



# THE CURRENT CHALLENGE TO INDIA'S FLEDGLING ECONOMY

**Dr. Vimlesh**

Associate Professor, K.R. ( P.G) College Mathura

## ABSTRACT

How much of an impact did the second Covid wave have on India's nascent economic revival? In the medium- and long-term, how will the second Covid wave affect us? When it comes to existing and future threats to the Indian economy, what are the specifics? There is always a flurry of economic analysis at the end of each quarter. After releasing its last bulletin earlier this month, the Reserve Bank of India gave its appraisal on the Indian economy. Even though the Reserve Bank of India (RBI) is the most knowledgeable entity on the Indian economy, the National Council of Applied Economic Research (NCAER) provided the most insightful analysis in its Quarterly Economic Review.

**KEYWORDS:** economy, challenges, india, fledgling economy

## INTRODUCTION

Major signals are pointing to a long-term slump in the Indian economy. Because of the widespread harm caused by the coronavirus pandemic that began in April, India's economic recovery is looking bleak.

Recent analyses reveal how significantly Covid-19 has disrupted livelihoods, particularly for the poor, and that India's GDP growth is expected to be negative throughout the year.

While the global epidemic has impacted all aspects of life, including the economy, we are still hopeful for a few green shoots to emerge for the Indian economy. In July, there were some encouraging developments, but experts today fear that they were just short-lived and that the COVID-19 scenario could prolong India's economic woes.

India's economic recovery will take longer than expected, based on the August quarter's large drop in growth, as well as bad business performance and a dearth of urban jobs in the middle of the ongoing epidemic.

## INDIA'S ECONOMY FLEDGLING RECOVERY STRENGTHENS

India is making a tiny return after sliding into one of the worst recessions of any major country.

However, the recovery is uneven and the country is still striving to find strategies to sustain growth. Even its enormous informal economy, which includes farmhands, day labourers, rickshaw drivers, and many more, is susceptible.

In the third quarter, which concluded in December, India's economic output climbed 0.4 percent over the previous year, according to data issued by the Indian government on Friday. After two straight quarters of declining economic activity, India appears to have exited recession, according to the data.

It's great news for Prime Minister Narendra Modi and the people of India, who've been feeling the pinch of the coronavirus pandemic's effects on their country and the world economy as a whole. However, when compared to previous years, when the economy grew at a rate of 6% or more, the current growth rate is still quite slow.

Economists believe that the early recovery was fueled by services, agriculture, construction, and some manufacturing sectors. Priyanka Kishore, head of Oxford Economics' South Asian division, noted that the service sector, particularly financial and professional services, has performed better than projected.

There are "upside risks to the 2021 growth outlook" because of the "broadening of the recovery," she said. It's important to be cautious in the near term because of the delayed vaccination process and the rise of certain cases in various places.

Lockdowns in India last spring and summer were some of the tightest and longest in the world, with only critical services allowed to operate. Because of this, the country's vast informal sector came to a grinding halt, leaving many people without job. A 24 percent contraction in the first quarter of last year was one of the worst in major countries, despite massive government spending. It shrank by more than 7% in the second quarter.

India has emerged from its quarantine, and the pandemic appears to be under control. The number of new cases of the virus has reduced from about 100,000 per day last fall to about 15,000 today. More than 1,000 people died per day during the worst time of the virus in 2020.

While the world's largest immunisation campaign is taking place in India, it is limited to personnel on the front lines of the fight against the coronavirus. The vaccination has been administered to more than 13 million people. Anyone over the age of 60, or those over the age of 45 with specific medical issues, will be able to receive the vaccine from private hospitals starting on March 1.

As the vaccine programme ramps up, experts believe it will mitigate the effects of a potential second wave and help restore the economy.

Small businesses, meanwhile, are bearing the brunt of the economic downturn, according to research.

"The profits of large corporations have risen significantly. G.D.P. figures reflect this. An Indian economic watchdog has declared that "in two consecutive quarters, listed corporations have achieved extraordinary record profits," he said. As a result, small businesses are losing market share to these companies. As a result, small and medium-sized businesses are struggling to stay afloat. It's true that GDP numbers don't reflect the impact on India's informal sector, says Arun Kumar, a New Delhi-based economist.

According to him, "this statistic does not include the unorganised sector, which was affected the hardest." "Brick-and-mortar stores are losing ground to the organised sector in e-commerce."

Nearly half of the workforce is employed in the unorganised sector, which produces more than a third of the GDP.

The Indian economy is expected to increase by more than 10% in 2021, according to several forecasts.

Though it had previously predicted a stronger growth rate for the final quarter, India now expects its GDP to contract by 8% for the fiscal year ending in March.

## CHALLENGES THAT THE INDIAN ECONOMY IS CURRENTLY FACING

### 1. Skyrocketing Unemployment

Economic activity has been disrupted by rising Covid cases and localised lockdowns, which have halted the country's labour market recovery.

Unemployment in India is slowly reverting to the record highs recorded in June 2020 amid a nationwide shutdown, according to data from the Centre for Monitoring Indian Economy (CMIE).

More than five million paid positions were axed in July, according to CMIE figures, increasing the total number of layoffs in the formal sector to more than 1.8 crores in the month.

There is still a dearth of demand and a lack of labour force despite the fact that many informal sector businesses have opened their doors to employment.

It is widely accepted that the majority of informal businesses rely on the official sector, which includes salaried employees. As a result of job losses, the economy may continue to decline.

## 2. GDP Loss of Two Years

There would be Rs 146 trillion in GDP in India in 2019-20. According to these numbers, India produced Rs 146 trillion worth of products and services in 2013. Next year's budget, for 2020-21, was Rs 135 trillion.

According to official estimates released by the ministry of statistics and programme implementation, the Indian economy contracted by 7.3% in the April-June quarter of the current fiscal year. If you look back to 1996, when GDP numbers were first collected quarterly, this is the greatest drop since then.

This year's GDP is expected to reach Rs 146 trillion, an 8.3% growth over the previous year. If this is the case, India will have lost two full years of economic growth.

Even if India's GDP grows by 10.1 percent instead of 8.3 percent this year, it will still be far behind where it could have been had COVID not been implemented.

## 3. Rising Inflation

India is also witnessing rising prices because to the second wave of Covid during times of economic expansion and a delayed recovery. Inflationary pressures have exacerbated the economic situation. Retail inflation rose to 6.93 percent in July, well above the Reserve Bank of India's medium-term target of 4%.

Analysts believe that rising inflation is already weakening demand, which has already been affected by pandemic-induced limitations and deteriorated consumer sentiment.

Food, energy, fuel, and fresh produce have all seen their prices soar in recent years that they are now unaffordable for the average American.

## 4. Low Demand for Goods

The economy's fundamental problem right now appears to be stagnant demand. There has been a dramatic decrease in demand for major products and commodities such as fuel, food and consumer goods.

The economy's demand-and-supply cycle has been thrown for a loop because of the sharp drop in consumer demand. Due to a lack of demand, production has been halted, which has resulted in a significant drop in job levels in India.

The COVID-19-prone Indian economy faces a slew of current and future risks, as well, which could have a devastating impact on our country's budding economy.

There is still a second wave of the COVID-19 epidemic that is wreaking havoc on the lives of people and the Indian economy, as the threat of a third wave grows.

India's economy has been thrown into disarray due to a disastrous third wave of the COVID-19 pandemic that was poorly managed by the federal and state administrations.

Experts are concerned about the arrival of new and more aggressive coronavirus strains, which could prompt the re-imposition of lockdowns across the country, resulting in a further (and potentially severe) decline in growth estimates and dampening demand. Experts are concerned about

COVID-19 has wreaked havoc on the health and well-being of people around the world, as well as slashed the number of jobs available. The global economy is experiencing its deepest downturn in history. As a result of the healthcare crisis in India, the country's economy was already in a state of decline.

What are your thoughts on the nascent economy, which is already encountering numerous roadblocks? It's been a rough few months for the Indian economy. If so, at what point in the future? Please tell us what you think in the comments below.

## LITERATURE REVIEW

**MANSI KEDIA (2021)** Artificial Intelligence (AI) has the potential to solve some of India's most pressing problems, from a technological standpoint. By lowering risk, time, and capital expenditures, the use of AI in several sectors of the economy has yielded significant results. As a result, a wide range of innovations in various application fields have been made possible, resulting in enormous economic and societal gains. It is the goal of this research to quantify the influence of AI on Indian enterprises' total factor productivity (TFP). As an efficiency-enhancing GPT, AI serves as an explanatory variable in an econometric model that identifies the factors that contribute to TFP growth for each firm separately. Panel data from 311 companies listed on India's Bombay Stock Exchange for the period 2010 to 2020 is used to estimate the model. While the econometric estimation gives sufficient evidence for policy to promote its wider use, the practical measures are only attainable by measuring company capabilities, both for firms producing and employing AI. There are numerous examples of open government data in the article that allow for rapid localised AIled innovation.

**RAJESH N. GADE (2021)** All around, pessimism is pervasive. The Great Depression of 1930 has been compared to COVID-19. Analysts and government agencies are finding new lows in economic activity on a daily basis. In this time of crisis, the Indian economy, on the other hand, has a slightly different storey to tell. The good news for India's economy is that crude oil prices have plunged from roughly \$70 per barrel to a record low of \$22 per barrel, the lowest in 18 years. Direct losses from COVID-19 may be partially mitigated by this unexpected windfall benefit. The notion of a \$5 trillion economy, on the other hand, appears to be no longer even a remote prospect. The short- and long-term effects of COVID-19 on the Indian economy are discussed in this article. The projections have been made using a decision-tree approach.

**IMRAN ALI (2021)** Within a few months, the coronavirus has spread around the globe. During COVID-19, all economies face the same challenge: how to keep the economy open and working. The nationwide lockdown has harmed a wide range of industries. Businesses are projected to show a decrease in revenue. In the next several quarters, the company's financial performance is expected to continue slow. A few industries have been positively affected. There are some industries that have been negatively affected. The purpose of this study is to assess the performance of several industries at COVID-19. Secondary data from various sources is used in this paper.

**ANURAG VARSHNEY (2017)** India's economy has been adversely affected by demonetization. Economic growth, development, and GDP are all assumed to be boosted in the long run as a result. In the end, the black market will be abolished and the value of the Indian rupee will rise internationally. Either adversely or positively, India's economy is about to undergo a major revolution. There are many ways to investigate predictions and problems, but only the future can show the correct outcome. In order for India's economy to have performed so well on a global scale, it must have been a major player. According to the findings, demonetization will have a negative impact on the economy.

**ECONOMIC DIVISION (2021)** During COVID-19, global growth has fallen to record lows, and there are still huge dangers of even worse results. For 2020, the International Monetary Fund's World Economic Outlook estimates that worldwide output will decline by 3%, with the decline being more pronounced in advanced economies. It was aptly named "Global Lockdown" in April, 2020, as major industrial and service indicators across countries fell to historic lows as a result of supply-side disruptions. As global energy prices plummeted, US jobless rates rose to double digits, Eurozone consumer confidence and UK retail expenditure declined, signalling the beginning of a supply crisis as well. Countries that export commodities saw their currencies decline more sharply as a result of this demand shock. Markets around the world substantially reduced their equities and debt holdings in March 2020, which resulted in a

dramatic drop in the benchmark equity indices and a rise in bond yields before a slight recovery in April 2020. Reactions from governments and central banks have included stimulus plans and liquidity injections. Including all prior liquidity support provided by the RBI and government fiscal stimulus, Indian Prime Minister Narendra Modi announced a package worth Rs. 20 lakh crore (10 percent of GDP) on May 12, 2020.

## CONCLUSION

The 1991 economic reforms were a watershed moment in post-independence India's economic history, as is widely acknowledged. Since then, the Indian economy has undergone a major shift in policymaking, preparing the way for a new character and policy environment. Economic indices such as GDP, Balance of Payment, exports and employment are showing an upward trend in the post-WTO years according to this study. Compared to the pre-WTO era (1975-1995), macroeconomic indices have performed well in the post-WTO period. The Indian economy has grown steadily since the World Trade Organization (WTO) implemented its norms and policies.

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