EPRA TRUST Publishing

Research Paper

EPRA International Journal of Economic and Business Review -Peer Reviewed Journal

Volume - 8, Issue -6, June 2020 | e-ISSN : 2347 - 9671| p- ISSN : 2349 - 0187

SJIF Impact Factor(2020) : 8.107||ISI Value:1.433 |Journal DOI URL :https://doi.org/10.36713/epra2012

ECONOMIC CRISIS IN INDIA 2020: MEASURES TO V- SHAPED RECOVERY

Duragesh Pujari

Research Scholar, Department of Economics, Karnatak University, Dharwad, Karnataka.

ABSTRACT

Article DOI URL: https://doi.org/10.36713/epra3209

COVID-19 pandemic has not only infected and killed millions of millions people, but it has also negatively impacted the economy with varying degrees across the globe and in India as the economic activities were completely stopped during the lockdown period. Covid19 pandemic creates economic crisis in India FY2020. The paper attempts to examine the impact of COVID-19 on different key sectors of the Indian economy and offer policy suggestions to push the Indian economy on V-shaped recovery. The study has been found that Negative performance in industrial production, lower performance in PMI, increasing in unemployment, declining in the inflation due to lack of demand, decrease in forex reserves, decrease in private consumption, decrease in exports and increase in imports, increasing fiscal balance these all factors are creates a economic crisis in our country Fy2020. Therefore, the country should boost the all factors which are already hit by lockdown due COVID-19 pandemic. If country properly boosted all factors, leads to better performance in post COVID-19. Country needs to boost the MSMEs and domestic entrepreneurs, industrialist, farmers providing better incentives for increasing economic growth of nation. The government should be concerned about protecting the health of Indian Economy and should spend what is needed. The study conclude that Quick and sustained recovery measure (V-shaped recovery measures) are required to come out from present economic crisis which result of covid19 in India and creation of awareness about COVID-19 pandemic should be continuing.

KEY WORDS: *Covid19, Growth, PMI, Export and Import, Inflation, Fiscal Balance.*

1. INTRODUCTION

The present world is facing a big challenge towards minimizing and controlling COVID-19 everywhere. But most of the countries have sadly lost their human capital. Many countries in the world fallowed and created many strategies to fight against COVID-19, but its spread has not been controlled yet. As the corona virus spreads rapidly around the world, several countries seem to be moving along a similar upward trajectory. In India COVID 19 is rapidly spreading and 190535 COVID 19 cases are registered in our country (12:49 PM, June 01, 2020 MoHFW). According to Centers for Disease Control and Prevention, COVID-19 is spread mainly from person-to-person, usually via close contact (within six feet). That could be via physical contact, like handshaking (if someone's hands are contaminated with the virus) or touching contaminated surfaces.

The central and state governments are taking various steps to mitigate the spread of COVID-19 in India. The central government imposed a nation-wide lockdown on March 25, 2020 and also extended still june 30, 2020. The lockdown necessitated the suspension of all economic activities, except the ones classified as 'essential' from time to time, and the ones that can be carried out from home. As a result, all economic activities which require persons to travel or work outside home, such as manufacturing of nonessential goods and construction, have stopped since then. While this has resulted in a loss of income for many individuals and businesses, the ongoing lockdown is also going to severely impact the revenue of the central and state governments.

Many economists and various financial institutions have made predictions on the huge decline in the trade which will have impact on global GDP and also every nation will face a heavy loss on its economy. Economists also have made predictions that if the lockdown continues further, developing countries like India will fall far back to 20 years which will be a great challenge to tackle in the post lockdown period. The spread of the virus is continuing day by day even after the lockdown, and the government has now announced the Second round of lockdown since April 1. The vaccine is yet not developed which is the prime reason for extending the lockdown. In such a situation its each ones responsibility rather only choice is to maintain social distancing and stay at home. (Pujari and Suppannavar 2020). But presently central government announced 5th lockdown that is 5.O from June 1 with providing some relaxation. Therefore, Indian economy faced many problems related to economy which are results of nationwide lockdown. Covid19 pandemic and nationwide lockdown are major responsible factors to creating the economic crisis in India FY2020 because of country spending time with only controlling a spreading covid19 pandemic without generation of economic activities in our nation. it means at the pandemic period, all economic activities are stopped for fighting against covid19 pandemic.

2. REVIEW OF LITERATURE

Dev and Sengupta (2020) in this paper they described the state of the Indian economy in the pre-Covid-19 period and assess the potential impact of the shock on various segments of the economy. the study finally, analyse the policies that have been announced so far by the central government and the Reserve Bank of India to ameliorate the economic shock and put forward a set of policy recommendations for specific sectors. Study Conducted by **Sherwani and Gupta (19, May 2020)** Corona Virus pandemic may wreck the Indian economy and the level of GDP may further fall, more so when India is not immune to the global recession. Study explored that India is more vulnerable, since its economy has already been ailing and in a deep-seated slowdown for several quarters, much before the COVID-19 outbreak became known. The paper reveals the the Prime Minister of India has already spoken of setting up an Economic Task Force to devise policy measures to tackle the economic challenges arising from COVID 19. the paper concluded that as the disruption from the virus progresses globally as well as within India, it is for us to forget, at least for the time being, all talking only about economic recovery, and instead join hands whole heartedly to tackle the outcome of COVID-19. **Tiwari (April 19, 2020)** said that the central government and most of the state governments passed their budget for the financial year 2020-21 during February-March 2020, before the lockdown. The central government estimated a 10% growth in the country's nominal GDP in 2020-21, and more than half of the states estimate their nominal GSDP growth rate in the range of 8%-13%. Due to the unforeseen impact of the lockdown on the economy, the 2020-21 GDP growth rates are expected to be lower than these estimates. As a result, the tax revenue that the central and state governments will be able to generate is expected to be much lower than the budgeted estimates, during the period of lockdown.

3. OBJECTIVES OF THE STUDY

- To analyze the impact of COVID-19 on Indian Economy;
- To examine the factors contributing to the economic crisis in India and
- To offer policy measures to V-shaped recovery of the Indian economy to present Economic Crisis.

4. RESEARCH METHODOLOGY

The present study is based on secondary data. The data such data are related to industrial production, unemployment, inflation, Total Forex Reserves, fiscal Balance, and economic growth and so collected. These data analyzed before and after COVID-19 period. Suitable statistical tools such as percentage, Growth rate and GDP ratio will be used to analyze the data. The data collected from IMF, RBI, Ministry of Statistics and Program Implementation Government of India, Central Statistical Office, Controller General of Accounts (CGA), Ministry of Commerce and Industry, Market Economics and Institute of Management Accountants (IMA).

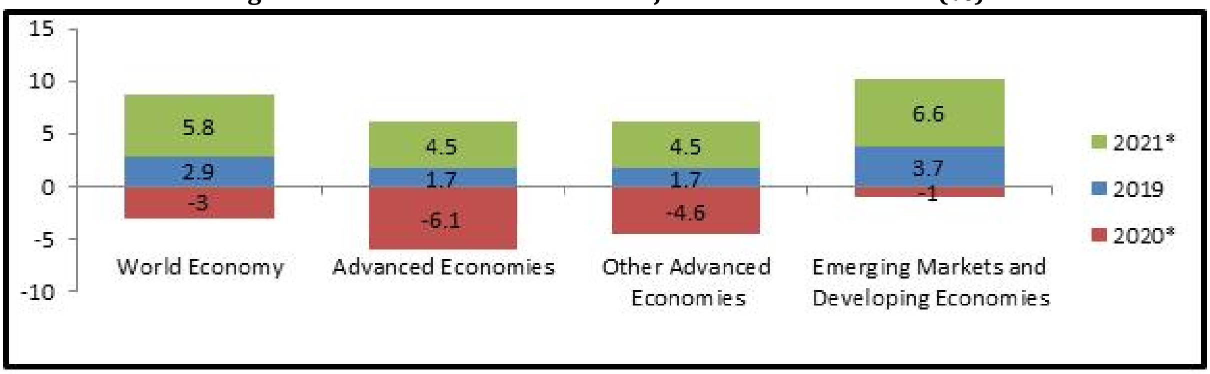
5. RESULTS AND DISCUSSIONS

5.1. COVID-19 Pandemic and World Economy

Fig 1 makes the analysis of the economic growth of three cumulative periods from 2019; the world economy shows a 3 percent negative growth posing a very perturbed condition for all the countries. The top nine advanced countries have also got into a huge economic breakdown of about -6.1 percent negative in 2020 from 1.7 percent growth in 2019. The other advanced economies show a -4.6 percent negative growth for the same period followed by the developing economies with -1 percent growth rate. The below three figures explored that the advanced countries have suffered a higher loss than compared to that of the developing economies.

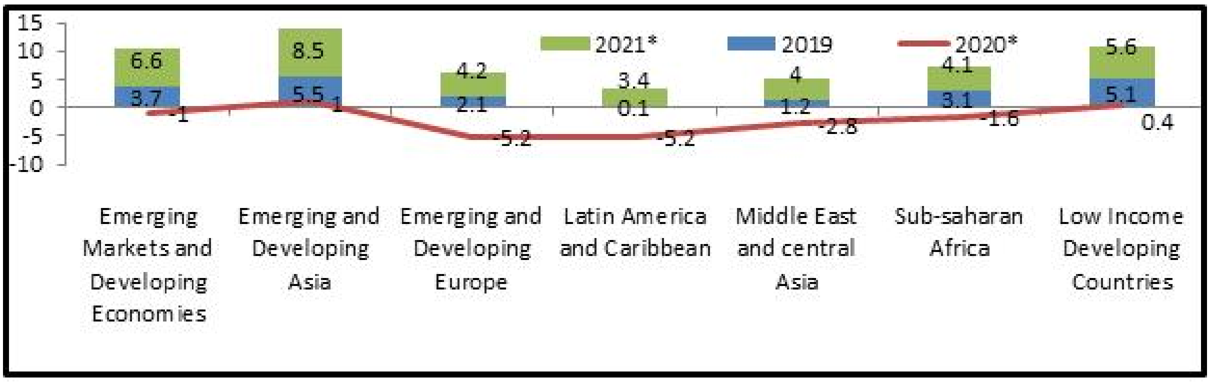
In Fig 2 it is seen that accept for developing Asia and low income developing countries other all group of countries have negative growth during the year 2020. Also in Fig 3 shows the negative growth rate of the major countries and yet can see China and India having a very low but positive growth rate for the same period. In summary we can say that all the countries together have a declining trend in the economic growth rates which ultimately has pulled down the global growth rate and the sole reason is the unpredictable spread of the novel Virus all over the world. The forecasts made for 2021 in all the three figures is based on the hope to discover vaccine against the virus which would bring back the economy back to normal.

Fig. 1: Economic Growth Rates of Major Economies in World (%)



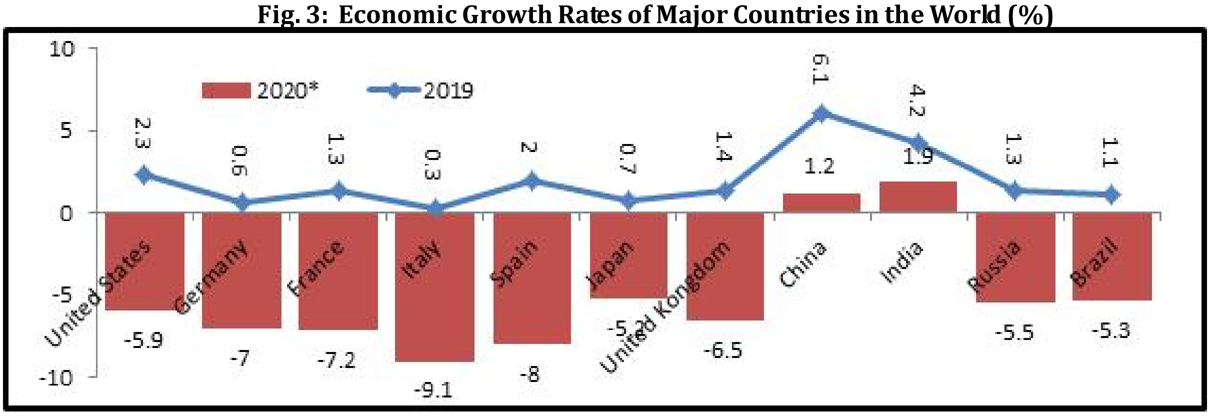
*Source: IMF Note: * Forecasting*

Fig. 2: Economic Growth Rate in Emerging Markets and Developing Economies (%)



*Source: IMF Note: * Forecasting*

Fig. 3: Economic Growth Rates of Major Countries in the World (%)

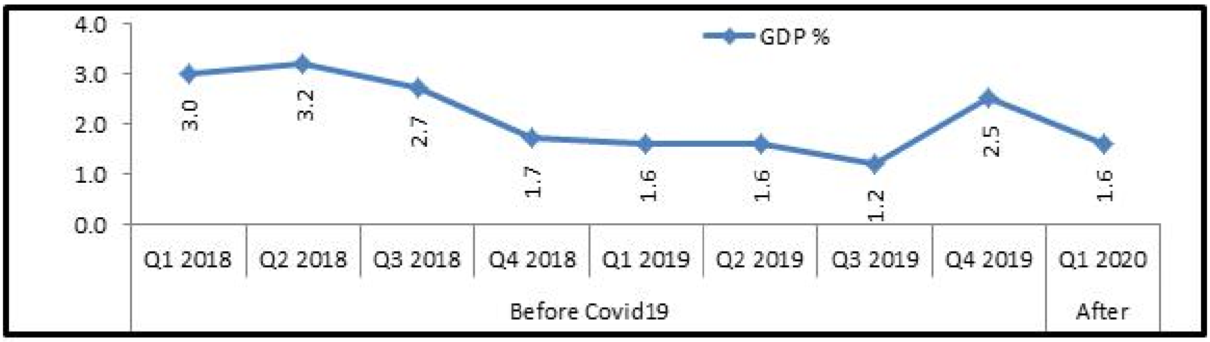


*Source: IMF Note: * Forecasting*

5.2 COVID-19 and Indian Economy

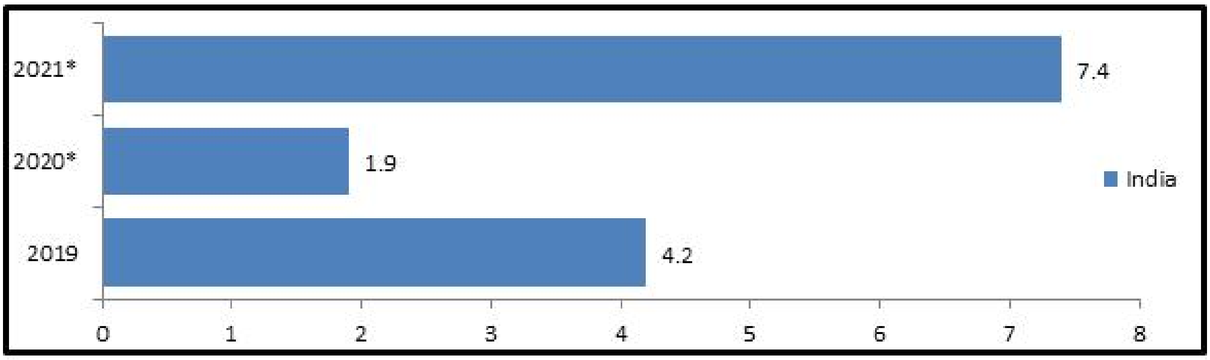
The spread of the virus is continuing day by day even after the lockdown, and the government has now announced the fifth round of lockdown since June 1 with some relaxations. The reason behind extending lockdown is vaccine is yet not developed. In such a situation every nation found that social distance and stay at home these two solutions for controlling COVID-19. Indian economy faced low economy growth which is results of nationwide lockdown. The data provided in fig 4 shows that the quarterly economic growth rate of the nation has been noticed drastically decreased to 1.2 percent from 3.2 percent in between second quarter of 2018FY to third quarter of 2019FY that indicates the nation's slowdown phase. Fourth quarter of 2019FY records the 2.5 percent economic growth; this is the nation's recovery stage but Indian economic growth in first quarter of 2020 FY experienced lower economic growth due to nationwide lockdown announced by central government and all economic activities stopped for cot rolling the COVID-19 pandemic in our nation.

Fig. 4: Quarterly Growth Rate of Indian Economy (%)



Source: MOSPI (CSO), IMA

Fig. 5: Annual Indian Economic Growth Rates (%)



Source: IMF

Indian economy was already wounded due to demonetization and also introduction of GST in 2017 and 2019 respectively; this effect can be identified in the fig 4 till Q3 2019. The measures to recover them were going on by Q4 2019 but the attack of novel corona virus made the situation worse in 2020 which again brought down the growth rate to 1.6 percent in the Q1 of 2020. Therefore, India's projected economic growth fell down into 1.9 percent from 4.2 percent since 2019FY to 2020FY. India's 2021FY projected economic growth rate is 7.4. India is the one of the major fastest growing economy in Emerging Marketing and Developing Economic Growth group of nations and also in world Fig 5.

5.3 Factors Contributing to Economic Slowdown in India

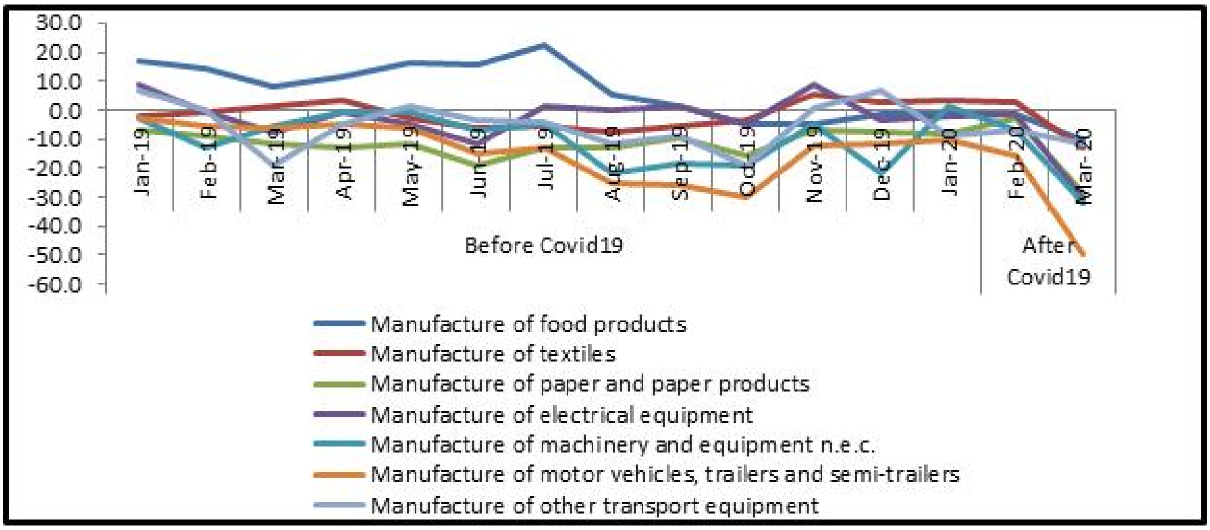
5.3.1. Covid19 and Major Industrial Production

The fig 6 shows that major industrial production growth recorded negative after the stopping all economic activities in our nation due to nationwide lockdown for fighting against pandemic. The major industrial negative growth rates affects the India's PMI index as well as Indian economic growth in COVID-19 pandemic time. Manufacture of food products (-10.5%, March 2020), Manufacture of textiles(-13.1%, March 2020), Manufacture of paper and paper products (-28.7%, March 2020), Manufacture of electrical equipments (—31.0%, March 2020), Manufacture of machinery and equipment (31.7-%, March 2020), motor vehicles, trailers and semi trailers (-49.6%, March 2020), and Manufacture of other transport equipment (-11.4%, March 2020), these are the major industrial production achieved negative growth rates in our nation.

5.3.2 Covid19 and Industrial Production: (use-based classification)

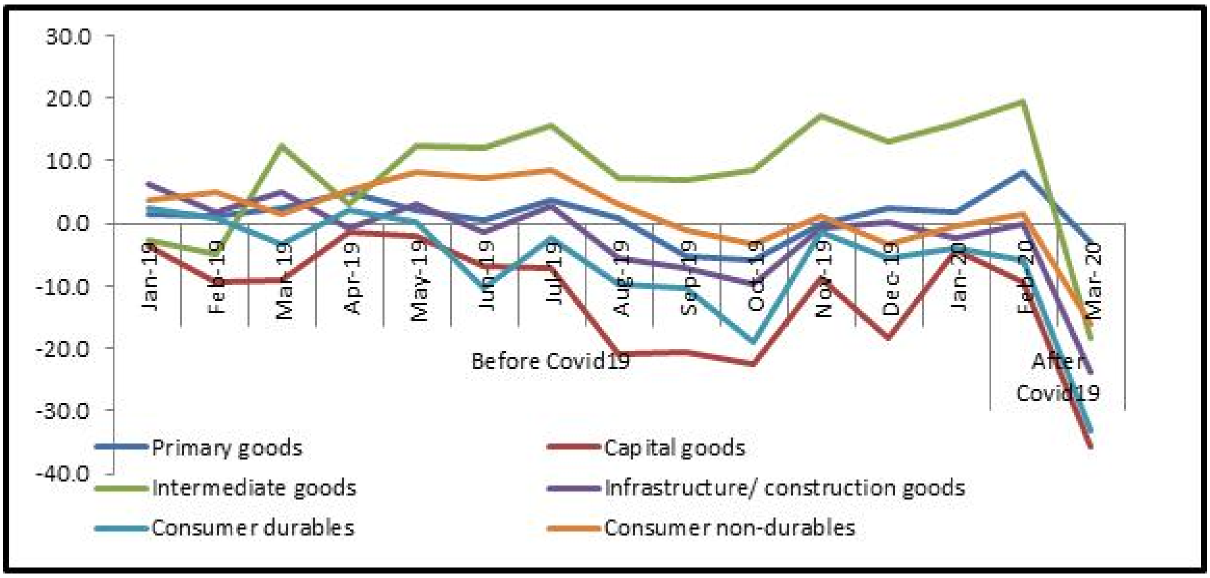
Industrial Production classified into six categories in our nation, such as Primary goods, Capital Goods, Intermediate goods, Infrastructure/Construction goods, Consumer durables and Consumer non-durables. Data provided in above fig 7 shows that industrial production growth in both goods recorded negative after the nationwide lockdown due to fighting against COVID-19 pandemic. Lockdown makes the shutting down all economic activities, this because all goods production growth rate in India became negative. After COVID-19 pandemic, primary goods records the growth rate -3.1, Capital goods growth rate -35.6, Intermediate goods growth rate -18.5, Infrastructure/Construction goods growth rate -23.8, Consumer durables growth rate -33.1 and Consumer non-durables growth rate -16.2 as per March 2020FY in India. This is also affected the performance of PMI index of our country.

Fig. 6: Monthly Growth Rates of Major Industrial Production in India (%)



Source: MOSPI

Fig.7: Monthly Growth Rates of (%) of Industrial Production in India: (use-based classification)

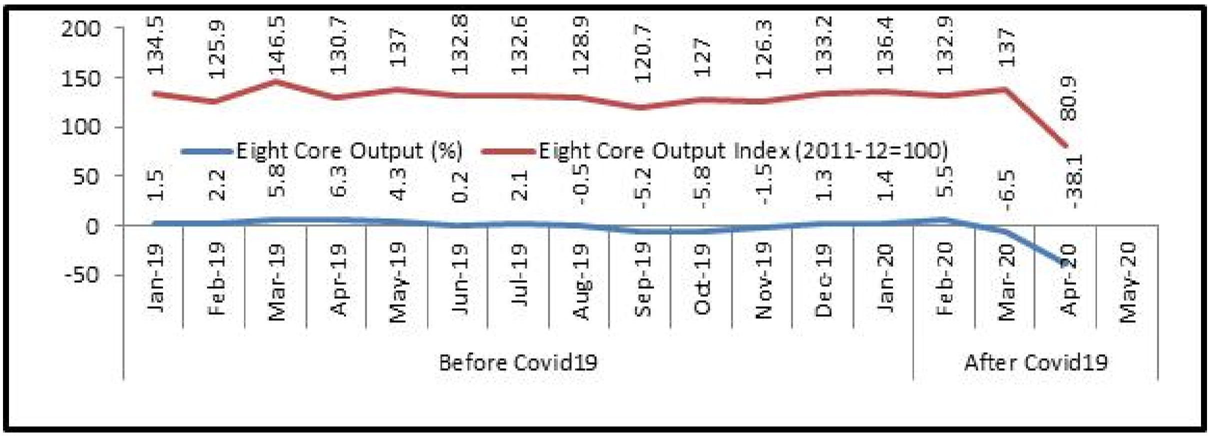


Source: MOSPI

5.3.3 Covid19 and Eight Core Sector Output

The data provided in fig 8 that shows India's eight core sector production continued to decline in April because of the central government announced the nationwide lockdown for fighting against COVID-19 pandemic in our nation. Production of Coal, production of Crude oil, production of natural gas, production of petroleum refinery products, production of fertilizers, production of steel, production of cement and electricity generation these are the eight core outputs in India. Before COVID-19 pandemic, the eight core output growth rate has been noticed that increasing trend.

Fig. 8: Monthly Growth Rates of Eight Core Sector Output in India



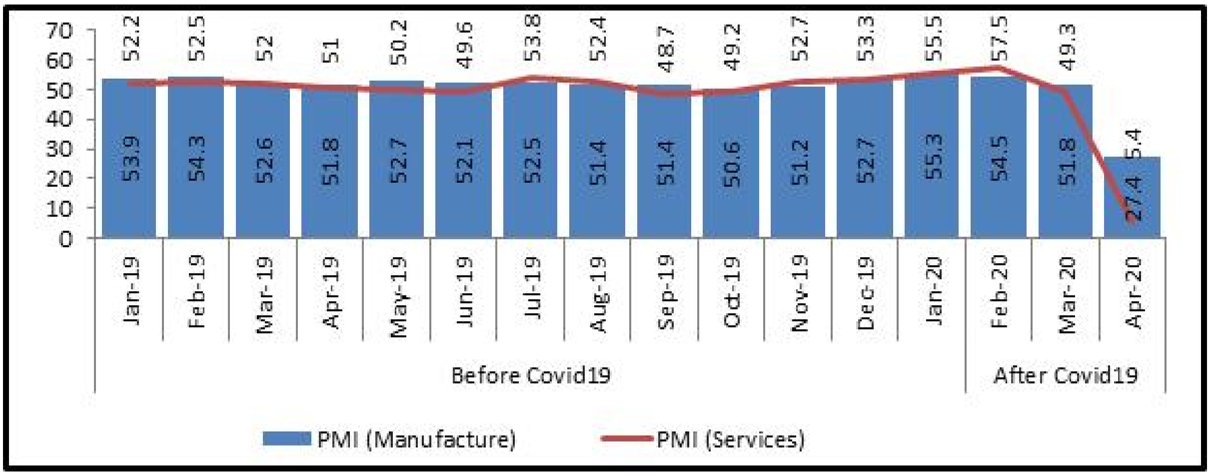
Source: MOSPI

It increases from 1.5 percent to 5.5 percent during the January 19 2019FY to February 2020FY. After February 2020, growth rate became negative (March -6.5, April -38.1) because of all economic activities are stopped due to lockdown. Negative growth in the industrial production for April 2020, it's reflected on PMI data for April (27.4 points).

5.3.4 Covid19 and Manufacturing and Services PMI Index (Points Base)

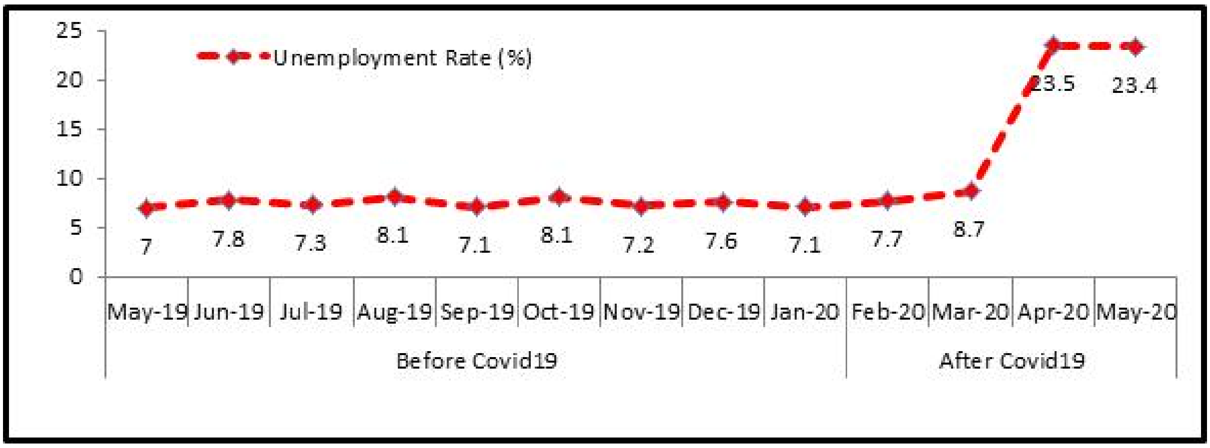
The data provided in fig 9 that shows the manufacturing PMI index points are rising from 53.9 to 55.3 points during January 2019FY to January 2020FY. Services PMI index points are raising from 52.2 to 55.5 points during January 2019FY to January 2020FY. Increasing trend indicates that the exports contributed to the expansion in total sales. Indian companies became second strongest improvement in international demand for their goods, because of significant rise in new orders from abroad at consumer goods producers and modest gains in the intermediate and capital goods sectors. But after nationwide lockdown for controlling COVID-19 pandemic in our nation all economic activities are stopped. Then, manufacturing and services PMI started declining. After the COVID-19 pandemic, Manufacturing PMI index records the 27.4 points and services PMI records the 5.4 points.

Fig. 9 Monthly Performance of PMI index for Manufacture and service in India



Source: Markit Economics

Fig. 10: Monthly Growth Rates of Unemployment in India



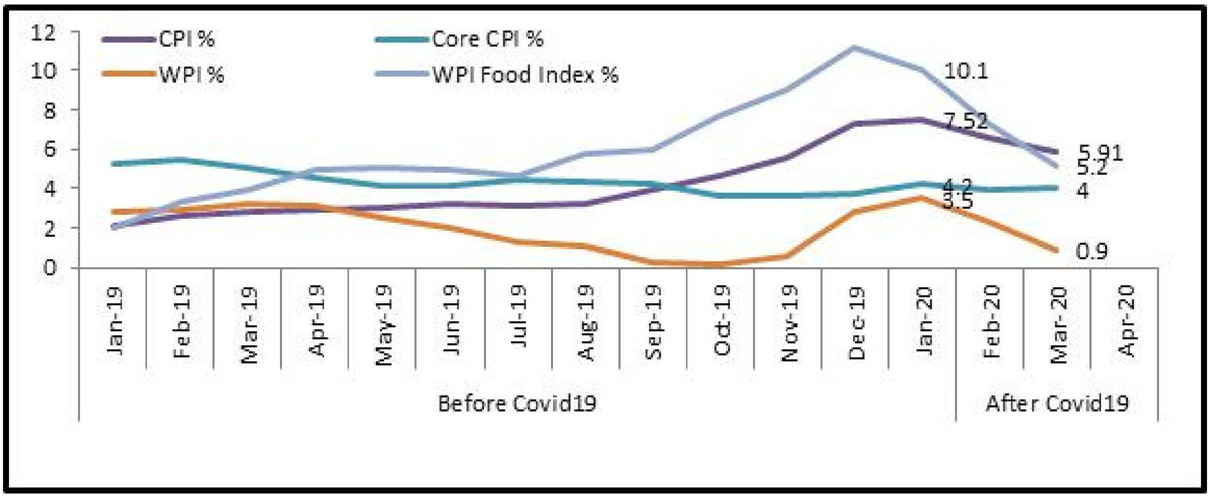
5.3.5 Covid19 and Unemployment rate

In India, unemployment is one of the biggest problems affect the economy. Because, lack of employment opportunities in our country. The data provided in above fig 10 that shows the unemployment growth rate slightly increased from 7 percent to 7.1 percent since month of May 2020FY to January 2020FY.After the January 2020FY, unemployment growth drastically increased to 23.4 percent from 7.7 percent during the month of February 2020FY and May 2020FY because of all economic activities are stopped due to nationwide lockdown for fighting against COVID-19 in our nation.

5.3.6 Covid19 and Inflation

The data provided in fig.11 that shows the India's consumer price index growth or retail inflation, Wholesale price index growth, core consumer price index and wholesale price index of food index growth after the nationwide lockdown it seems to declined due to COVID-19. Before COVID-19 both indicators are having increasing trend except core CPI. CPI increased 7.52 percent from 2.05 percent during the month of January 2019FY to January 2020FY but it declines in fallowing months of 2020FY and reached 5.2. WPI increases from 2.8 percent to 3.5 percent during the month of January 2019FY to January 2020FY but it declines in next months of 2020FY and reached 0.9 percent. Core CPI declined to 4.2 percent from 5.3 percent since the month of January 2019FY to January 2020FY but same trend has been noticed following months. WPI food index also increased 2 percent to 10.1 percent since month between January 2019FY and January 2020FY but later it noticed declining trend in fallowing months of 2020FY. India experienced the declining inflation trend because of falling crude oil prices, lower food prices, and weaker consumer demand for non-essential products due to the spread of Covid19.

Fig. 11: Monthly wise Inflation Status in India

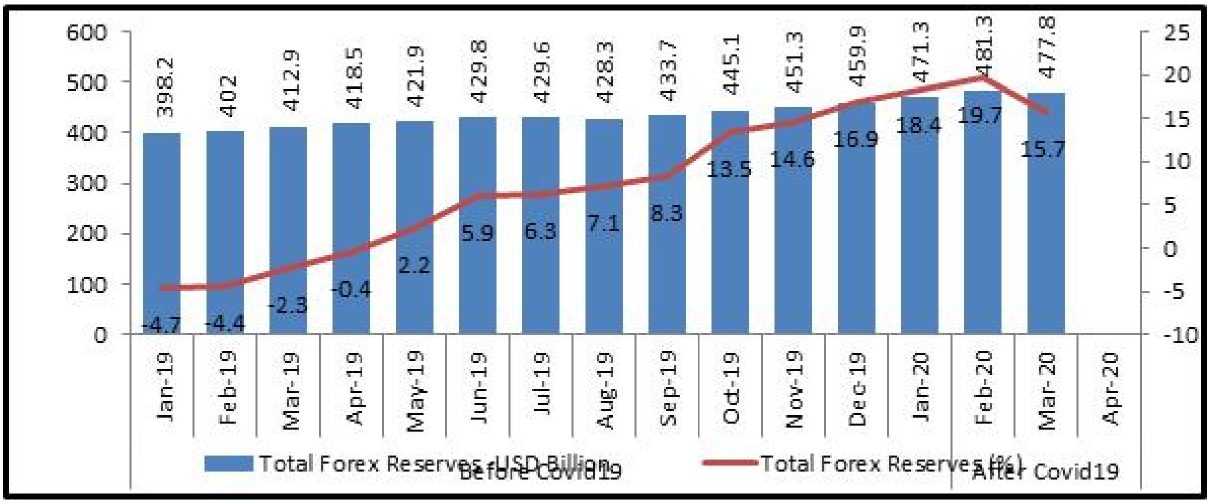


Source: MOSPI (CSO), IMA

5.3.7 Forex Reserves of India

Foreign exchange reserves also called as Forex Reserves or FX Reserves. Foreign exchange reserve is the deposit of the foreign currency held by the central bank of the country. It is influence the foreign exchange rate of its currency and to maintain confidence in financial markets. Data in fig 12 shows that India's FX reserve growth increased from -4.7 percent to 19.7 percent during the month of January 19 2019FY to the month February 20 2020FY. But after COVID-19 pandemic and February 2020FY it has been noticed declining trend and reached the 15.7 percent. Due to central government announced nationwide lockdown from February 2020FY for fighting against COVID-19 pandemic in our nation. That creates the economic crises in every nation also in India. Foreign exchange reserves are important as they are the measure of a country to handle a crisis situation. Foreign exchange reserves indicate the ability of the country to repay foreign debt.

Fig. 12: Monthly Growth Rates of Forex Reserves in India



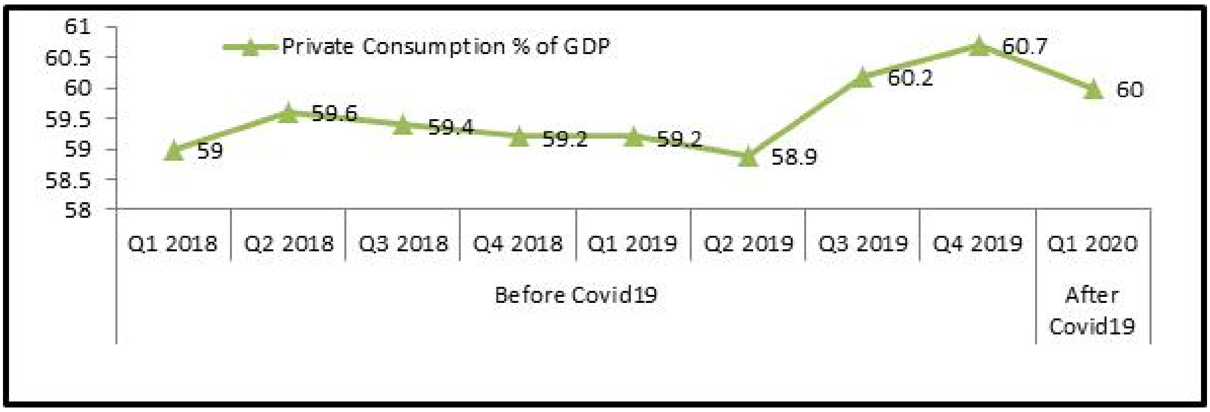
Source: RBI, IMA

***Note:** Right Axis measured the Total Forex Reserves (%) and Left Axis measured the Total Forex Reserves in USD Billion.*

5.3.8 Private Consumption in India

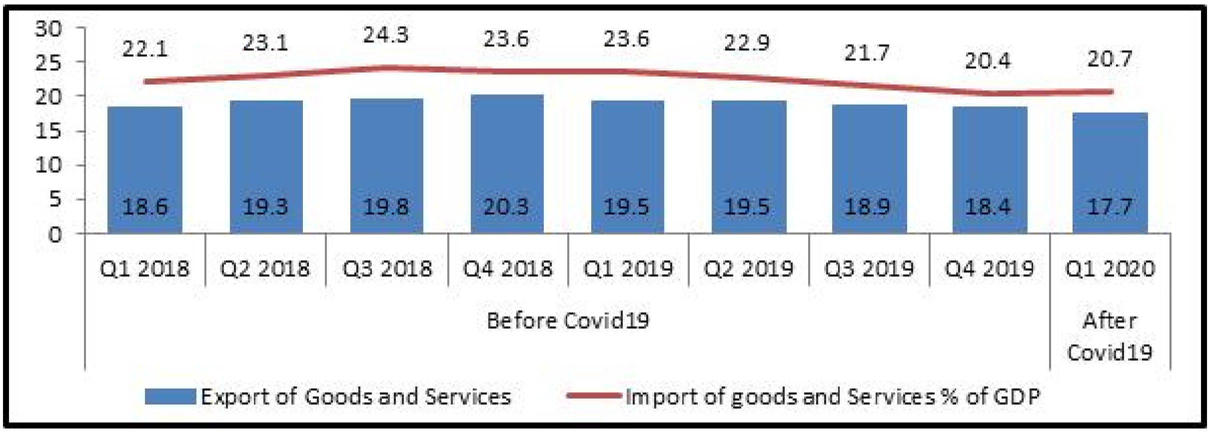
The data provided in fig. 13 that shows the after the COVID-19 pandemic Country's private consumption experienced the declining trend in first quarter of 2020FY and reached the 60 percent. It was increasing trend from (58.9 percent) second quarter of the 2019FY to (60.7 percent) fourth quarter of 2019FY but it has declined following quarter. Private consumption in India is likely to be adversely affected by the COVID-19 pandemic and the country will have to brace for deflationary pressures in the face of weakening demand globally, according to the monetary policy report released by the Reserve Bank of India (RBI).

Fig. 13: Quarterly Private Consumption Growth Rates in India



Source: MOSPI (CSO), IMA

Fig. 14: Quarterly Growth Rates of Export and Imports in India (Percent to GDP)



Source: MOSPI (CSO), IMA

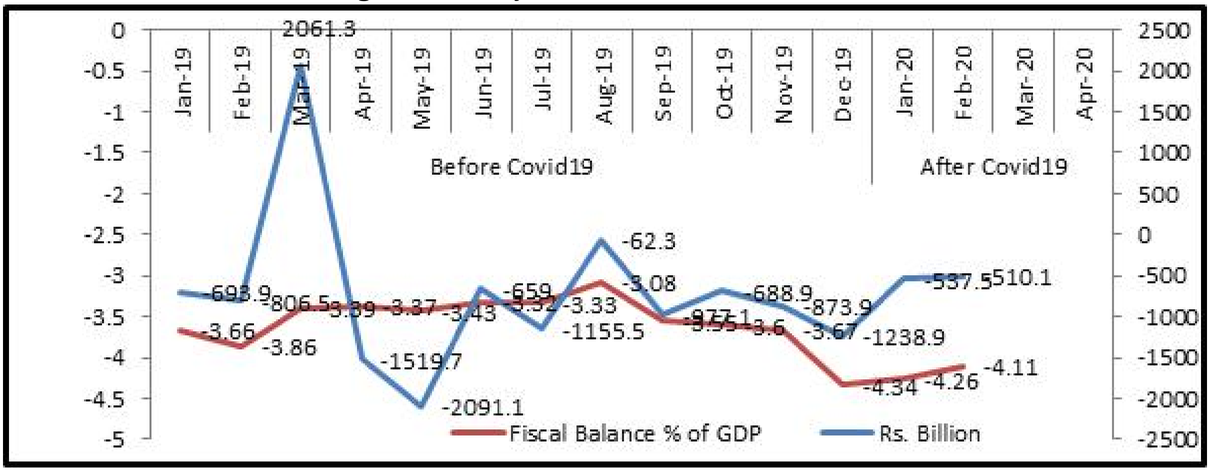
5.3.9 Covid19 and Export and Imports

The fig 14 shows that India's growth rates of exports of goods and services reach to 17.7 percent in first quarter of 2020FY which less compared to that of (18.4 Percent) fourth quarter of 2019FY. Similarly, India's growth rates of imports of the goods and services also reach the 20.7 percent first quarter 2020FY from 20.4 percent of fourth quarter 2019FY. The central Government announced the nationwide lockdown Because of to fighting against COVID-19 in India. Therefore, all economic activities are stopped in our nation. After the COVID-19 pandemic downward trend has been noticed in the exports of goods and services but increasing trend has been noted in Imports of the goods and services in first quarter of 2020 financial year in our nation.

5.3.10 Covid19 and Fiscal Balance Growth

The fiscal balance is the amount of money that a government receives from tax revenue and the proceeds of assets sold, minus any government spending. When the balance is negative, the government has a fiscal deficit. When the balance is positive, the government has a fiscal surplus. The data provided in fig. 15 that explains the fiscal balance growth trend in India. 12-month sum of India's gross fiscal deficit as a % of GDP a little bit improved to 4.1% in February when compared to 4.3% in the last month that can be shows in below figure. However although, Fiscal balance growth continues to remain high compared to that of last two years. In absolute terms, it stood at Rs. 510.1 Billion in February 2020. The major reason to continued higher fiscal deficit is that government revenues, especially tax collection, which is sluggish in the current fiscal year because of COVID-19. Therefore, after COVID-19, lower the tax collection affected the India's GDP growth. Tax is also factors responsible for economic growth. Direct association exists between tax collection and economic growth.

Fig. 15: Monthly Fiscal Balance Growth Rates in India

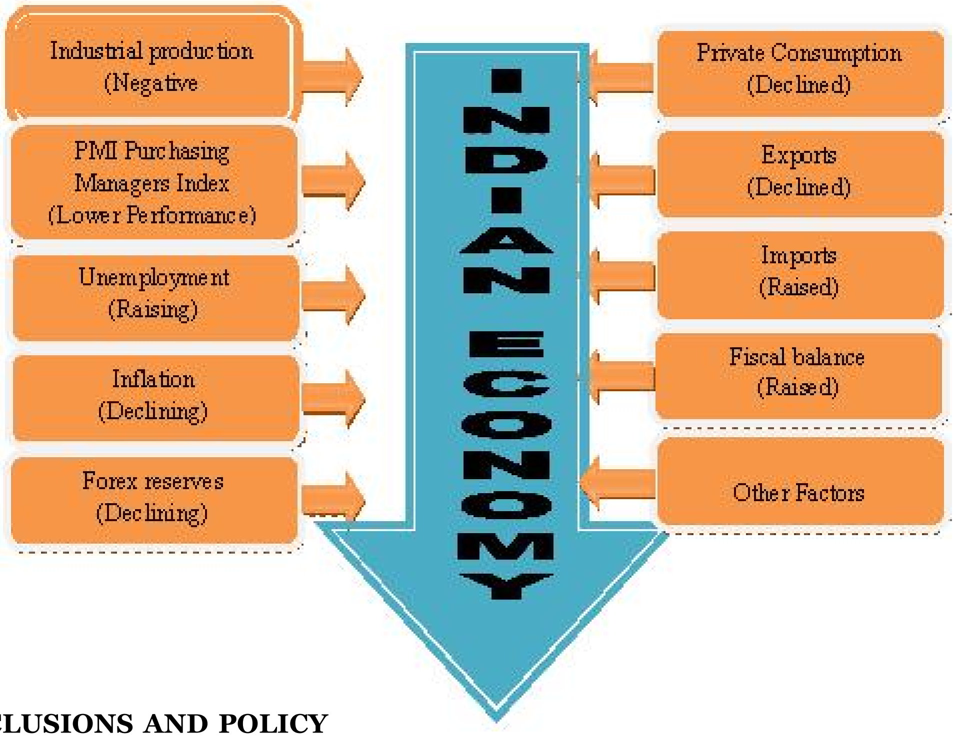


Source: Controller General of Accounts (CGA), RBI, IMA

***Note:** Right Axis measured the Fiscal Balance in Rs. Billion and Left Axis measured the fiscal balance growth as percentage to GDP.*

The Model 1 presents that GDP growth of the nation has almost declined drastically and will have terrible adverse effect in the post lockdown period. Because, country spending time for controlling COVID-19 pandemic without generation of any economic activities, it means that stopped almost all economic activities in our nation at time of lockdown. Spreading COVID-19 pandemic is the major factor to hindering the India's economic growth and consider the, it's the major factor for economic Crisis in India as well as World. Under this major factor, many other factors are responsible to a creating economic crisis in India. Namely, negative performance in industrial production, lower performance in PMI Index, increasing unemployment, declining in the inflation due to lack of demand, decrease in forex reserves, decrease in private consumption, decrease in exports and increase in imports, increasing fiscal balance. COVID-19 affected on Indian economy and creating economic crisis in India through these all factors in our nation.

Model.1: Factors to Create Economic Crisis in India



6. CONCLUSIONS AND POLICY PRESCRIPTIONS

The foregoing analysis reveals that economic growth of the nation has almost declined drastically and will have terrible adverse effect in the post lockdown period. Because, country spending time for controlling COVID-19 pandemic without generation of any economic activities, it means that stopped almost all economic activities in our nation at time of lockdown. Spreading COVID-19 pandemic is the major factor to hindering the India's economic growth. Negative performance of industrial production, lower performance of PMI, increasing unemployment, declining in the inflation due to lack of demand, decrease in forex reserves, decrease in private consumption, decrease in exports and increase in imports, increasing fiscal balance these are the other factors are created economic crisis in our nation due lockdown for fighting against covid19. COVID-19 affected on Indian economic growth through these all factors in our nation. Therefore, the country should boost the all factors which are already hit by lockdown due covid19 pandemic. If country properly boosted all factors, leads to better performance in post covid19.

The Study suggested that to start the all economic activities in green zones and orange zone based on rules and regulation expect red Zone in our nation. Boost the all the factors which are responsible to increase economic growth through proper implementation of 20 lakh crore Economic Package. Country needs to boost the MSMEs and domestic entrepreneurs, industrialist, farmers providing better incentives for increasing economic growth of nation. Present also, India facing one more major problem is that inequality. Therefore, policy makers should give more attentions to income distribution, reducing inequalities in income, wealth and asset. In FY2020, the central and state governments faced problem of revenue due to covid19 pandemic. Hence, appropriate policy required for increasing revenue as well as increasing tax base in India. Country needs to reduce the GST rates of the some commodities. Cutting down the unnecessary expenditure of governments, which is helps to focus on other developmental activities. At lockdown time, India's demand were decreased due no work, no money in the hands of people.

Therefore, government should increased demand in an economy through providing money to people by transferring directly people accounts (Helicopter Money Concept). This is best solution to increasing demand for products at the time of lockdown and also avoiding short run an economic crisis which is result of spreading Covid19 Pandemic in our nation. Policy makers of the nation should give more priority and importance to Sustainable Development. The government should be concerned about protecting the health of Indian Economy and should spend what is needed. The study conclude that Quick and sustained recovery measures (V shaped recovery measures) are required to come out from present economic crisis which result of covid19 in India and creation of awareness about COVID-19 pandemic should be continuing.

REFERENCES

1. Faisal Sherwani and Achal Gupta (19, May 2020): "Coronavirus (Covid-19) and Indian Economy", L&L Partners Law Offices, New Delhi. https://www.mondaq.com/india/operational-impacts-and-strategy/936014/coronavirus-covid-19-and-indian-economy
2. S. Mahendra Dev and Rajeshwari Sengupta (2020): "Covid-19: Impact on the Indian Economy", Working Papers 2020-013, Indira Gandhi Institute of Development Research, Mumbai, India.
3. Suyash Tiwari (April 19, 2020) "Impact of Lockdown on Government Revenue" Published on PRS India.