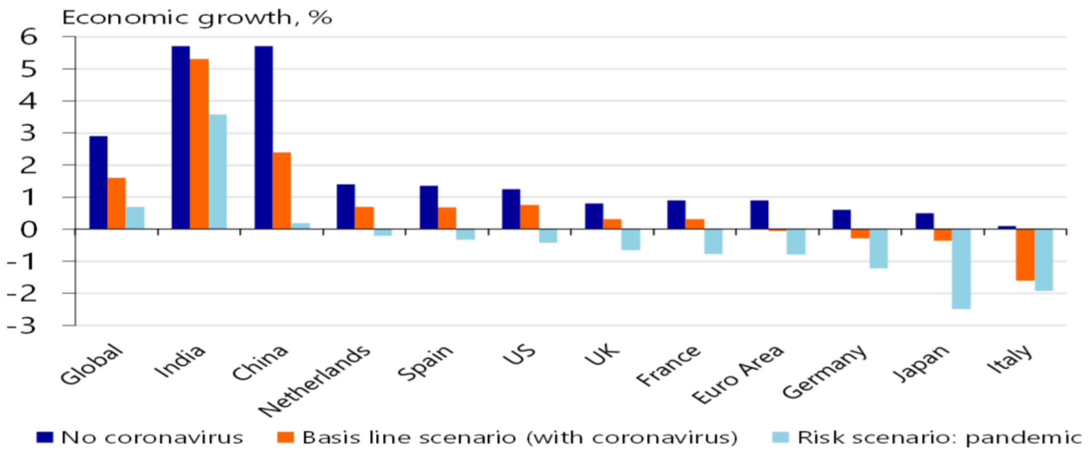
2020), a tortuously limping second quarter (July-September), followed by some recovery in the latter half of the fiscal year.

The quarterly GDP growth has consistently fallen since Q4 of FY18. If there is a deviation in Q4 of FY19, it is because the National Statistical Office (NSO) revised its data on February 28, 2020, drastically cutting down growth rates in the first three quarters of FY19 (from 8% to 7.1% for Q1; from 7% to 6.2% in Q2 and 6.6% to 5.6% in Q3).

In the face of this disquieting outlook, the immediate priority for policymakers is to address the health crisis and contain the short-term economic damage. Over the longer term, authorities need to undertake comprehensive reform programs to improve the fundamental drivers of economic growth once the crisis lifts.

Impact of recent global epidemic on financial market

The global financial market which was positively sailing , is suddenly hit by a giant wave of global epidemic commonly known as COVID 19 ,which has resulted to immense price crashing and downfall of global economic situations in early 2020. The ongoing spread of the new virus has become one of the biggest threats to the global economy and financial markets all over the world including India. According to economists there will be a hit of 0.3-0.5% on the GDP in the next fiscal year. The economy is forecast to grow around 5% in current fiscal, the slowest in 11 years. The Economic Survey had forecast 6-6.5% rise in financial year 2021, but Covid-19 has stopped the recovery prospects.



[Source - Rabobank, Macrobond , diagram 2:showing different economic growths experienced around different countries]

It is evident from the above diagram that for India, we expected a growth of 5.3% in 2020, with global epidemic reducing off 0.4% compared to the situation before the corona outbreak (5.7%). It also results in the sudden crash of stock market. Financial conditions have tightened significantly in recent weeks, which means that companies are facing higher funding costs when they tap equity and bond markets. Such a sudden, sharp tightening in financial conditions acts as a drag on the economy, because firms postpone investment decisions and because individuals delay consumption as they feel less financially secure.

The United Nations Conference on Trade and Development (UNCTAD), has suggested that India's trade impact due to the COVID-19 outbreak could be around USD 348 million. For India, the overall trade impact is estimated to be at 129 million dollars for the chemicals sector, textiles and apparel at 64 million dollars, the automotive sector at 34 million dollars, electrical machinery at 12 million dollars, leather products at 13 million dollars, metals and metal products at 27 million dollars and wood products and furniture at 15 million dollars.

Effect of lockdown in business

It has become challenging for most businesses to keep their financial wheels turning during the lockdown period due to less revenue and the general uncertainty in the global financial env Firms will see a fall in demand and lower profits. Some firms may start to make a loss and go bankrupt. This may be due to fundamental inefficiency but also firms may go out of business purely because of the cyclical factors and an inability to borrow sufficient firms to see the end of the recession. A recession will hit some firms more than others. In a recession, there is a large fall in demand for luxury goods (foreign holidays) top-end sports cars and so these firms will be more vulnerable.

If a company has large reserves then it will be able to ride out the recession even if it makes a temporary loss. A recession may cause a firm to pursue price wars and cost-cutting.

- **Price Wars –** Firms often seek to hang onto market share. This leads to aggressive price cuts, which further reduce the profitability of business.
- **Cost Cutting –** The impact of declining profitability means companies will be forced to look closely at reducing costs and maybe closing unprofitable areas of the business. Companies may be forced to lay off staff in an effort to reduce cost.

Unfortunately, the impact on startups or small businesses can be way more brutal as they have scarcer cash reserves and a smaller margin. The effect of this shutdown will have a key impact on India’s economy, as all business sectors get affected resulting low revenue generation due to an eventual halt on the sale of products and/or services. It is expected that India’s growth rate in FY20-21 will be down to 2% from a range of 4.7%-5.2% as was predicted earlier by the rating agency ICRA.

There are three major channels of impact for Indian businesses according to the report namely linkages, supply chain and macroeconomic factors. The data of the Dun & Bradstreet shows that at least 6,606 Indian entities have legal linkages with companies in countries with a large number of confirmed COVID-19 cases. And business activity in the foreign markets is slow which implies a negative impact on the top of these companies. Sectors that would be much affected include logistics, auto, tourism, metals, drugs, pharmaceuticals, electronic goods, MSMEs and retail among others.

Also, we can't ignore that the lockdown and pandemic hit several sectors including MSME, hospitality, civil aviation, agriculture and allied sector. The lockdown in India will have a sizeable impact on the economy mainly on consumption which is the biggest component of GDP.

Reduction in the urban transaction can lead to a steep fall in the consumption of non-essential goods. It can be severe if disruption causes by the lockdown and affect the availability of essential commodities as well as normal goods. Due to weak domestic consumption and consumer sentiment, there can be a delay in investment which further add pressure on the growth.

In terms of trade, China is the world’s largest exporter and second-largest importer. It accounts for 13% of world exports and 11% of world imports. Up to a large extent, it will impact the Indian industry. In imports, the dependence of India on China is huge. Of the top 20 products that India imports from the world, China accounts for a significant share in most of them. In terms of export, China is India’s 3rd largest export partner and accounts for around 5% share. The impact may result in the following sectors namely organic chemicals, plastics, fish products, cotton, ores, etc.

The lockdowns in both the countries due to Covid-19 is expected to badly affect the bilateral trade which declined by three billion billion dollar last year to USD 92.68 billion from USD 95.7 billion in 2018.

India’s total electronic imports account for 45% of China. Around one-third of machinery and almost two-fifths of organic chemicals that India purchases from the world come from China. For automotive parts and fertilisers China’s share in India’s import is more than 25%. Around 65 to 70% of active pharmaceutical ingredients and around 90% of certain mobile phones come from China to India.

Therefore, we can say that due to the current outbreak of coronavirus in China, the import dependence on China will have a significant impact on the Indian industry.

It has been seen that some sectors of India have been impacted by the outbreak of coronavirus in China including shipping, pharmaceuticals, automobiles, mobiles, electronics, textiles, etc. Also, a supply chain may affect some disruptions associates with industries and markets. Overall, the impact of coronavirus in the industry is moderate.

According to CLSA report, pharma, chemicals, and electronics businesses may face supply-chain issues and prices will go up by 10 percent. The report also says that India could also be a beneficiary of positive flows since it appears to be the least-impacted market. Some commodities like metals, upstream and downstream oil companies, could witness the impact of lower global demand impacting commodity prices.

According to the Trade Promotion Council of India, approximately 85% of active pharmaceutical ingredient (API) imported by India are from China. Notably, China accounted for around 67% of total imports of bulk drugs and drug intermediates in 2018-19. India has a high dependence on antibiotics and vitamins.

India also exports 36 per cent of its diamonds to China. The cancellation of four major trade events between February and April could also cause major losses to India's diamond industry

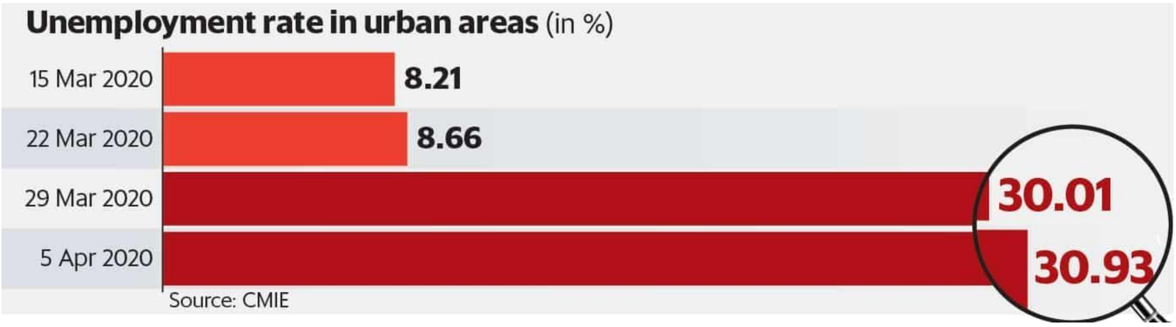
The sector-wise impact on Indian industry are :

- **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. China is a major supplier of Indigo that is required for denim. Business in India is likely to get affected so people securing their supplies.
- **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. Due to lockdown no trade are to be operated during this time so all the shipping industries will be affected to a huge extenct.
- **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 in2020.
- **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 corona virus outbreak, it will also be impacted.
- **Textiles Industry:** Due to corona virus outbreak, several garments/textile factories in China have halted operations that in turn affecting the exports of fabric, yarn and other raw materials from India. As India will fail to conduct any trade with abroad thesector will be highly affected.
- **Solar Power Sector:** Indian developers may face some shortfall of raw materials needed in solar panels/cells and limited stocks fromChina.
- **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.
- **IT Industry:** The New Year holidays in China has been extended due to corona virus outbreak that adversely impacted the revenue and growth of Indian IT companies.

- **Tourism and Aviation:** Due to the corona virus 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 profits will be very less as there is a less chance of people travelling due to lockdown

Industries benefiting from recession of 2020: companies with strong online presence. some business did very well from the Covid-recession. As consumers stopped going to the high street and shopping malls, we switched to online delivery. Sales at online giants like Amazon increased significantly. For example in the first seven months of 2020, the market capitalization of Amazon grew $570bn as its sales grew rapidly. Amazon also saw rapid growth in its cloud computing networks, due to growth in demand for things like online streaming. These parts of the business are more profitable. Apple, Google and Facebook also saw rapid growth in revenue and profitability in a period which favours. The Covid recession is unusual in that more than ever there are big winners and big losers from the recession. It all depends on how the business is affected by the dynamics of the virus as much as aggregate demand.

Effect on employment level: With the adverse effect on global economic depression, India too is likely to experience a big hit in the employment level. According to Centre for Monitoring Indian Economy's it was already estimated from the jobs data that indicated , the coronavirus effect may have a devastating impact on the economy, for which the urban unemployment rate jumped to 30.9% . The overall unemployment along with the rural scenario rose to 23.4%. It also estimates on unemployment jumped from 8.4% in mid-March to 23% in first week of April.



Based on a rough calculation, about 50 million people might have lost jobs in just two weeks of the of lockdown, although some of them have just been sent home for the time being, the actual scope unemployment may be even higher and may rise up later said by the former chief statistian of India. Unemployment can leave lasting negative impacts. Firstly, unemployment is very stressful and can damage the person's morale, and even health. Areas of high unemployment tend to experience more social problems. High unemployment can be a factor in creating social instability, leading to problems such as riots and vandalism. Mass unemployment can threaten the social fabric of the countries. The unemployed lose the opportunity to gain skills and on-the- job training. Long-term unemployment can make it harder for the worker to gain a job in the future; it can even cause people to give up and drop out of the labour market completely. Unemployment and recession can also cause a rise in social/health problems such as depression and suicide.

Impact on stock market:

According to the data published by BusinessToday.in Indian stock market has lost 26 per cent in dollar terms between February 1 and April 9, compared with a fall of 20 per cent and 14 percent in the European and US markets.

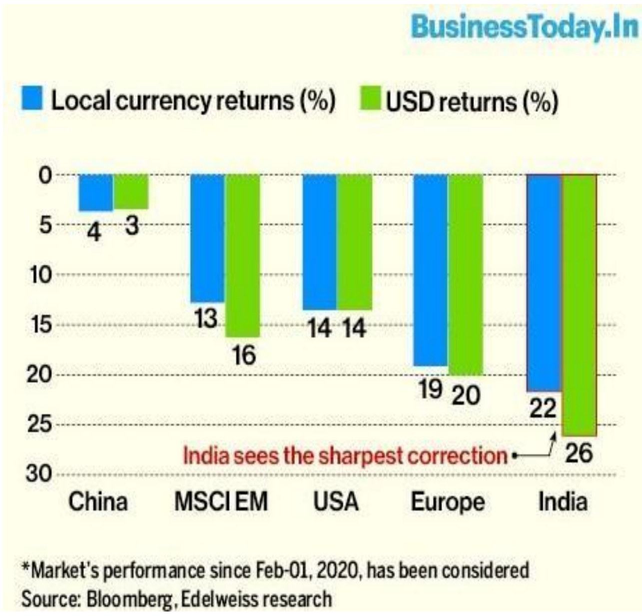


Diagram 4: Showing local currency returns compared to the USD returns in 2020

On 23 March 2020, Sensex lost 3,934.72 points (13.15%) and Nifty falls 1,135 points (12.98%) at 7610.25 as coronavirus-led lockdowns across the world fearing a recession. These are now the lowest levels since 2016. It's witnessing the biggest loss as the increasing number of coronavirus cases in India as well as globally.

Effect of the pandemic on Indian gold market:

India's gold consumption in 2020 could fall as much as 50% from a year ago to the lowest level in nearly three decades as a nationwide lockdown has closed jewellery stores during festivals and the wedding season. The drop in consumption by the world's second-biggest gold buyer could limit global prices, which hit a more than seven-year high earlier this month. The fall in demand could also narrow India's trade defict. India's gold consumption in 2020 could fall to 350 tons to 400 tons, the lowest since 1991, and down from 690.4 tons in 2019.

The jewellery industry is also worried about a slowing economy, job and pay cuts that could hit demand even after the lockdown is lifted. Consumers make gold purchases with disposable income, which could fall for millions of people engaged in the unorganized sector. Even before the lockdown gold demand was faltering in India and imports plunged 55% in March quarter due to a record high prices. After surging 25% in 2019, local gold prices have risen by another 20% so far in the year, making gold pricey for millions of rural Indians, India is likely to record its worst growth performance in four decades this year due to the coronavirus outbreak, the World Bank said.

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Paper ID: SR23317152047 DOI: 10.21275/SR23317152047