ECONOMIC SLOWDOWN, PANDEMIC AND UNCERTAINTY: CHALLENGES OF INDIA

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ABSTRACT

The Indian Economy is going through a phase of economic slowdown as GDP growth of the last quarter of FY 2019 was registered 5.8 percent. The GDP growth of the first quarter was predicted to go below 5.8 percent. Automobile, Textile, and Real State sector were struggling because of the less demand. Jobs were cut down in those sectors, leaving a lot of people unemployed. The Progressive outbreak of COVID-19 Pandemic led to the lockdown of all major economies in India with limited movement of goods since March 2020. The Pandemic's global economic crisis has moved into a phase of recession with a more severe impact than the Financial crisis of 2008 and the Great Depression of the 1930s. The Stagnation in import and export and disruption in the supply chain had a severe impact leading to an increase in unemployment and lowering of aggregate demand. This is one of those times when India will see a sharp rise in the economic situation and soon emerge out as a major power. Agencies like McKinsey and BCG have recently started tracking Indian economic conditions deeply and believe it to be an extremely progressive one.

Keywords: *COVID-19, Economic Slowdown, Pandemic, GDP, Income, Recession*

Introduction

Currently, India is in the grip of a deep slowdown. This type of economic environment was experienced during the time of the global financial crisis in the year 2008. Over the last couple of years, there has been a falling momentum in the economy from all the sectors. Declining Investment, falling sales, low credit growth, increasing unemployment tell us about different sides of the downward slopping economy. The outcome of this can be observed in the country's GDP growth rate, which has declined compared to the last five years. India's GDP growth rate was around 5% in the year 2019 (July- September Quarter. It has dropped from 8.26% to 5.02% within a time span of 5 Years. Along with GDP, there has been a decline in the economy's growth rate from 9.09% (2016) to 5.97% (2018).

One of the main reasons for the decline and slowdown of India's economy or rather in the world for the year 2019-2020 is the Pandemic of COVID-19. This shows that pandemics also have a severe effect on the economy of the country. Despite significant progress made over the years in the medical field, infectious diseases still pose threat to the society. While some diseases have fought successfully in India, others can spread quickly, such as polio & smallpox. In a country like India, with such a high population, in no time, the disease can become Epidemic or Pandemic if no proper precautions and necessary preventive measures are taken. The first and foremost effect of pandemic disease is the loss of lives. Nevertheless, the spread of disease can have several economic implications. The impact is through several direct costs, Long-term burdens, and indirect costs incurred to reduce its effect in all aspects.

India has reported more than 50 lakhs cases and is among the most affected nations from the COVID-19 pandemic. The Indian government imposed nationwide lockdown to minimize the spread of the contagious virus. While infection cases continued to climb, the growth prospects for the quarter collapsed and created uncertainties in the economy. The Indian economy was already facing a slowdown. Factors such as economic recession, the mass firing of an employee, high unemployment, and the decline of industries due to the Pandemic added more hurdles in stabilizing the economy. These factors indicate that the Indian economy's wrong position will prevail for a long time. The Indian economy, which was already facing its worst time by earning low, had to lower its earnings to help the country's citizens with no job and source of income to survive and cure the country of the COVID-19 Pandemic. In order to reduce the burden, many NGOs and Private organizations organized relief camps for people, and the government started many relief funds.

Due to the Pandemic, many companies were facing a severe financial crisis, and many had to shut down, increasing the unemployment rate. The Pandemic had significantly affected the cash flow of the organization. Almost 80% of organizations reported a decrease in cash flow. The Pandemic also had a major impact on the supply chain. For more of the sector, the work from home culture had created implementation challenges, especially the manufacturing sector, where workers are required to be present physically at the production site. Service sectors like banking and IT, where a lot of confidential data is used, feel that remote working can increase security threats, thereby affecting their business. The only positive impact of this Pandemic is that the organizations have renewed focus on the aspect of hygiene. Almost 40% of organizations have put stringent hygiene checks at regular intervals and time to time disinfection of the work place. Work from home culture was also introduced, which received a positive response from the big organization, but many small organizations had to face difficulties. It was identified that there was increased market pressure leading to increased poverty both in extensive (Headcount) and the intensive margin (deprivation depth). It was required for India to introduce employment schemes and boost cash transfer to poor households. The government had made efforts through fiscal stimulus and monetary loosening. However, the fiscal space is narrowing, requiring international financial institutions to step up and fill the gap of insufficient funds.

Literature Review

Karishma (2019), in her article, mentioned the slowdown that has been observed in the growth of the country's economy. Earlier in the financial year, it was forecasted that India's GDP would be 6.9%, but due to the Pandemic of COVID-19, it reduced the GDP forecast to 6.3%. This shows that Pandemic can hurt the country's economy as the GDP rate was at its lowest in almost six years. Karishma concluded that some of the apparent reasons for the country's economic slowdown are increased Unemployment, rural distress, liquidity crunch, and international complications due to COVID-19.

Rutherford et al. (2017), in their research paper, talks about the long-running history of pandemics and its impact on the economy of several countries. The term "Pandemic" is still not being properly defined by many medical institutes. However, it has caused an enormous negative impact on the countries' economy, health, and national security. Pandemics are the most part disease outbreak that spreads as a result of the spread of human-to-human infection. There has been a significant disease outbreak in the past. The paper studies the key features of Pandemic along with the history of pandemics and discusses the negative impact on health, economy, social and global security of several countries where pandemic and disease outbreak has affected the most.

Delivorias& Scholz (2020) discusses that despite substantial progress made by the world in the medical field over the last decades, infectious diseases such as influenza or malaria still poses a substantial threat to society. While some are endemic to specific geographic areas, others can spread, making it pandemic and deadly. The spread of a virus can have significant repercussions for regional and national economies. They mention that such diseases impact the country's economy through various channels, including health, agriculture, transportation & tourism. At the same time, trade with other countries is also affected, which implicated the foreign supply chain.

The outbreak of COVID-19 posed new challenges.GDP growth has decelerated to its lowest in over six years. The nationwide lockdown, imposed to minimize the spread of the virus, have halted the economic activities and alternated the consumption and investment. Simultaneously, Indian businesses except some sectors were sternly affected the most due to the global supply chain's disruption. Exports to COVID-19 regions faced a big decline. The three main contributors of India's GDP, i.e., investment, external trade, andprivate consumption was adversely affected, due to which there was a decline in India's GDP by 23.9% (Narang, 2020)

Dev and Sengupta (2020) talk about the outbreak of COVID-19 and its unprecedented shock to the Indian economy. It explains how the prolonged countrywide lockdowns affected the economy and that the pandemic's duration and severity will decide the magnitude of the economic repercussions. Assessing the potential impact, this research paper explains the flow from the pre-COVID-19 economy, which was already parlous to the economy after the COVID-19 outbreak. Talking about two kinds of shock on the Indian economy, one being the health shock and the other being the economic shock, affecting various economy segments.

Ray and Subramanian (2020) aimed to assess the economic cost, i.e., reduction of the production of GDP, and psychological and physiological prices (extreme stress, violence, and starvation) that are invisible. They commented that the conjunction of the costs makes the propulsion of the Indian economy harder. The nationwide lockdown meets all the international standards, but relief package none. Kumar (2020) commented that the Indian tourism sector faces unprecedented challenges; being a foreign exchange source, the Indian economy will be adversely impacted. Garib and Kumar (2020) remark that the banking sector would witness huge setbacks on credit delivery and asset quality lending due to pressure on capital adequacy.

Result, Analysis and Interpretation

Investigation into India's Economic Slowdown Before Pandemic

Undeniably, the Indian economy experienced its one of the worst-ever deceleration phases even before COVID-19 pandemic hit India. With a continuous fall in GDP growth rate for eight quarters (barring a 0.08 percentage point smack between December 2018 and March 2019). It stood at 8.2% in March 2018 compared to 3.1% in March 2020.

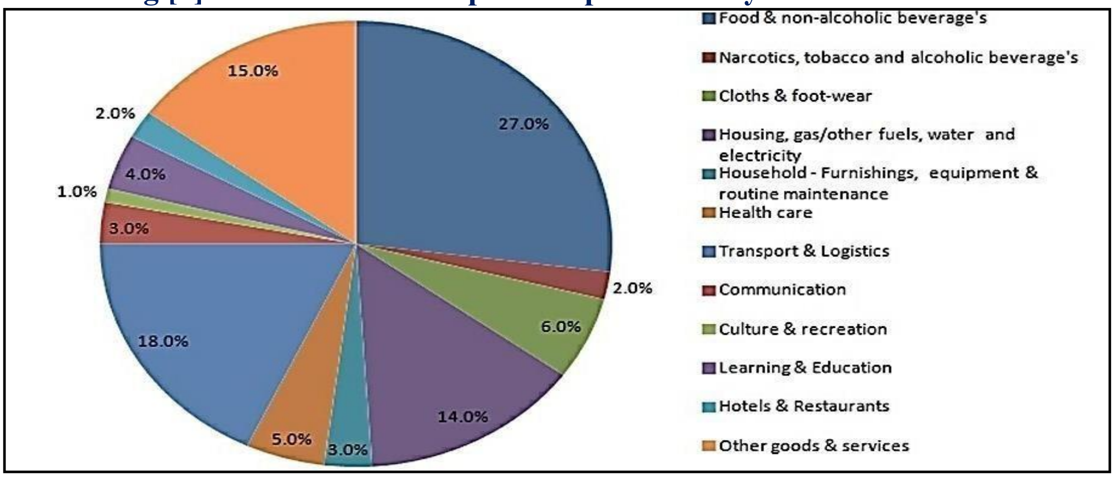
Even though COVID-19 was discovered in December 2019, it reached the shores of India in April-June Quarter. Even before the COVID-19 strike, the economic slowdown was adverse than the slowdown of 2011-12. During that period, annual GDP growth in 2010-11 stood at 8.5% compared to 5.2% in 2011-12. Furthermore, quarterly GDP growth decelerated to 4.9% in June 2012 from 10.3% in March 2011.However, the economy was back on the route to recovery after 2011-12. After a sharp recovery the contraction was experienced in 2016-17. Since then GDP growth rate has been falling continuously.

Uncertainty in Economy Caused by COVID-19 Pandemic

COVID-19 has set foot in India and is heading the nation to major downturn. As this contagious virus continues to spread, several entities of the economy are bound to limit their business operations. Due to this limitation of operations, economic activities of several industries that drives growth are disrupted causing havoc for the economy.

Impact on Demand Sector:

Fig [6]: Essential Consumption Expenditure by Different Sectors



The above figure shows the private consumption. Sudden stop of urban activity has caused slowdown in consumption of non-essential goods. The 45 days of lockdown has severely impacted the domestic supply chain and the availability of essential commodities.

Impact on GDP Growth:

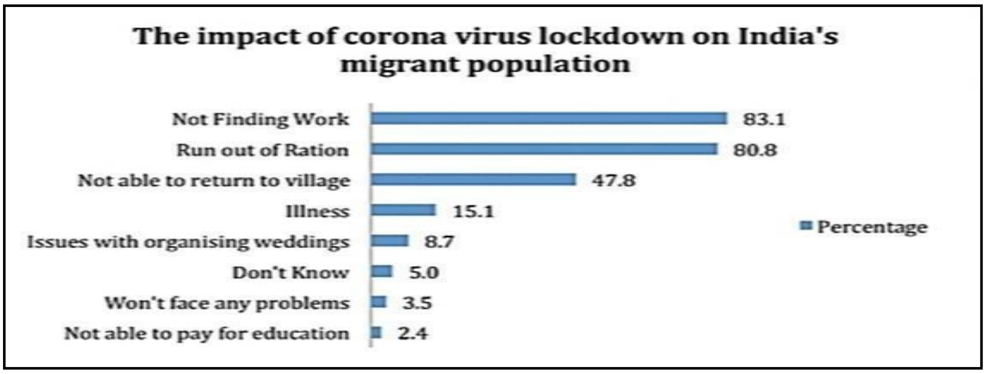
Undeniably, the virus is spreading at a rapid pace and containment zones are constantly growing as of May 2020. The pandemic will definitely have serious economic repercussions on the global economy. The United Nations (UN) have warned a significant contraction of the global economy. International Monetary Fund (2020) have reported a sharp contraction of 3% in 2020 for the world economy. IMF projected a decline in Indian GDP by 10.3% in 2020.

Impact on Migratory Labor:

In India the migration of labor from rural areas to industries and urban areas for work and to earn livelihood is a pervasive reality. However, there is no reliable data on the migrant workers in India. However, a survey done by Jan Sahas attempts to address the impact of the virus on migrant workersbetween 27 and 29 March 2020. Across northern and central India, 3196 workers were being survey. The findingsreveal that 80% of migrant workers were apprehensive that will run out of food before lockdown ends on April 14, 2020. Furthermore, they find themselves incapable to get their job back thereafter.

The survey unveiled that 55% of the migrant workers receives a wage between Rs 200 and Rs 400 daily, while 39% earns a wage between Rs 400 and Rs 600 which is below minimum wage rate. Only 4% earns a daily wage of Rs 600 and above, which is close to minimum wage rate. About 50% of the surveyed migrant workers claimed they did not have enough ration and 39.4% of these workers had ration which would last about 2 weeks.

Fig [7]: Impact of COVID-19 on Migrant Population



Source: Jan Sahas Survey (2020)

Short Term Impact of COVID-19 on Indian Economy

Table [1]: Short Term Impact ofCOVID-19

Sector	*Short Term Impact*
Consumer & Retail Business	Slowdown of cash alteration for all categories through food and grocery retail would be less impacted
Auto	Short Term Fluctuation in raw material prices have been witnessed.
Power	Cost may increase if prolonged for longer period. Since electricity is an essential service hence limited impact.
Telecom	Slow down the demand for new subscription. Slow down the demand for mobile phones
Aviation & Tourism	Demand for turbine fuel willgradually decline due to shutdown of international and domestic flights. The World Travel & Tourism Council (WTTC) estimates “the crisis tocost the tourism sector at least USD 22 Billion, The travel Sector shrinking by up to 25% in 2020 resulting in loss of 50 million jobs”.
Food & Agriculture	E-commerce based delivery platforms are likely to be impacted. Lowimpact on Vegetables, Fruits andMilk. Edible Oils are major imports & this may have low impact.
Transportation & Logistics	Short Term Variation in material cost. Low impact due to raw material supply challenges. Demand for labor availability will be reduced.

***Source:* Compiled from severaldata**

Long Term Impact of COVID-19 on Indian Economy

Sector	Long Term Impact
Consumer & Retail Business	Supply chain will be the major challenge. Demand for non- essential product would be a large impact since it won't boost immediately because consumer will hesitateto purchase unnecessarily due to fear of infection.
Auto	China imports 25% of India's automotive parts. Disturbance in supply of rawmaterial would impact theimport.
Power	Reformation likely to slow down if COVID-19 is sustained for a longer time. Government grants the funding may cause delay due to diversion of financial support to another sector.
Telecom	Suspension of manufacturing facilities due to nationwide lockdown will largely affect the telecom sector.
Aviation & Tourism	International Air Transport Association (2020) projected a global revenue loss for the passenger business between USD 63 billion & USD 114 billion.
Food & Agriculture	Supply Chain will be the major challenge as many states are evolving their strategy for food supply chain. Food categories like tea, meat, spices, seafood that are exported to U.S., Europe, China are heavily impacted due to both decrease in demand anddomestic supply chain issues.
Transportation & Logistics	Due to decreased passengers' movement on urban transportation system will reduce utilization of assets which will unfavorably impact their revenue andoperations.

Policy Recommendations

From the research conducted, we can find out that in the Indian economy, the slowdown was both cyclical and structural. Since cyclical causes the growth to have fallen, they have caused severe problems in the structural foundation. A combination of both cyclical and structural have caused the slowdown to be so sharp and severe.

This is the reason why this Economic Slowdown was so difficult to deal with. In this situation, some of the standard remedies for coping with ordinary cyclical recessions are ineffective, whereas some remedies are considered counter- productive. In accordance with this, the proposed remedies are divided into two different categories, i.e., negative and positive. Negative are those remedies that cannot or should not be done, and positive remedies are those which must be done. Below are some of the policy recommendations:

Monetary Policy:

The debate revolved around whether the RBI should reduce the interest rates or not. Some say the central bank needs to revive the sluggish economy by providing more help, while others worry about the revival in inflation. Both of these views are wrong as the main problem is that the transmission mechanism is broken. As long as the repo rate cuts are not translated to reducing the lending rate, these policies will neither boost inflation nor provide any support to the economy. Therefore, the current need was to fix the transmission mechanism.

Compelling banks should not solve this problem by reducing lending rates. This will only cause more issues because administratively determined rates will not provide the banks with enough income to cover up the risks they were facing, generating them even more stress. Hence the only practical solution is to reduce the underlying risks by strengthening both the corporate and financial sectors.

Fiscal Policy:

Many fiscal decisions are tough to implement in the long term properly. Let's take the example of the proposal to cut individual income tax. Tax cuts are relatively easy to implement, but they are quite challenging to reverse, and from a long-term perspective, it isn't a very feasible option. Instead, India should think of ways to increase the number of legit tax payers.Also, the fiscal situation in India was fragile and was worsening only. At that time, there was a balance sheet crisis, even causing tight constraints on the government's ability to issue debt. Therefore, I think various policies should be implemented.

Firstly, the further expansion of the fiscal deficit was a considerably wrong strategy to follow for an economy whose interest rates were already too high compared to GDP growth. Increasing the borrowings will put a lot of upward pressure on the government interest rates, causing the corporate bond rates to increase, and as corporates, then shift to borrowing from banks that would have pushed up the bank lending rates. Accordingly, a large fiscal expansion would not help bring positive improvements in the economy. It would have made things only worse by intensifying the vicious corporate stress and bank stress.

Conclusion

During these unprecedented times of the pandemic, the world is going through an economic slowdown, and so is our country. Being the second most populated country globally and a major emerging economy, India is trying its best to cross one of the greatest hurdle humanities has ever come across, COVID- 19. With the strictest lockdown implemented in India, the GDP has contracted by 23.9% in the Q1FY21. In July 2020, negative growth of 2.1% has been registered for the eight core sectors, compared to 7.3% growth in July 2019.

Centre for Monitoring Indian Economy (CMIE) estimated unemployment rate at 23.52% in April 2020, with a high urban figure of 24.95%. The economic slowdown merely does justice to the country's current scenario as it has contracted by 23.9% Q-o-Q and there wasn't any rapid increase in the cases of COVID-19 in the previous quarter. There cannot be any comparison between the two quarters due to the varied situations in the quarters.

The major global powers adversely affected by COVID19, like the USA, Russia, Italy, France, Spain, etc. have also seen a significant contraction in their economies. As compared to them, India has a relatively lower per capita income, whereas developed countries like Spain, Italy & France have a per capita income almost twice as much as India's.

Considering this significant parameter and the demographic situation of these countries and India, the country clearly has a slight edge over them and undoubtedly is extremely progressive. During unprecedented times like the Great Depression of 1920 and the Real Estate bubble in 2007-08, and now COVID-19, the world has observed a steep downfall followed by a steady rise in the countries' economic situations.

All in all, with tough times, it comes to an excellent opportunity to rise, and India is sure to grab this golden opportunity & with its progressive policies, in no time will India be recognized as a developed nation and not a developing nation.

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