

# INDIAN FINANCIAL CRISIS EVALUATION DURING COVID-19

Dr.S.UMADEV

Assistant professor,

PG AND RESEARCH DEPARTMENT OF COMMERCE (CA)

Kamadhenu Arts and Science College.

Ms.S.JAYANTHI

Assistant professor,

PG AND RESEARCH DEPARTMENT OF COMMERCE (CA)

Kamadhenu Arts and Science College.

## ABSTRACT

To crush the COVID-19, Pandemic, the Indian Government reported a total lockdown in the nation beginning on March 24, 2020, and the equivalent was stretched out to third May 2020 in the subsequent stage. Despite the fact that the lockdown was vital and inescapable to forestall the quicker spread of the Novel Corona virus (Covid-19) and to save the existences of individuals of the country, it will influence the different sectors of our economy harshly. Where a negative effect was seen on the economy and human existence, the climate got a positive one. How India managed and can conceivably manage these three elements during and the post-COVID-19 circumstance has been examined here. This paper examines the effect of Corona virus on different sectors of the economy, the stock and subsidiaries market and dissects the circumstance by utilizing a few pointers like the GDP development rate, joblessness rate, significant policy changes in fragments of the economy and so on. The paper essentially centers around the circumstance in India pre-emergencies and during the emergencies to help comprehend the plunges and difficulties looked by the Indian Economy.

**Keyword:** GDP, Corona-Virus, Indian Finance, Employment in India, Unparalleled economic blow

## INTRODUCTION

Before the COVID-19 emergency, levels and patterns in homegrown incomes and outside streams to creating economies were at that point thought about deficient to help the Sustainable Development Goals (SDG). With undeniable degrees of public debt and extra pressing factors incited by the pandemic on all significant wellsprings of improvement finance, low-and center pay nations may battle to finance their general wellbeing, social and financial reactions to COVID-19. Early perceptions highlight gigantic debt and value outpourings from creating economies that go with a drop-in remittance, and gradually expanding influences on homegrown finance previously requested by the unfurling general wellbeing and monetary emergencies.

In excess of 84,000 individuals surrendering to COVID-19 disease up until now, India's loss of life is the third most noteworthy on the planet after the US and Brazil. Dissimilar to the US and Brazil, India's every day increment in COVID-19 cases gives no indication of decrease. Since mid-August, India has been recording the world's biggest day by day increments in Covid-19 cases. In the second seven day stretch of September, new COVID-19 cases found the middle value of almost 90,000 every day in India. While the world is at present seeing the second wave of contaminations, India has not had the option to straighten the principal wave curve.

The economic effect of the 2020 corona virus pandemic in India has been generally troublesome. India's development in the final quarter of the fiscal year 2020 went down to 3.1% as per the Ministry of Statistics. The Chief Economic Adviser to the Government of India said that this drop is predominantly because of the corona virus pandemic impact on the Indian economy. Remarkably, India had likewise been seeing a pre-pandemic log jam, and as per the World Bank, the current pandemic has "amplified previous dangers to India's economic outlook".

### **Before Covid-19 financial crisis**

Utilization request is the greatest driver of financial development in India. In 2019-20, Private Final Consumption Expenditure (PFCE) had a portion of 57% in India's GDP. PFCE development fell to 2.7% in the March 2020 quarter, the least since June 2012. Given the strengthening headwinds to utilization interest, firms began racking speculation plans. This can be found in Gross Fixed Capital Formation (GFCF) contracting at an expanding rate for three sequential quarters finishing March 2020. A breakdown in speculation request has unfriendly ramifications for the future development potential of the economy. It was just government expenditure that was going about as a counter-recurrent power somewhat.

### **Unparalleled economic blow**

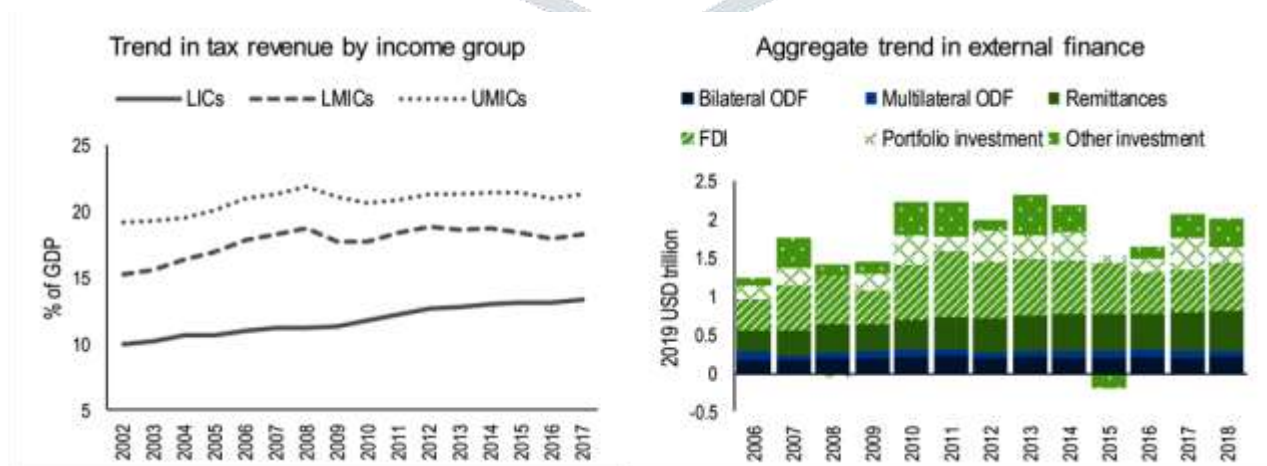
On March 24, 2020, Prime Minister Narendra Modi forced a cross country lockdown that stayed essentially until May 31. In contrast to different nations (like Germany, Italy and Thailand), the lockdown in India didn't help in containing the spread of the Covid. Disease cases continued expanding despite India being in lockdown.

The abrupt cross country lockdown forced across India was the greatest on the planet, compelling 1.3 billion Indians to remain inside. The lockdown limitations were forced without any planning or coordination with states. It was likewise quite possibly the most tough lockdowns upheld on the planet. With the exception of some fundamental administrations and exercises, the remainder of India's \$2.9 trillion economies stayed covered during the lockdown time frame. Economic activity went to a crushing stop in the country. The lockdown devastatingly affected a previously easing back economy and individuals' livelihoods as shops, diners, factories, transport, administrations and business foundations were covered.

India's GDP contraction was worse than any of the world's greatest economies. Aside from China, most significant economies saw GDP contraction in the April-June quarter of 2020, yet India posted the steepest quarterly decay, far worse than the US (9.1%) and Italy (17.7%) — two nations seriously hit by the Covid pandemic. We ought to likewise remember that GDP estimations in India don't completely catch the economic movement in the casual area — which accounts for over half of gross worth added. As casual sectors of the economy have been most exceedingly awful hit by the pandemic, India's GDP contraction during April-June could well be above 35% if casual sectors are considered.

The focal point of most businesses is presently on securing workers, understanding the dangers to their business, and dealing with the supply chain disturbances brought about by the endeavors to contain the spread of COVID-19. The full effect of this pandemic on businesses and supply chains is as yet unclear, with the most hopeful forecasts foreseeing that routineness in China may return by April,1 with a full worldwide recuperation slacking relying upon how different geologies are at last influenced by the infection. In any case, one thing is sure: this occasion will have worldwide economic and financial implications that will be felt all through worldwide supply chains, from crude materials to completed items.

Other domestic resources correspondingly give significant monetary intends to spending and interest on the side of reasonable turn of events. Examination completed for the OECD Global Outlook on Financing for Sustainable Development (OECD, forthcoming) recommends that domestic investment funds had been expanding in creating economies as a portion of GDP between 2016-18 however reserve funds had remained essentially more modest in low-pay than center pay countries. Domestic private speculation is the principle wellspring of fixed capital arrangement yet information accessibility is just extensive for around 33% of creating economies. The domestic monetary area assumes a focal part in intermediating reserve funds and borrowing (separately venture) yet admittance to monetary foundations and markets had stayed more restricted in low-and lower-center pay countries and borrowing costs are frequently high.



**Figure 1. GDP and external finance**

The 2008 Global Financial Crisis showed that outer account to low-and center pay nations are powerless against stuns. During the crisis, portfolio and other venture inflows quickly dropped (or even turned around to negative), while remittances and FDI diminished with a postponement of one year (Figure 1). Current proof proposes a more prominent and more prompt effect of the COVID-19 crisis. While nations will feel this effect distinctively relying upon their separate account blend and level (Figure 2), all are required to encounter financing drops.

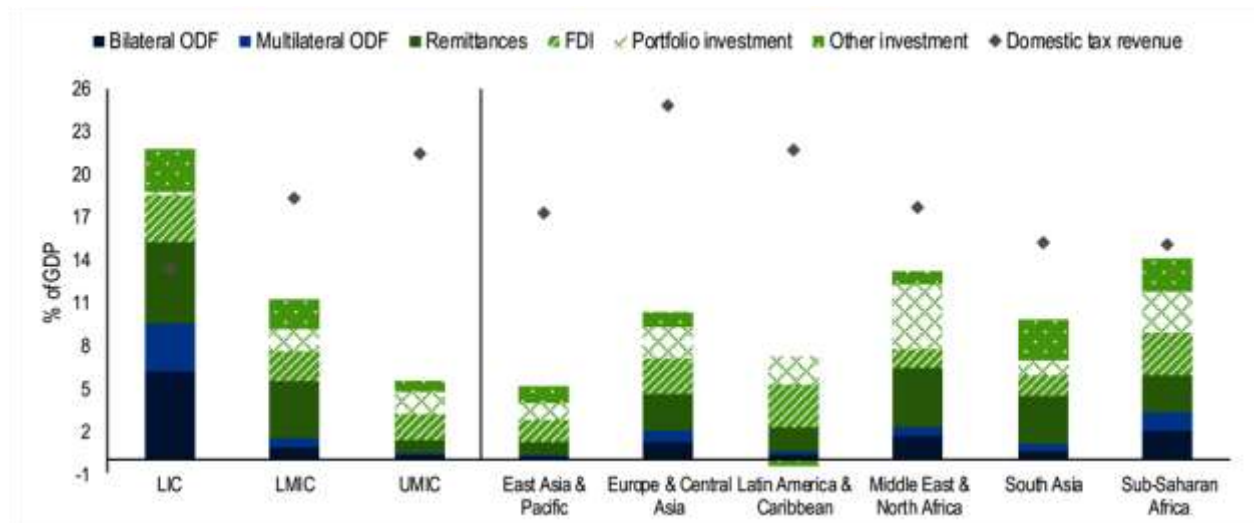


Figure 2. The finance mix and level in ODA-eligible countries differs by income group and region

## DURING COVID-19

As indicated by Nomura India Business Resumption Index economic activity tumbled from 82.9 on 22 March to 44.7 on 26 April. By 13 September 2020 economic activity was almost back to pre-lockdown. Unemployment rose from 6.7% on 15 March to 26% on 19 April and afterward back down to pre-lockdown levels by mid-June. During the lockdown, an expected 14 crore (140 million) individuals lost employment while compensations were cut for some others. Over 45% of family units the country over have detailed a pay drop when contrasted with the earlier year. The Indian economy was relied upon to lose over ₹32,000 crores (US\$4.5 billion) consistently during the initial 21-days of complete lockdown, which was proclaimed after the Covid flare-up Under complete lockdown, not exactly a fourth of India's \$2.8 trillion economic developments was practical. Up to 53% of businesses in the nation were projected to be significantly influenced. Supply chains have been put under pressure with the lockdown limitations set up; at first, there was an absence of lucidity in smoothing out what an "fundamental" is and what isn't. Those in the casual areas and every day wage bunches have been at the most danger. Countless ranchers around the country who develop perishables likewise confronted vulnerability.



## Remote working

With significant urban communities on lockdown, associations have had no real option except to delve into their business coherence and alternate courses of action. Since the time the first COVID-19 case was affirmed in Quite a while, various organizations have initiated a 'telecommute' drill utilizing basic assets to comprehend whether far off working conditions are attainable. That being said, distant working additionally has its restrictions and can't be done by different sectors like retail, hospitality, or assembling, leaving them no decision except for to confront business interruption.

### IMPACT ANALYSIS OF COVID -19 in Industry

Sectors	Impact	Recovery Period	Reasons
Drugs and pharmaceutical	Moderate	Short Term	> Production is expected to recover quickly as the government is extending support for essential commodities.
			> Businesses have started resuming operation in China, which accounts for around 85% of India's active pharmaceutical ingredients imports. This alleviates the supply chain disruptions, though not by a great extent.
Livestock	Severe	Short Term	> Prices and demand may increase after the outbreak.
Retail (non-food items)	Severe	Short Term	> Sales of essential items may recover quickly, while sales of non-essential items might take slightly longer to recover. However, pent up demand will aid a fast recovery.
Wholesale (non-food items)	Severe	Short Term	
Textiles	Moderate	Short Term	> Discretionary spending is expected to remain muted for at least one quarter. However, demand for essential commodities such as masks, cotton rolls, gauzes, etc. will not be negatively impacted.
			> Even if demand for low-priced products starts reviving after a quarter, the uncertainty and slow growth or loss of income may impede a quick recovery for the next two quarters.

			<ul style="list-style-type: none"> <li>➤ Exporters will take longer to recover until recessionary pressures in the USA and European countries fade away.</li> </ul>
<b>Logistics</b>	Severe	Medium Term	<ul style="list-style-type: none"> <li>➤ Slowdown in the tourism sector will have knock-on effects on passenger traffic. Heightened risk aversion will prolong the recovery.</li> </ul>
			<ul style="list-style-type: none"> <li>➤ Cargo traffic is expected to pick up once businesses start resuming operations across all countries. However, low consumption expenditure will delay the recovery.</li> </ul>
<b>Metals</b>	Moderate	Medium Term	<ul style="list-style-type: none"> <li>➤ The metal industry has strong forward linkages to many important sectors such as automotive, construction and infrastructure. Hence a slowdown in business activity in these sectors will inevitably drive down the demand for basic metals.</li> </ul>
<b>Automotive</b>	High	Long Term	<ul style="list-style-type: none"> <li>➤ Demand for cars is likely to be deferred or dropped given low consumer confidence, subdued economic activity, lower disposable income and higher prices.</li> </ul>
			<ul style="list-style-type: none"> <li>➤ Demand for commercial vehicles will be dependent on growth in Gross Material Products (GMP), which is expected to be slower.</li> </ul>
			<ul style="list-style-type: none"> <li>➤ Component dependency will create supply side disruption.</li> </ul>
<b>Entertainment</b>	Severe	Long Term	<ul style="list-style-type: none"> <li>➤ The biggest concern is the likely continuation of social distancing measures to avoid the risk of any relapses.</li> </ul>
			<ul style="list-style-type: none"> <li>➤ Revenues from advertisements will be dependent on revival of the aggregate demand in the economy.</li> </ul>
<b>Banking</b>	High	Long Term	<ul style="list-style-type: none"> <li>➤ The Reserve Bank of India (RBI) estimated that Non-Performing Assets (NPAs) may increase to 10.2-10.5% by September 2020. With the outbreak of COVID-19, this figure is expected to increase.</li> </ul>
			<ul style="list-style-type: none"> <li>➤ The phase to recovery will depend on the outcome of the measures that the RBI has initiated and is likely to take place in the following weeks.</li> </ul>

<b>Gems &amp; Jeweler</b>	Severe	Long Term	<p>➤ Exports constitute a major portion of the net sales for domestic companies. With recessionary pressures across the globe, demand for gems and jewellery is expected to be severely impacted over the next couple of quarters.</p>
<b>Tourism</b>	Severe	Long Term	<p>➤ Even when the travel bans are lifted, both foreign tourist arrivals and domestic tourist movements are expected to remain very low because of heightened risk aversion, measures related to social distancing and lower disposable incomes.</p>
<b>Hospitality</b>	Severe	Long Term	<p>➤ Slowdown in the tourism sector will have knock-on effects on hospitality. Occupancy rates may remain very low until Q1 2021.</p>
			<p>➤ In an effort to increase and improve the bottom lines, many businesses are expected to cut down travel and accommodation costs for their employees.</p>
<b>Electronics</b>	High	Long Term	<p>➤ Demand for white goods and other high-end consumer durables will remain impaired as consumers are expected to postpone their purchases because of lower disposable income, and uncertainty over growth prospects.</p>
			<p>➤ About 50-60% of the products and 70-80% of the components are imported, and a shortage of components of electronic goods from China is likely to keep prices higher and hence will impact demand.</p>
<b>Micro, Small, and Medium Enterprises (MSMEs)</b>	High	Long Term	<p>➤ Recessionary pressures across the globe are expected to have a direct impact on the level of global exports. Given that MSMEs contribute to over 40% of India's exports, the impact will be severe and linger for a longer time.</p>
			<p>➤ MSMEs are expected to experience severe liquidity problems due to delayed payments from their customers.</p>
			<p>➤ The strain in the banking system is expected to increase the credit gap for MSMEs.</p>

## Arthur D. Little's methodology

'How did Arthur D. Little model its GDP situations and gauges? The methodology was based on a strong two-tiered methodology. A base up economic model was created and used to assess the positive and negative development rates for key areas in the economy due to the Covid-19 lockdown.

'A strengthening subjective framework was likewise created to find out the effect of lockdown and Covid-19 on areas for the time being (under four quarters) and long haul (multiple quarters). Side-by-side loads were allocated to key areas based on evaluations of their past GDP commitment.

'Variables including past execution, worldwide and domestic effect of lockdowns, social distancing, facilitating of government restrictions, inventory network effect and change in shopper demand were assessed to model development. At that point, the yield suggested was pressure tested against the traditional top-down approach including verifiable GDP development rates throughout the most recent 15 years, just as against chronicled changes to private last utilization expenditure, net fixed capital arrangement, government expenditure and trade during pre-and post-recession periods.

## Changes in economic statistics

Changing the base year of the public records each 7 to 10 years is a normal matter for statistical workplaces all over. The update helps represent the adjustments in the economic construction and relative costs; and, it likewise considers utilizing better statistical techniques and improved databases.

In mid 2015, the then Central Statistical Office (CSO) — presently the NSO — presented another GDP arrangement with the base year 2011-12, supplanting the previous one with the base year 2004-05. Shockingly, the total GDP size for 2011-12 in the new arrangement was insignificantly more modest (by 2.3%) than that in the previous arrangement. In any case, its yearly growth rates before long were significantly and efficiently higher than in the more seasoned arrangement. As the new GDP growth rates were off the mark with numerous economic relates, there was inescapable analysis that the new arrangement appeared to efficiently overestimate the GDP growth rate. Two models best delineate this issue.

1. With the demonetization in November 2016, yield and work contracted, particularly in the chaotic or casual area. Economists broadly trust it to be so founded on hypothesis, observational investigation and various field reports. However, the authority GDP gauge for 2016-17 showed a 8.2% development, the most noteworthy in 10 years!
2. For the exact year, as per the real tax returns documented by companies in the private corporate area, the fixed venture to GDP proportion tumbled to 2.8% from 7.5% in the earlier year, according to the Ministry of Finance's Report on Income Tax Reforms for Building New India (September 2018). The fall in the proportion appears to be justifiable as demonetization prompted a compression in economic movement. Shockingly, be that as it may, the relating proportion as per the CSO's National Accounts



rose to 12% of GDP in 2016-17, contrasted with 11.7% in the earlier year. The difference between the two arrangements of evaluations (both the levels and the heading of the change) proposes that the public records based corporate speculation gauges are off the mark with the real world.

Guaranteeing that the National Sample Survey Organization's (NSSO) five-yearly Employment and Unemployment Surveys (EUS) – led since 1972-73 – are excessively inconsistent and neglected to catch the functioning of the metropolitan work market sufficiently, the Government supplanted the EUS, with a re-planned, Periodic Labor Force Survey (PLFS). The decision depended on the suggestions of the report of the team led by Arvind Panagariya (Ministry of Labor and Employment 2017).

Prior, purchaser expenditure surveys (CES) and EUS were directed all the while with a similar example families. However, with the presentation of the PLFS, a different CES was directed, likewise embraced in 2017-18.

Lamentably, PLFS and CES survey results for 2017-18 have neglected to discover favor with the Government. The PLFS data, delivered after extensive discussion and postponement, has been authoritatively dismissed as it is professed to be not practically identical with 2011-12 EUS data, however most knowledgeable specialists have excused the authority complaints. Likewise, as the CES results for 2017-18 are at difference with the managerial data, the CES data has been rejected and not delivered. In any case, numerous specialists discover the leaked CES data to be valid, and a couple of examination reports with adroit discoveries are presently accessible in the public area.

## Quantitative Easing

Quantitative facilitating is a financial strategy instrument utilized by Central Banks to purchase Government securities/Corporate securities to make liquidity in business sectors and lift the economy from recession.

In QE, national banks create cash to buy securities from banks, monetary institutions and implant cash supply for expanded credit movement. Banks and Financial institutions may loan to governments, organizations, singular family units at lower interest rates. These outcomes in expanded degrees of utilization and pay. Hypothetically, when the economy recuperates, the Central bank sells the securities and obliterates the money got. This implies in the long haul there has been no additional money made.

QE supports financial Growth, jelly enterprises in recession, keep up the current degree of business, expands shopper certainty and builds sends out because of a reduction in the estimation of cash because of expanded cash supply.

QE may bring about higher inflationary conditions; brings down the profit from investment funds because of lower interest rates and makes imports costlier because of a reduction in the estimation of a cash because of expanded cash supply. At long last, it may not be possible for Central banks to sell bonds back, which diminishes the nation's getting capacity that would India be able to do to deal with the monetary crisis because of COVID 19.

### **Raw materials and spare parts**

Almost 55% of electronics imported by India begin from China. These imports have effectively slid down to 40% considering the Covid episode and subsequent lockdown. As a countermeasure, India is thinking about the advancement of native creation in an offer to lessen reliance on a solitary market. Furthermore, China is India's third-biggest export accomplice for the export of crude materials like natural synthetic compounds, mineral energizes, cotton, and so forth; and a lockdown of the nations is probably going to prompt a significant import/export imbalance for India.

### **Pharmaceuticals**

The cost for the pharmaceutical business is of critical worry for India, for the most part as 70% of dynamic pharmaceutical fixings (API) are imported from China. These dynamic pharmaceutical fixings are vital for countless pharmaceutical assembling organizations in the country. As COVID-19 is quickly clearing its path through India, medicine will be the main shopper interest, and on the grounds that there aren't almost sufficient APIs to manufacture medicates, the subsequent dealers and the market are seeing soaring costs. The costs of nutrients and penicillin alone as of now see a half flood.

### **Tourism**

India is enthusiastic about cultural and authentic tourism, drawing in homegrown and outside nationals consistently. It doesn't come as an unexpected that an enormous number of affirmed COVID-19 cases in India incorporate unfamiliar sightseers. Yet, with visas being suspended and vacation destinations being closed inconclusively, the entire tourism esteem chain, which incorporates inns, cafés, attractions, specialists, and administrators is required to confront misfortunes worth great many crores. Specialists accept the tourism business is probably going to endure a huge shot, and it could wind up crippling the business for a long time to come.

### **Aviation**

After the Government of India uncertainly suspended vacationer visas, airlines are supposed to be working under tension. Almost 600 worldwide trips to and from India were dropped for fluctuating periods. Around 90 homegrown flights have been dropped, prompting a sharp drop in airline passages, even on well known neighborhood routes. Private air terminal administrators have mentioned the Government to give

permission to force an ostensible traveler assistance charge on airfares to take care of the expanded working expense.

## CONCLUSION

There is trust that all the estimates taken by the government will trigger a steady recovery in spending and economic movement. Supported by a consistent turnaround in the economy, the business outlook ought to improve in the coming months. Meanwhile, work hopeful youth should accept up open doors for internship and preparing that will sharpen their abilities and keep them 'fight prepared' for the most readily accessible open position. A worldwide financial crisis doesn't leave anybody unsprayed; however it influences a few nations more than others. As well as lessening its exposure to unfamiliar resources like subordinates and ensuring banks actualize Basel III guidelines by the 2019 cutoff time, this is what the Indian government, acting through the RBI and different controllers, requirements to do to mellow the blow of the following financial crisis.

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