

## A STUDY OF COVID-19 PANDEMIC ON INDIAN ECONOMY WITH REFERENCE TO CHALLENGES AND OPPORTUNITIES IN CONTEMPORARY ENVIRONMENT

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Dr Goldie Zaki\*  
Dr. Mahesh Joshi\*\*



### Abstract

*The dreadful situation posed due to the novel corona virus is apparently visible. It has affected all the aspects of life including business and economy. The pandemic has negatively affected the world business cycle and the effect of it on Indian economy is no exception. Thus, the paper entails studying about Manufacturing PMI, Service PMI, Agriculture Production, Balance of Trade and other key Economic Indicators. A relative effect on these three key sectors of Indian Economy is enclosed in the study. The badly affected was the service sector. In the midst of devastating challenges there is a ray of hope for the Indian economy as it is agriculture based. The kind of governmental support extended to agriculture in India, is a bright opportunity. Additionally, India now being a part of G-8+5 countries, the China based multinational companies wishing to shift their production base to Asian countries and economic stimulus package of Rs. 20 lakh crores may help Indian economy combat the economic challenge.*

**Keywords:** *Business Environment, PMI, Key Economic Indicators, Governmental Support, Economic Policies, Atmanirbhar Bharat Scheme, etc.*

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\*Associate Professor, Head, Department of commerce, St. Paul Institute of Professional Studies, Indore

\*\* Assistant Professor, Department of commerce, St. Paul Institute of Professional Studies, Indore

## **Introduction**

Economic activities over all over the world were proceeding on a reasonable pace and the trade cycle was on boom, just then, the world economy got stuck by virus that was later called as novel coronavirus. Then it transformed into pandemic. In the fear of people losing their lives, the government announced lockdown. The government of India too under the leadership of Prime Minister, Shri Narendra Modi, declared a complete lockdown in the country. Consequently, all the economic and non-economic activities came to a halt. This further resulted in shattering the country's economic condition.

## **Rationale of the study**

A very famous saying goes 'There is no use crying over the split milk.' The loss due to the pandemic is grave. Nevertheless, it is necessary to struggle against the situation and be resilient. When in 1930, there was the Great Depression that lasted for about nine decades, restoration of economy around the world could happen only after the policies followed by the governments. The effect of Covid-19 on India is dreadful like on any other country, but there is a need to see how our country can financially overcome this problem and resume its growth rate.

Thus, this paper emphasizes on how the ill-effects of coronavirus can be combated with the help of initiatives taken by the government. The road ahead is challenging and there are many hurdles that need to be tackled and handled effectively. The contemporary business environment too has become increasingly uncertain. Thus, an insight into the aspects that would assist in overcoming the economic challenges of the pandemic is the rationale of this study.

## **Research Methodology**

The current study is based on secondary data and was conducted on the basis of observations and concepts. The data was gathered from relevant sources and reports of Reserve Bank of India, National Stock Exchange, Department of Economic Affairs Government of India, Data published on National Portal of India by Indian Government, Websites, Newspaper, Magazines, Reports, etc. The figures presented in the paper are taken from authentic sources. The observations given in the paper are based on the theories and concepts prevailed in the economics in general.

## **Economic Health Indicators in India**

Economic indicators refer to statistical data that help in analyzing economic performance and predictions of future performance.

The indicators relevant to the study are as follows: -

- **Manufacturing PMI:** The Purchasing Managers Index (PMI) is a measure the prevailing direction of economic trends in manufacturing and is based on a monthly survey of supply chain managers across 19 industries including both upstream and downstream activity.  
 The Index was 27.4 in April 2020 that increased to 30.8 in May 2020. However, this was far below than the expected level which is 38, thus, indicating significant deterioration in business conditions, amidst the ongoing lockdown. Additionally, the firms retrenched their staff numbers at the rapid pace that was not seen since the year 2005. The prices in terms of input costs and output charges were affected negatively as suppliers and manufacturers offered discounts in order to secure orders. Cumulatively, all these resulted in decreased return to growth.
- **Service PMI:** India's Services PMI dropped to 5.4 in April 2020 as compared to 49.3 in the month of March. This too is far lower than market expectations of 40.0. The latest reading showed the steepest month of contraction since the series began over 14 years ago, as methods to control the increase of the coronavirus pandemic struck the economy. The new orders too fell at the contracting rate since December 2005, due to fall in international sales across the whole survey panel in April, as signalled by the respective index falling to 0.0.
- **Current GDP Status:** It is a known fact that the Lockdown has made our economy totally lock but not down as it was forecasted by even RBI in mid-February 2020. Opposite to the negative growth rate forecasted by the RBI for January-March 2020, our GDP growth rate for the first quarter ended on March 2020 was reported at 1.1% which is far better than most of the European countries having zero GDP rate or Negative Growth rate for the same period. Even China has a growth rate of 1.47% in this period. The US has -2.2% Growth rate. The Annual Growth Rate of India is 3.1% which is nearly to the half of the Governments estimates of 5.8%. this a point of concern.
- **Data of Unemployment:** These data are not very happening to see as India has seen a hundred and thousands of huddles of migrant workers from all over the country moving from their place of working to their home towns as their savings were lost in just first few days of Lockdown 1.0. The lockdown has impacted about 40 million workers throughout the country. Because of this the unemployment rate has shoot up from average of 7% to 23.5% in just two months.

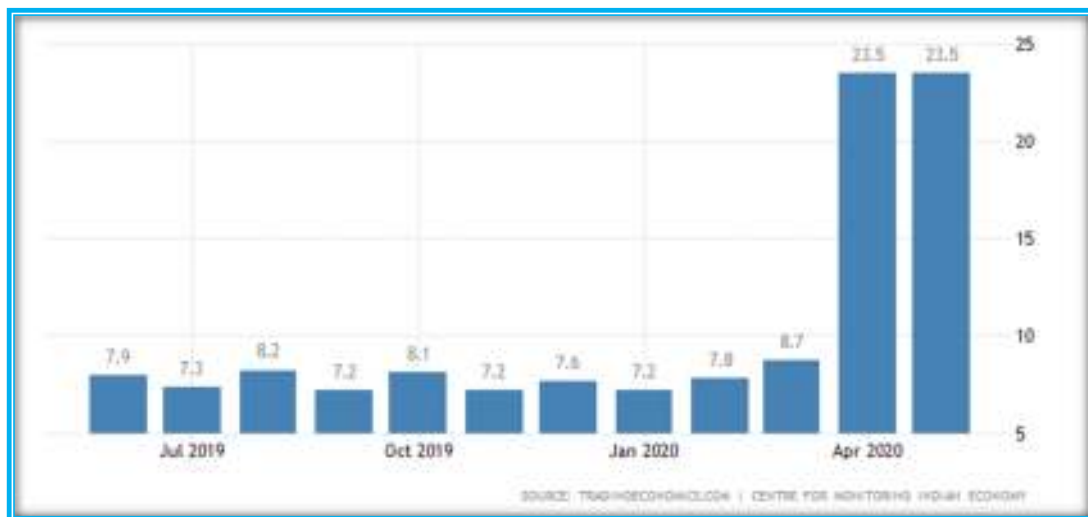
- **Balance of Trade:** The figures of BoT have been very low in January-March 2020. It is -6760 Million USD, because of Lockdown there was no home demand and well as the demand from industry side was also very low. The positive impact of Low negative BoT is seen in India's Foreign Exchange Reserve which is at the highest level at 4,93480 USD on 29<sup>th</sup> May 2020. This signifies our strength of economy to fight strongly for at least 8 months if the economic conditions are not back on track.

### Challenges Vs Opportunities

- **Employment Indicator**

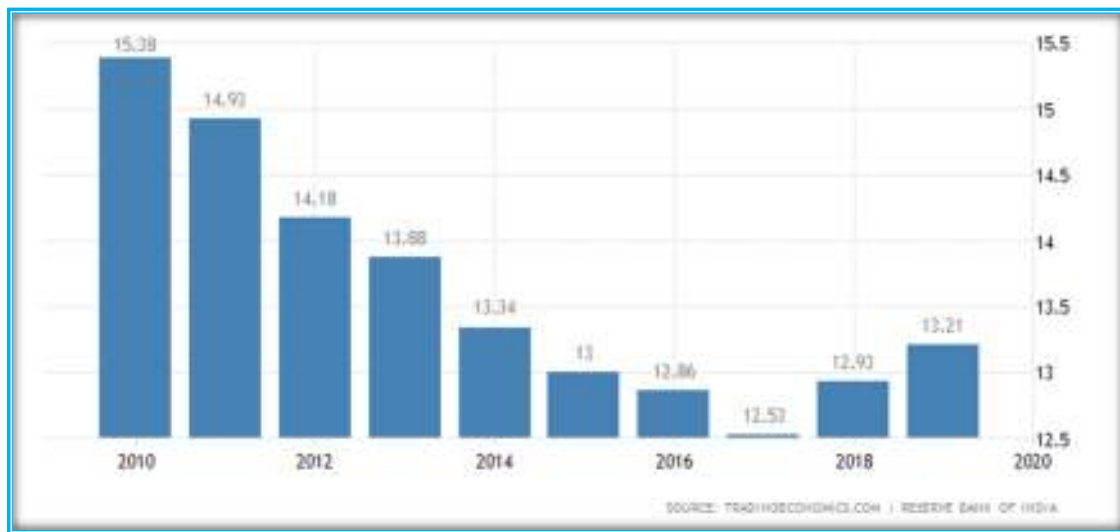
Unemployment data indicates the health of an economy and its labour resources. The unemployment rate in India has sharply increased.

Unemployment Rate in India can be understood with the help of chart beneath:-



- **Government Spending to Gross Domestic Product (GDP)**

The governmental spending in India was last recorded at 13.2 % of GDP in the 2019-20 fiscal year.



- **Agriculture Production**

As the agricultural related activities continued during the period of lockdown, the production was not affected as much as other indicators. Food grain production in India in the year 2019-20 was 292 million tones and was probable to attain a record 291.95 million tones, as per advance approximation of production of food grains, oilseeds and added commercial yield for the year 2019-2020 which is upper by 6.74 million tones as compared to the production of food grain of 285.21 million tones attained in 2018-19 agricultural year. Food grain production in the year 2019-20 is was high by 26.20 million tones in comparison with the average production in the previous five years (2013-14 to 2017-18).

### **Special Governmental Initiatives and Support**

- **Increasing Liquidity**

The major reserve ratio namely, Liquidity Coverage Ratio, cash reserve ratio (CRR) and Repo rates were lessened. Pumping extra liquidity in banking system to lower bond yields, increasing a temporary liquidity for principal bond underwriters to Rs 10,000 crore from Rs 2,800 crore, Rs 1 lakh crore of LTROs, open market purchase of government bonds of 100 billion rupees March 20; another total Rs 30,000 crore of OMO purchases March 24 and March 26, 1 trillion rupees via 16-

day variable rate repos are the steps taken up by the government to increase liquidity. To take care of providing cash, 200 million women with basic bank accounts to get Rs 500 a month until June; 30 million senior citizens, widows and disabled to get Rs 1,000; 87 million farmers to be immediately paid Rs 2,000 under an existing program.

- **Regulatory Deferrals**

Implementation of stricter regulations have been delayed. Pushing for three months the Completion of Capital Conservation Buffer, deferring of rules requiring banks to fund their activities through stable sources and additional 90 days allowed to Lenders to reach a resolution plan on large accounts in default were major regulatory deferrals measures.

- **Special Windows**

These include support for corporate borrowers as well as rural industry, Rs 1 lakh crore of targeted long term funds from the central bank to banks for investing only in corporate bonds, aimed at easing cash crunch at firms (on April 15, RBI announced new rule capping the exposure of any bank to a single entity at 10% of TLTRO funds invested)

- **Jobs and Wages**

For people earning less than Rs 15,000 a month, government has planned to pay 24% of their monthly wages that feed into pension and provident fund accounts; Wages under job guarantee program increased to provide annual benefit of Rs 2,000 to a worker.

### **Economy Booster Package**

On May the 17<sup>th</sup> 2020 the PM of India announced a comprehensive relief package ever announced in the history of independent India. The Package announced is 10% of the GDP of our country. It is roughly more than 20 lakh Crore. Later the Finance Minister Mrs. N Sitharaman described the allocation of the same in five phases. The aid is called as a comprehensive as it covers all the sectors and strata of Indian economy and society. The parts of the aid allocation are as follows.

- Part 1: Provided to MSMEs, Shadow Banks and Electricity Generation Companies of Rs. 5.94 Lakh Crores.
- Part 2: Food delivery for Migrant Workers, MUDRA ShishuYojna for Very Small businesses and Help for Farmers through Kissan Credit Card of Rs. 3.10 Lakh Crores.

- Part 3: For Agri-Infra development, Agriculture based allied sectors of Rs. 1.5 Lakh Crores.
- Part 4 and 5: For MGNREG workers and Structural Reforms of Rs 48100 Crores.
- The overall Allocation of fund for Atamnirbhar Bharat was announced in total Rs. 20.97 Lakh Crores.

Thus, the above announced package will surely work as a stimulus for the Indian economy to come on the track of growth. However, the FDI equity shows a confidence of Foreign Investors in our economy. The data on FDI equity as per RBI reports says that from April 2019 to March 2020, the total FDI Equity flow is USD 49977 Million. The increase is 13% as compared to year 2018-19. When COVID-19 hit the world in the mid of January 2020, the FDI equity inflow was USD 18.32 Million in India (January - March 2020, I quarter). This is another sign of assurance showed by Foreign Investors in our economy.

#### **Forecast Based on Present Statistics and Trends**

The forecast of the economic indicators also shows a happy picture of our economy in 2020-21, The GDP growth rate is projected at an average of 1.5% per quarter. With a composite GDP growth rate of 2.5% per annum. The unemployment rate which is at the peak in the lockdown time will be about 9.8% at the end of March 2021 which would be about 2% more than the average. The inflation rate will be about 5.2% average for 2020-21 is another sign of relief. The rainfall data is projected average as per data of Skymet and Indian Metrological Department. This means that our economy will observe bumper agriculture production in 2020 for Kharif crops. Agriculture production will further help Indian Industries to grow more. Interest rates will be average 3.75% as projected which means loans will be available at nominal rate for business development and growth. Over all the business confidence point will be more than 100. This shows assurance of business lobby in the economy.

The Indian Government on 3<sup>rd</sup> June has announced a most demanded policy of 'One Nation One Market' for the benefit of the farmers. An amendment was done in Essential Commodities Act which liberates the farmers to sell their crop anywhere in the country to whomsoever they want to sell. This was done with a view to double the income of farmers by the year 2022. Another landmark decision was taken by the Cabinet Ministry to establish Project Development Cell in each department to solve and eradicate the difficulties observed by the industries in financing, land acquisition and other similar types for the speedy establishment of the business units. On same day the cabinet

approved Inclusion of Indian Medicine and Homeopathy as subordinate office under the Ministry of AAYUSH. This action will give a direct growth to the production of Indigenous Herbs and Medicines, the farmers and companies engaged in the production of such herbs and medicines. The Research and Development, Clinical Trials and Human Trials will be standardised as per world standards. This will give an extra boost to Indian Medico Industry.

The world superpower US has invited our country to be the part of G-7 is yet another point of pride and satisfaction. The US president and other G-7 member countries are looking forward in the prospects of India to become a new supply chain hub other than China. Most of the Multinational Companies have decided to shift their business from China and Hong Kong and wanted to come to India as our country may offer labour to them at an economical rate with expertise. The work done by the Indian government and the state governments to attract foreign investment is very appreciable as India is ranked 63 among 190 economies in the ease of doing business, according to the latest World Bank annual ratings.

### **Conclusion**

Even though, the economic condition of India has deteriorated considerably, but, the governments both at centre and state level have left no stone unturned in order to fight with the economic challenges. The way the virus is going to react in the next couple of months is not clear, still economic strategy has been formulated and initiated. The impact of covid -19 on the Indian Economy has been very adverse. Nevertheless, with the kind of opportunities that are accessible to our country may help to come up. It is definite that the governments, the businessmen, the locals and all the stakeholders need to join hands to see a better dawn.

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