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CHALLENGES OF COVID-19 FOR INDIAN ECONOMY

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Abstract: **The Indian Government made timely efforts to mitigate the economic risks of Covid-19 with necessary financial and policy measures .The three major contributors to GDP namely private consumption, investment, and external trade have been affected due to lockdown.**

Keywords: **Challenges, COVID-19, Indian Economy.**

1. INTRODUCTION

India, the world's fifth-largest economy will have to face many challenges of Coronavirus (COVID-19) outbreak which originated in Wuhan (China) in December 2019. The impact of the COVID-19 pandemic in India has been largely disruptive. The World Bank and other rating agencies has initially downgraded India's growth for the fiscal year 2021 with the lowest figures since economic liberalization.

Government Initiatives

Indian Government has so far outlined Rs 1.7 trillion($22.5 billion) as stimulus plan providing direct cash transfer and food security measures to give relief to millions of poor and second package of Rs. 20 lakh crores to Micro, Small and Medium enterprises for Atamanirbhar Bharat (a Self- Reliance India) Abhiyan. In the month mid-May 2020, the Prime Minister, in his address to the nation, said that the coronavirus crisis should be seen as an opportunity, emphasizing on domestic products and "economic self-reliance".

Challenges Before Indian Economy

The Covid-19 spread in the country has significantly reduced the prospects of a durable fiscal consolidation. The impact of the Covid-19 outbreak will exacerbate the material slowdown in India's economic growth which is expected to 1.5 percent expansion in the current fiscal year. Prolonged financial stress among rural households, weak job creation, a credit crunch among the non-banking financial institutions have further increased the probability of a more entrenched weakening.

FICCI and Dhruva (a tax consultancy) conducted an Industry survey and took responses from about 380 companies across the sectors. It is said that businesses are grappling with "tremendous uncertainty" about their future. According to the survey, COVID-19 is having a 'deep impact' on Indian businesses, over the coming month's jobs are at high risk because firms are looking for some reduction in manpower. Further, it is added that already COVID-19 crisis has caused an unprecedented collapse in economic activities.

There are three major channels of Indian businesses namely linkages, supply chain, and macroeconomic factors which are badly affected. The business activities in the foreign markets are slow which implies a negative impact on the Indian companies.

According to the World Bank's assessment, India is expected to grow 1.5 percent to 2.8 percent. IMF projected a GDP growth of 1.9 percent for India in 2020 because the global economy is affected by the COVID pandemic, the worst recession since the Great Depression in the 1930. It should also not be ignored that the lockdown and pandemic hit several sectors including MSME, hospitality, civil aviation, agriculture, and allied sector.

A sharp rise in unemployment and the problem of migrant labours was so alarming that within a month unemployment rose from 6.7 percent to 26 percent during the lockdown with an estimate that 14 crores people lost employment. More than 45 percent of households across the nation have reported an income drop as compared to the previous year.

The Stress on Supply Chain was so much that Indian economy was expected to lose over Rs 32,000 crores every day during the period of complete lockdown. Under the lockdown period, 53 percent of businesses were projected to be affected and the Supply chain has been put under the stress. All three major contributors to GDP namely private consumption, investment, and external trade have been affected due to lockdown.

Adversely Affected Sectors

In India the chemical, shipping, pharmaceutical, textile, electronics, IT, auto, tourism, and aviation industries suffered much due to the coronavirus outbreak. All commercial and production activities were suspended during the lockdown period.

Some of the **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.

Covid-19, outbreak has affected the **shipping industry** business and cargo movement service providers. As per the sources, per day per vessel has declined by more than 75-80% in dry bulk trade.

The covid-19 has impacted Indian **auto industry** which depends 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 companies. If the shutdown in China continues then it is expected to result in an 8-10% contraction of Indian auto manufacturing in 2020.

Despite being one of the top formulations of drug exporters in the world, the **pharmaceutical industry** of India relies heavily on import as of bulk drugs. Due to the coronavirus outbreak, pharma industry is also affected.

Several garments/textile factories in China have halted operations due to the coronavirus outbreak. This has badly affected the **textile industry** exports of fabric, yarn, and other raw materials from India.

Indian developers of **solar power** may face some shortfall of raw materials needed in solar panels/cells and limited stocks are from China.

As China is a major supplier of electronics being a final product or raw material used in the **electronic industry**. India's electronic industry has to face supply disruptions, production, reduction impact on product prices due to heavy dependence on electronics component supply directly or indirectly, and local manufacturing. Revenue and growth of Indian **IT companies** was also adversely affected due to Covid-19 pandemic.

Due to Coronavirus outbreak, the inflow and outflow of tourists from China and other countries of the world to India was halted. This has badly affected the **tourism and aviation** sector.

2. CONCLUSION

The Indian Government made timely efforts to mitigate the economic risks of Covid-19 with necessary financial and policy measures. The lower growth and government revenue generation coupled with fiscal stimulus measures will lead to higher government debt ratios over the next few years. Since the government of India remains committed to medium-term fiscal consolidation, materially strengthen in public finances is likely to be limited in near terms. The debt burden will remain sensitive to change in normal GDP growth. Thus, a new Industrial and trade policy is needed to encourage our entrepreneurs to make them vocal for local in order to meet domestic and global demand.

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