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# COVID-19 Challenges for the Indian Economy

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**Abstract**

*The global economy has taken a hit because to the COVID-19 pandemic. As a consequence of the financial crisis that started in 2008 and continued into 2009, the global economy has once again begun to slide downhill.In September and October of 2008, international commerce dropped by 18%, the most of any month during the current financial crisis. The months of March and April of 2020, the year 2020, saw this decline. In comparison to the -0.8% averaged from July 2008 through February 2009, export growth was -7% from December 2019 through March 2020. The economic downturn that began in 2020 lasted for a shorter period of time than those brought on by following crises. The amount of trade fell by just 3% between March and August of 2020. In 2020, international commerce is expected to fall by 9.2 percent, according to the World Trade Organization. (WTO). Even while the current crisis is not identical to the global financial crisis of 2008-2009 in terms of its economic basis, its causes, or its transmission channels, its scope is similar. Around 3 million people will have developed COVID-19 by the end of April 2020, with over 0.2 million succumbing to the disease. There were 210 nations and territories affected by the epidemic. Governments throughout the world have suspended autarky and shut down their national economies in an attempt to protect their citizens from the rapidly spreading illness. A possible solution to preventing the further spread of COVID-19 and its devastating effects is to isolate the virus on a local, regional, national, and global scale.*

*Keywords: COVID-19, Global economy,*Trade*, Second wave,FDI*

## Introduction

The goal of this study is to find out how the Covid-19 epidemic has affected India's economy. The first part of the study gives an overview of India's economic growth and development in the ten years before the epidemic. In the second step, the report looks at how the government shutdown from March to October 2020 will hurt the economy. Third, it tries to figure out how big India's economic losses have been by using an input-output framework. In the last section, a comparison is used to evaluate the Indian government's response to the economy in a critical way. The Covid-19 pandemic has hurt economies in many places and in a big way all over the world. In the first few weeks of 2020, the first effects of the epidemic started to show up on the already unstable world economy. Almost every country has had to use strict lockdowns. Because of the second wave of attacks this winter, many places have put in place a second lockdown. There was nothing at all happening in the economy. Because factories and offices are temporarily closed, fewer goods and services are being made. The chain of supply had a big problem. A drop in demand happened at the same time as the supply shock, but it had nothing to do with it.

People lost their jobs and income as economic units were broken down one by one. The total effective demand also went down. In a nutshell, the pandemic caused the economic crisis because demand and supply both dropped at the same time and in different places around the world. The real economy has been hit by shocks, and these shocks have spread to the financial and external parts of the economy as well. In the end, the pandemic has gone from being a health emergency to a disaster that hurts economies all over the world.

**Impact on employment**

| Variable | February 2020 | March 2020 | April 2020 | May 2020 | June 2020 | July 2020 | August 2020 | September 2020 | October 2020 |
|---|---|---|---|---|---|---|---|---|---|
| Labour force (million) | 440.1 | 433.8 | 369.0 | 396.5 | 420.0 | 424.3 | 428.3 | 426.0 | 426.9 |
| Labour participation rate (%) | 42.6 | 41.9 | 35.6 | 38.2 | 40.3 | 40.7 | 40.9 | 40.6 | 40.6 |
| Employed persons (million) | 406.0 | 395.8 | 282.2 | 303.4 | 373.8 | 392.7 | 392.5 | 397.6 | 397.1 |
| Job seekers who are currently unemployed(million) | 34.2 | 37.9 | 86.8 | 93.1 | 46.2 | 31.5 | 35.7 | 28.3 | 29.8 |
| Unemployed persons not actively looking for employment (million) | 10.4 | 16.3 | 88.6 | 50.0 | 31.8 | 15.5 | 13.0 | 11.9 | 22.6 |
| Unemployment rate (%) | 7.8 | 8.8 | 23.5 | 23.5 | 10.9 | 7.4 | 8.4 | 6.7 | 7.0 |
| The unemployment rate for Scheduled Caste groups (%) | 7.2 | 9.4 | 32.0 | 30.6 | 14.6 | 8.8 | 8.5 | 6.7 | 7.7 |
| The unemployment rate for Scheduled Tribe groups (%) | 6.4 | 4.4 | 18.7 | 23.2 | 7.8 | 3.3 | 4.5 | 5.1 | 4.7 |

Employment and labour force data for India, selected months of 2020**(million and percentages)**

Unemployment rose dramatically as the economy collapsed in March 2020. Here, we draw on data from the CMIE's regular nationwide employment surveys. To begin with, in March and April of 2020, a large number of persons who were actively seeking employment dropped out of the labour field. Check out the Table for details. Lower employment rates were seen in March and April of 2020. While things did look up after May 2020, by October 2020 there were still 13.2 million fewer persons in the labour force than there had been in February of that year.

Second, the unemployment rate has been going down faster than the labour force participation rate has been going down. Between March and April of 2020, the employment rate dropped by 2.5% and then another 29%. Even if the job market had improved after May 2020, the number of people actively seeking employment had dropped by 8.9 million by October 2020. Staff personnel seem to have a significant "discouraged worker impact." Between February 2020 and April 2020, there was an eight-fold rise in the number of persons registered as unemployed but not actively seeking employment. After falling to 13 million in August of 2020, it quickly recovered to October's 22.6 million .The growing unemployment rate is reason for fourth serious alarm. In February of 2020, it was 7.8%; in April and May, it was 23.5%; and in October of same year, it was back down to 7.8%.. In reality, things are worse than this, since many workers have already left the labour sector and are not actively seeking employment as of October 2020. People of the Scheduled Caste (SC) and Scheduled Tribe (ST) in India were hit particularly hard by the high unemployment rate. Fifthly, effects were seen in both the formal and the informal parts of the labour market. There were 86 million salaried jobs in India in 2019–2020. (Vyas, 2020a). By April of the following year, 2020, this figure had fallen to 68.4 million. By August of 2020, there were 73.8 million, which was up 12.7 million from February but still a decrease. The most hit were job-seekers between the ages of 15 and 39. (Vyas, 2020b). Only 9% of the workforce was in the 20-24 age range, yet they accounted for 35% of the employment losses. Only 11% of the working population was between the ages of 25 and 29, yet 46% of the jobless were in that age range.

There are three main arguments against I-O models. We assume that the elasticity of substitution for all inputs is zero and that the technical coefficients that characterise the interdependence of different sectors stay constant throughout time. It is claimed that discrepancies between the model and the real behaviour of the economy may be seen in the aforementioned three features of I-O models. Although these concerns are warranted, they mostly pertain to studies that project the economy's future. As an additional disclaimer, I won't be making any economic predictions here. Only one time-dependent analysis is performed, which estimates an I-O table for 2019 and 2020 using coefficients from 2016 and 2017. The most we can do at the moment is speculate about what will happen in the near future. Coefficients are not guaranteed to be accurate, although major variations are quite improbable. For the 2016-2017 academic year, we will be using an input/output (I-O) table, and here is why: As of right now, 2019–2020 I&O plans are nonexistent. Since 2007-2008, the Indian government has not published an I-O table. The Asian Development Bank also released an input-output table for 2016-2017. A total of 34 distinct economic activities are accounted for in the ADB's I-O table, including final demand (consumption), final supply (government spending), commerce (exports and imports), investment (savings and capital accumulation), and taxation (direct and indirect). Based on this table, we can estimate how big of a blow the Indian economy would experience in 2019-20 and 2020-21 due to decreased production across several sectors.

**Trade in Services**

It is predicted that the COVID-19 epidemic would have a negative effect, comparable to that observed in the trade of goods, on both the exporting and the importing of services. This is the case because the impact will be similar to that experienced in the trade of products. The implications will vary from case to case and style to style based on the kind of service industry involved. Modes 2 (consumption abroad) and 4 (mobility of consumers and providers across international boundaries) both feature consumer and provider mobility across international borders (natural persons). Both mode 2 service exports and mode 4 service imports are decreasing as a consequence of tourists and other trained professionals avoiding nations that are afflicted with COVID-19. Because mode 1 services, which include cross-border supply, do not need mobility on the part of either the provider or the customer, it is feasible that mode 1 services may continue to expand even after the pandemic has ended. It's probable that stay-at-home orders would raise demand for online channels that may be used for instruction or entertainment, including Teams, Zoom, and Skype. This would be a positive development (i.e., imports of personal services). It's possible that some of the sources are hazardous. The COVID-19 pandemic resulted in the postponement or cancellation of baseball games in the United States and soccer competitions in Europe. In addition, the epidemic caused production delays for movies that were being made. This would lead to a reduction in the amount of personal services that are exported. Using quarterly data from 146 countries, Ando and Hayakawa (2022b) did a study of the effect that COVID-19 would have on the trade of services in 2019 and 2020. Their findings may be seen in the following sentence: They came to the conclusion that COVID-19 has a detrimental effect on the commerce of services. Because of the unique characteristics of each each disaggregated service sector, the effect was rather diverse. This was to be anticipated, given the nature of the services. The most notable changes were seen in the ways that people travelled, transported themselves, and constructed things.

**FDI**

The COVID-19 epidemic may cause a shift in FDI flows. Reduced demand and increased fixed investment costs are the results of COVID-19 damage in host countries (e.g., various search costs of location and workers). Greenfield foreign direct investment may increase the cost of training and staffing new facilities much more than M&A agreements that do not include worldwide growth (M&As). Depending on the extent of the damage in the host nation, the value of the acquired firms might have dropped. It is very uncommon for FDI to occur during what is known as a "fire-sale," when foreign investors purchase local enterprises at steep discounts. If the domestic impact of the COVID-19 outbreak is severe enough to inspire investors to pull their money, the economy might suffer. It may also encourage more FDI from outside companies (FDI). Corporations may maintain output by changing their attention from domestic to foreign markets. The COVID-19 epidemic has caused a shortage of truck drivers and port workers, limiting the amount of cargo that can be processed via these facilities. Consequently, the cost of shipping products across the country and throughout the world has increased. U.S. companies might decide to cease exporting and focus entirely on the domestic market. Hayakawa, Lee, and Park (2022) conducted an empirical study to determine how the COVID-19 epidemic affected FDI. The researchers did this by analysing quarterly data (starting in Q1 2019 and ending in Q2 2021) on FDI flows between 173 nations and 192 countries. Greenfield looked at the time span from the beginning of 2019 to the middle of 2021. The spread of COVID-19 in host nations is having a devastating effect on foreign direct investment as well as cross-border mergers and acquisitions inside the industrial sector.. Yet, the effects of any kind of FDI on indigenous industries were negligible. In both the home and host nations, the COVID-19 epidemic has hindered greenfield FDI in the service sector. The epidemic has had a limited effect on international merger and acquisition deals.

**Financial repercussions of the second wave of COVID-19**

Both the Reserve Bank of India (commonly known as the RBI) and the International Monetary Fund (also known as the IMF) released their most up-to-date projections for India's GDP in the first week of April 2021. In contrast to the Reserve Bank of India's (RBI) prediction of 8% growth, the International Monetary Fund (IMF) now expects India's economy to expand by 12.5%. In its annual report, India's central bank, the Reserve Bank of India (RBI), predicted that the country's real GDP would increase by 10.5%. The IMF forecast is 2% more than the RBI forecast. The Reserve Bank of India (RBI) may be somewhat more worried about the probable unfavourable implications of the wave, since the second COVID-19 wave is presently sweeping throughout almost all of India. These historically high rates of real GDP growth are due mostly to a large base effect, which resulted from the (-)8.0% decline in FY21. The United States has not had real GDP growth rates like this since the Great Depression. With a forecasted growth rate of 12.5% in FY22, India is expected to outpace other major economies like China, which is anticipated to show a growth rate of 8.4%. India has a far greater projected growth rate for FY22 than any other major economy in the world. If the present COVID-19 epidemic's second wave is not brought under control as soon as possible, these growth projections are in danger of being seriously jeopardised. It would likely depend heavily on how quickly the country's general population could be immunised against the disease. Meanwhile, signs are emerging that the crippling effect of COVID-19's second wave on the Indian economy may have prematurely stifled the anticipated rebound in 1QFY22. This is because we are seeing wave two of COVID-19's spread. The reason for this is because the current wave of COVID-19 is the second wave. There have been partial and localised lockdowns in major commercial and metropolitan agglomerations, and the scope of these measures is becoming wider by the day.

**Conclusion**

This article examines how Covid-19 affects India's economy. In addition to the health crisis, the global economy is undergoing a unique tragedy due to a simultaneous and independent collapse in demand and supply. Before the epidemic, India's economy had been in decline for about a decade. In March 2020, India was ill-prepared to cope with the pandemic. Since March 2020, the epidemic's economic catastrophe has affected the whole economy. A broken supply chain, lack of market outlets, slow demand, and declining output prices hurt agricultural producers severely. Our research of 15 March-to-September 2020 agricultural shipments proved this. Smaller enterprises suffered more in a sector-wide downturn. 35% of MSMEs will close, according to the report. 13 million people ceased seeking for jobs between February and October 2020 due to the situation. This research used an I-O paradigm to estimate India's direct and indirect expenses. We predicted India's 2020–2021 GDP growth rate might range from -6% to -21% owing to missing workdays. Until August of 2020, the government's response to the economy will be supply-focused and demand-deficient. The package has to prioritise job creation and higher aggregate demand because of the potential for both short- and long-term job losses. The availability of new job resources hardly increased. Between April 2020 and September 2020, Union government spending fell 0.6% compared to the same period in 2019, when it rose 14.1%. Fear of a greater deficit hindered government expenditure. India's neoliberal government practises such budget restriction. India has remained fiscally conservative while other big capitalist states have abandoned austerity. This demonstrates India's new right-wing government's intellectual conservatism. The Indian economy's present position doesn't portend a quick recovery.

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