Potential Impact of Corona virus on Indian Economy: The Way Forward

Manya Kheria

ABSTRACT: The goal of the present article is to assess the economic impact of Coronavirus on the Indian economy and analyse the fiscal and monetary measures taken so far to conclude their effectiveness and further propose what other measures can be taken to tackle these economic challenges. The novel Coronavirus has caused massive economic disruptions across the world. However, it is very difficult to quantify the economic impact of the Coronavirus due to the uncertainty about the time period and the depth of the problem. Hence, it is important to assess the economic impact and analyse measures to combat the economic challenges posed by Coronavirus. The research paper focuses on assessing the economic impact of COVID-19 on India, analysing the fiscal and monetary measures taken so far and further proposing some other measures that can be taken.

I. INTRODUCTION

The pandemic threat of COVID-19 is having massive disruptive effects on global growth and economy. The uncertainty about the virus makes it difficult to quantify its economic impact. Economists all over the world are struggling to make an assessment. Nevertheless, it is important to determine its impact for forecasts and to decide future steps and measures. This makes us question the impact of Coronavirus on the Indian economy and what has to be done to effectively combat this economic impact.

Two lines of research are relevant to this question. First, the impact of COVID-19 on the global economic growth. The influential think tank forecast a growth of 2.4% in 2020, reduced from 2.9% in November 2019. It also said that a prolonged and severe outbreak could halve the global growth to 1.5%. According to the Organization for Economic Cooperation and Development (OECD), the world economy could grow at its slowest rate this year since 2009 due to COVID-19.

Second, research on the economic impact of Coronavirus worldwide has shown that this pandemic has had humungous ramifications on the economy of both developed and developing countries. According to the Morgan Stanley report, American gross domestic product will fall at an annual rate of 30.1% in April-June, 2020 and unemployment can average 12.8% over the period. Goldman Sachs has projected a 24% annualized drop in output in the next quarter. The US Labour Department also reported that unemployment claims in the U.S. rose to a record of 3.28 million. Every sector of China, second largest economy and the largest exporter in the world, has been affected by the fall in activities due to this pandemic. According to Ting Lu, Chief China economist for Nomura, there was a “devastating” impact on the Chinese economy in the first quarter of 2020 due to the outbreak of coronavirus.

Keeping this research in mind, one can conclude that when countries such as USA and China with higher per capita income and Gross Domestic Product than India are facing such massive economic setbacks, then it is very important to determine the economic impact of novel Coronavirus on India and analyse steps that should be taken to tackle it successfully.

6 https://www.investopedia.com/insights/worlds-top-economies/
Therefore, the goal of the present article is to determine the economic impact of Coronavirus on India, analyse fiscal and monetary measures taken so far and further propose what other steps can be taken to minimize the economic impact on India.

II. COVID-19 ECONOMIC IMPACT ON INDIA

There are four important factors to assess the economic impact of coronavirus on India.

First, Coronavirus outbreak came when India’s economy was already slowing due to persistent financial sector weaknesses. The total number of confirmed Coronavirus cases in India has increased to 13,387 along with 437 deaths as on 17th April, 2020. To curb the further spread of COVID-19, the government imposed a lockdown with restrictions on the movement of people and goods. This means that all economic activity and output has come to a halt in India. Barclays estimated that India’s aggressive 21-day lockdown could bring the country’s growth down to 2.5% from the 4.5% it had earlier estimated. The resulting domestic supply and demand disruptions from this lockdown are expected to result in a sharp growth deceleration in FY21 to 2.8 percent in a baseline scenario (an estimate subject to wide confidence intervals) and the services sector will be particularly impacted according to a report by the World Bank.

Second, Coronavirus will especially hit the Indian economy hard since India’s economy relies very heavily on informal employment, so the reliance of people’s well-being on the broader economy performing and the markets performing is high. Therefore, any threat to people’s well-being will have huge unintended effects on the economy.

Third, the economic impact on the Indian Micro, Small & Medium Enterprises (MSMEs) is very high. These companies are too small to have enough financement last through the Coronavirus pandemic. Besides, many MSMEs have been asked to shut down or curtail operations while still paying employees along with meeting costs for taxes, power, and other utilities. Available data shows that Indian MSMEs employ more than 110 million people. Therefore, asking MSMEs to keep paying during a prolonged lockdown is not a sustainable solution in the medium and long-term.

Fourth, the supply disruption due to a halt in the functioning of the economic powerhouse China has also had a huge economic impact on the Indian economy. The shutdown in China has impacted several Indian sectors including auto, pharma, chemicals, electronics, solar power, shipping, tourism, and aviation and textiles. According to a UN report, India is among top 15 economies most affected by the manufacturing slowdown in China.

The lockdown in China prohibited the import of various components that has affected both Indian auto manufacturers and auto component industry. India is nearly 100 percent dependent on Chinese imports for many critical antibiotics and antipyretics and also imports approximately 70% of its API consumption value from China. The Indian pharma sector was therefore faced with the risk of supply disruptions and unexpected price movements. Indian dyestuff units are heavily dependent on imports of raw materials like chemicals and intermediates from China. Delayed shipments from China and an increase in raw material prices has affected the Indian dyes and dyestuff industry. China is also a major supplier of both raw materials and finished products in the Indian electronics industry. Therefore, India’s electronics industry was faced with the risk of supply disruptions, production reduction and adverse impact on product prices due to the lockdown in China. Chinese companies dominate the Indian solar components marketsupplying about 80 percent of solar cells and modules used. As a result, the impact on the Indian solar components market was 80 percent as reported by a report by the World Bank.

2https://www.who.int/docs/default-source/coronaviruse/situation-reports/20200417-sitrep-88-covid-1918cc0249d94f98bf219377b5f5519a6ed.pdf?sfvrsn=edebe78315_6

DOI: 10.9790/0837-2504080106 www.iosrjournals.org 2 | Page
result, Indian solar panel developers faced a shortfall of raw materials and were economically impacted. Shipment delays between India and China has led to concerns regarding the overall earnings of Indian shipping companies in the first quarter of 2020. The shutdown in China has meant that ships cannot enter Chinese ports that has resulted in a sharp drop in the dry bulk cargo movement. The outbreak has forced Indian airlines to temporarily suspend flights operating from India to China and Hong Kong. This has led to reduction in on gross revenue targets of Indian carriers. 

Fifth, COVID-19 has adversely impacted Indian exports. India’s biggest export markets, the European Union and the United States of America have extended lockdowns. Already, between April, 2019 and February, 2020 (before the lockdown) India’s merchandise exports fell by 1.5% over the same period last year while imports declined by 7.3% to $436.03 billion. Besides, the halt in operations of Chinese textile factories has adversely affected Indian exports of fabric, yarn and other raw materials. This disruption is expected to slow down Indian cotton yarn exports by 50 percent severely impacting Indian spinning mills. This will also lead to default in dues by Indian textile units to financial institutions. Thus, Indian Companies dependent on foreign trade are facing risk and uncertainty.

III. FISCAL AND MONETARY MEASURES TAKEN

The Government of India has taken several fiscal actions to tackle the economic impact of Coronavirus. The Government has declared a 1.75 lakh crore relief package under the Pradhan Mantri Garib Kalyan Yojana (PMGKY) to help the poor and the vulnerable sections of the society in these stressed times. Under this relief package approximately 800 million people will be provided with free cereals including 5 kg of wheat or rice and 1 kg of pulses along with cooking gas. They will also receive direct cash transfers for a period of three months. The wages under the Mahatma Gandhi National Rural Employment Act (MGNREGA) will be increased from Rs 182 a day to Rs 202 that will benefit 136.2 million families. Rs 1,000 will be given to nearly 30 million poor senior citizens, widows and disabled. Moreover, 200 million women Jan Dhan account holders will be provided with Rs 500 per month for three months. The Government relief package also consists of insurance coverage up to Rs 50 lakh each for nearly two million healthcare workers including doctors, paramedics and other medical staff combatting the COVID-19. States also have been directed towards using the Building and Construction Workers Welfare Fund to give economic aid to construction workers. Besides this, the first installment of Rs 2,000 under the Pradhan Mantri Kisan Yojana will be extended to around 87 million farmers. In the organised sector, the Government will pay the Provident Fund contribution of those who earn less than Rs 15,000 per month in companies having less than 100 workers. This amount that the Government will pay for three months covers 24 percent of basic pay including 12 percent from the employer and 12 percent from the employee. Moreover, the Employees’ Provident Fund Regulations will be modified to include Coronavirus as a basis for allowing a non-refundable advance of 75% of the amount in the account or three-month wages, whichever is lower. 

Besides this, the Government of India has also cut interest rate on delayed payment from 12% to 9% and brought down interest rate for filing a delayed return. In addition, no interest, penalty, and late fee can be charged for filing delayed returns for companies with turnover up to Rs 5 crore. In addition, in the financial services sector the Government has provided for the debit card holders to withdraw cash from any bank ATM free of charge for the period of three months. Moreover, the Government has also reduced digital charges for trade transactions and removed charges for not keeping the minimum balance requirement for the next three months.

The Reserve Bank of India has also taken several monetary actions on the basis of the current and evolving macroeconomic situation. The Central Bank has implemented regulatory package to spur economic activity and alleviate the adverse impact on domestic demand caused by lockdown and disruptions in the global supply chain amidst the Coronavirus outbreak.

In its regulatory package, the Reserve Bank of India cut the Repo rate by 75 basis points (or 0.75%) from 5.15% to 4.4% and the reverse repo-rate by 90 basis points to 4% and then recently by another 25 basis points to 3.75%. In addition, it also cut the cash reserve ratio or CRR by 100 basis points to 3 per cent. This

---


DOI: 10.9790/0837-2504080106 www.iorsjournals.org 3 | Page
reduction in the Cash Reserve Ratio will inject Rs 1.37 lakh crores liquidity into the economy. Other Liquidity Enhancement Measures include increase in the Marginal Standing Facility from two percent of the Statutory Liquidity Ratio (SLR) to three percent that will inject another Rs 1.37 lakh crores into the economy and Targeted Long-Term Repo Operations (TLTRO) up to Rs 1 lakh crore for a period of three years at a floating rate. In addition, The Reserve Bank of India also announced TLTRO 2.0 for an initial amount of Rs 50,000 crore. The first round of TLTRO mainly helped large corporations and Public Sector Undertakings (PSUs) whereas the second round of TLTRO is aimed at providing help to small and medium-sized financial organisations under MSMEs. The liquidity availed by banks under TLTRO has to be deployed in commercial paper, investment grade corporate bonds and non-convertible debentures over and above the outstanding level of their investments in these bonds as on March 25, 2020.

Furthermore, all banks and other lending institutions including all-India Financial institutions and Non-Banking Financial Companies such as micro-finance and housing finance companies have been permitted to allow three-month moratorium on term loans and equated monthly instalments. The Reserve Bank of India has also deferred interest payment for all working capital and business loans outstanding as on March 1, 2020 until May 31, 2020. Special refinance facilities of Rs 50,000 crores has been extended to National Bank for Agriculture and Rural Development (NABARD), Small Industries Development Bank of India (SIDBI), and National Housing Bank (NHB) to enable them to meet sectoral credit needs along with refinancing small and medium finance institutions so that money can be lent smoothly to businesses. Moreover, the Liquidity Coverage Ratio (LCR) requirement for scheduled commercial banks (SCB) has been reduced from 100 per cent to 80 per cent and loans by Non-Banking Financial Companies (NBFCs) to real estate companies will get similar benefits as given by SCBs.

### IV. CONCLUSION

The well-defined relief package of the Government of India in these stressed times is an extremely timely measure. The package shows the Government’s intent of providing basic facilities to everyone in these unprecedented times. The large-scale interventions and fiscal measures will provide aid and economic support to the vulnerable sections of the society including daily wage workers, farmers, poor senior citizens, disabled persons and self-help group women. The fiscal actions in the organised sector will prevent disruption in employment on a mass scale. Inequality has sharpened and it is thus morally imperative that the poorer and vulnerable sections of the society are given food and money. Therefore, the various steps taken by the Government of India under the Pradhan Mantri Garib Kalyan Yojana (PMGKY) aiming at food and cash security for the poor and the vulnerable sections of the society is a very good and much needed step. Furthermore, the reduction in digital charges for trade transactions and removal of charges for not keeping the minimum balance requirement for the next three months ensures the ease of burden on customers who require cash urgently and also helps to avoid the overcrowding of bank branches.

In addition, the bottom half of all households (13 crores out of 26 crore families) must be given Rs 5,000 per family. All States have their “below poverty line” lists besides the list of households and bank details available in various Government schemes such as PMJAY and MGNREGA. Depending on the need, these families can be given Rs 3,000 each in the month of May. Even though the Central Government has already announced the distribution of free food, people are still finding it difficult to procure food items. There is either lack of food supplies at the ration shops or identity requirements of rations cards are acting as impediments. Hence, the Government must universalise food distribution, work with State Governments to ensure supplies at

---


local ration shops and remove identity requirements. The April 15 guidelines has allowed the MGNREGA work to be restarted while following the social distancing norms. District collectors should be allowed to start and expand work under MGNREGA. If work cannot be given, 10 days wages every month should be provided to the registered MGNREGA workers until the work resumes to help them support their livelihood. The next step is to open the economy gradually.28

The Government of India can work along with the State Governments to identify the hotspots and non-hotspots. This can be done by strategic testing and with the help of epidemiologists and public health experts. The non-hotspot areas should be opened post lockdown so that small shops, service establishments and self-employed can resume their economic activity in their local area. This will help boost the local economy. Constant monitoring and testing are however needed as new areas might become hot-spots and hot-spots may become non-hotspots. 29

Even though the new guidelines permit agricultural activity during the rabi season, labour is of quintessential importance for all agricultural and commercial activities. For this, reopening of transport is important. Public and private transport should be gradually opened in non-hotspot areas. Public transport should be restarted with necessary precautions such as temperature checks and social distancing norms inside the buses and trains. One way of reducing passengers in public transports is by running them at their half capacity or by increasing the frequency of public transport.30

Another crucial factor for resumption of economic activity is capital. A majority of the small and medium enterprises (SMEs) would have lost significant revenues and run out of cash. The Reserve Bank of India has taken a number of steps to ensure that the SMEs get capital. In addition, the Government can also provide credit guarantees to nudge banks to provide loans to SMEs. In the formal sector, the Government can follow the example of the United States’ Paycheque Protection Program wherein the Government could prevent lay off of employees and protect their pay cheques by funding their employers to pay them for one or two months. Furthermore, the Government should encourage exports by strategic use of foreign reserve and export incentives. Exports will also provide employment to millions of workers.31

The Reserve Bank of India’s COVID-19 regulatory packages aim at tackling the economic challenges posed by the pandemic and inject liquidity into the economy to help businesses. By reducing the reverse repo rate more than the repo rate, the Reserve Bank of India is nudging the banks to give more loans rather that play safe by money parking. In addition, reduction in the repo rate and reverse repo rate will increase availability of bank credit and help to reduce the cost of borrowing from banks which will stimulate production and economic activity. The accommodative stance of RBI is necessary to revive growth and mitigate the impact of coronavirus on the economy and ensuring that inflation remains within the target.32 Furthermore, the three-month moratorium and deferred interest payment for all business and working capital loans will help to avoid large NPAs and reduce risk weights.33 Moreover, special refinancing facilities to financial institutions and reduction in the Liquidity Coverage Ratio (LCR) will help banks maintain sufficient high-quality liquid assets in the wake of the COVID-19 outbreak.34

India has a fragile corporate and financial sector besides slow growth over the last few years. In addition, there is a possibility of retail defaults and reluctance of banks to lend amidst this crisis. One strategic way on saving resources in the emerging markets and creating employment is to help large companies (that are the viable part of the corporate and financial sector) resume economic activity. Large companies will generate employment for millions and boost economic activity. Some problems that these large companies may face right now includes difficulty in raising funds in corporate debt markets and problem in getting loans from banks. The Reserve Bank of India can step in and help in this scenario by lending to financial institutions such as well

28 https://www.thehindu.com/opinion/lead/a-blueprint-to-revive-the-economy/article31359290.ece

29 https://www.thehindu.com/opinion/lead/a-blueprint-to-revive-the-economy/article31359290.ece

30 https://www.thehindu.com/opinion/lead/a-blueprint-to-revive-the-economy/article31359290.ece

31 https://www.thehindu.com/opinion/lead/a-blueprint-to-revive-the-economy/article31359290.ece


managed insurance companies, NBFCs and banks and motivate them to use these loans to invest in corporate bonds and commercial paper so that large firms can avail large funds in this manner. This is one way of injecting liquidity into the system and boosting employment and economic activity strategically.35

Another step that can be taken by the Reserve Bank of India is to widen the kind of collateral that it would accept. It can refinance banks through investment rate corporate bonds against some of the assets that the banks have which earlier they could not borrow against. This will provide more liquidity to the banks.36 In addition, the Reserve Bank of India should also contemplate on crucial issues such as whether agricultural loans should be written off since farm operations have halted and if MSMEs should get their current loan restructured with credit to help them resume normal activity. Moreover, the Reserve Bank of India should also look at monetising a portion of the debt to the Central and State Governments and re-frame the fiscal deficit limit of the states from the current 3.5% to 5% to help address their capital expenditure squeeze and boost local economic activity.37

The fiscal and monetary measures taken so far are timely and the need of the hour. Further steps such as those elucidated above can be taken by the Government of India and the Reserve Bank of India to further minimise the economic impact of the Coronavirus crisis. The International Monetary Fund’s projection shows that India is expected to post a sharp turnaround and grow at 7.4% in 2020-21.38 Timely and strategic measures can help India recover from the economic impact of COVID-19 quickly and efficiently.

-Manya Kheria


DOI: 10.9790/0837-2504080106 www.iosrjournals.org