IMPACT OF COVID 19 ON INDIAN ECONOMY & RBI MEASURES TO TACKLE COVID – 19

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Abstract

The worldwide macroeconomic viewpoint is cloudy with the COVID-19 pandemic, with huge disengagements in worldwide manufacturing, supply chains, exchange, and the travel industry. Money related markets over the world are encountering outrageous unpredictability; worldwide item costs, particularly of unrefined petroleum, have declined pointedly. COVID-19 would affect financial action in India straightforwardly because of lockdowns, and through second-round impacts working through worldwide exchange and development. The effect of COVID-19 on expansion is questionable, with a potential decrease in food costs prone to be balanced by potential cost-push increments in costs of non-food things because of gracefully interruptions. India has gone for around two-month lockdown, the economy may see a sharp log jam in the following quarters. Interruptions in the development of products and enterprises, fall in worldwide and nearby demand, tremendous load on banking and financial services will inimically impact development. As there is little detectable quality on to what degree the pandemic would last, the monetary impact could stretch out from a delicate downturn to a genuine stoppage. This paper discusses RBI issues and difficulties during Pandemic occasions of COVID – 19. The effect of lockdown on macroeconomic variables such as GDP, Forex reserves, Exchange rate, Bank Repo rate, and retail inflation is examined. The Government of India has just prompted corporates to ensure occupations. The paper proposes and suggests considering the difficulties ahead.

Keywords: Bank repo, COVID – 19, Exchange rate, Forex reserve, GDP, and inflation

Abbreviations: GDP, Gross Domestic Product, RBI, Reserve Bank of India, ER, Exchange rate.

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I. INTRODUCTION:

The effect of coronavirus in India has been to a great extent troublesome. Since the monetary advancement in 1990, India has never observed negative development in the previous multi-year. World Bank and other credit offices have downsized India's money related improvement for the fiscal year 2021.[1] Former Economic Advisor to the GOI, Arvind Subramanian said that India needs a US $ 10 trillion upgrade bundle. He said that the economy will confront the negative development of this financial.[2][3] During the lockdown, the joblessness rate increased from 6.7 % on 15 March to 24.6 percent on 08 May. An expected 130 million work lost business. The family salary has dropped radically when contrasted with a year ago. [4][5] According to Acute ratings, the Indian economy because of the initial 21-day lockdown will free the US $ 4.5 billion each day.[6] The International Labor Organization (ILO) assessed that because of present lockdown will cause work misfortune up to 25 million.[7] Due to the coronavirus outbreak, up to 53 % of Indian business houses were significantly affected.[8] With lockdown in force supply chains have been under tremendous pressure. In the beginning, there was an absence of lucidity in what is essential and what is not.[9] The daily coolies depending on everyday wages are most at risk. [10] The agriculturist producing perishable items are also under uncertainty[9]. Various enterprise is cutting pay rates and laying off employees. The worst affected employees are from the hotel, tourism, and airline sectors.[11]

With COVID-19 spreading rapidly in India, policymakers are worried over how to fight the disease and breaking point its impact on the economy. There are no straightforward answers. Despite containing the spread of the disease and reinforce the people who are impacted, policymakers must be set up for the drawn-out challenges and openings that may arise once the crisis is done.

The across the nation lockdown since March 25 effects the mechanical area altogether even though segments representing more than 54 percent of the Index of Industrial Production (IIP) by weight have been excluded. The across the nation lockdown declared by the Prime Minister was relied upon to end by April 14, 2020. The equivalent has been reached out to May 3, 2020, but with specific relaxations after April 20, 2020. This is a phenomenal shutdown that will leave a profound engraving on the Indian economy.

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II. MATERIAL AND METHODS:

2.1 Objectives of the study:

1. To assess the effect of COVID – 19 in India.

2. To analyze the impact of COVID - 19 on selected macroeconomics variables.

2.2 Macroeconomic variables: The variables selected for the study are GDP, Forex gold reserve, Rupee or Exchange rate, Repo rate, and Inflation.

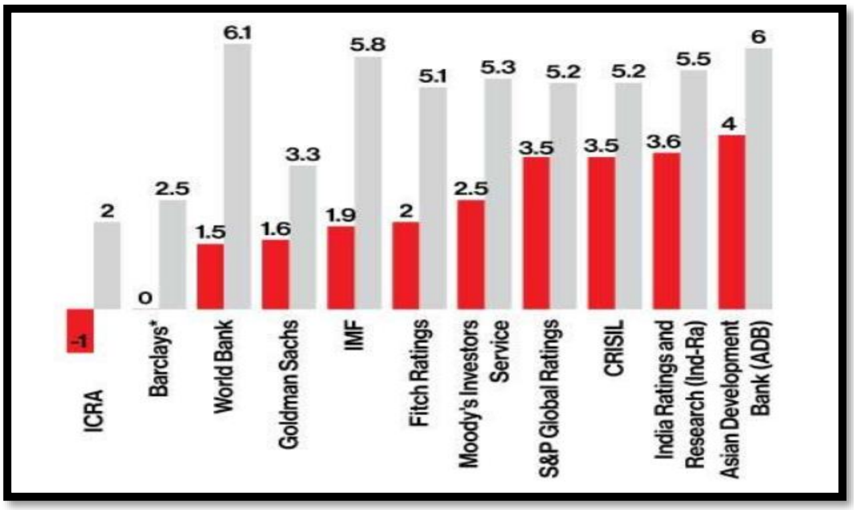
2.3 Limitation of the study: The present study is limited to five macroeconomic variables only.

III RESULTS & DISCUSSION.

3.1 IMPACT OF COVID – 19 ON INDIAN ECONOMY:

1. Serious cut in India’s GDP Predict:

Fig.1: GDP Predict



•GDP value • Previous GDP Predict (FY21, %)

Source: RBI

India is confronting a phenomenal financial emergency due to coronavirus flare-up. Most credit assessment organizations have cut India's FY21 GDP figure from their prior projections. India's forex saves are drying, the rupee has endured a shot, and exports are declining to get pace amid shut fringes. The nation remains practically shut since March 25 and organizations face a dubious future. One of the business firm Nomura has cut steeply its

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FY2021 GDP figure for India from - 0.4 percent to - 5.2 percent. The administration had expected to close FY20 GDP at Rs 204 lakh crore, which it said could ascend to Rs 224 lakh crore in FY21. In the past getting level of Rs 7.8 lakh crore, it focused on a monetary shortfall of 3.5 percent. These projections were put out in the association spending plan in February before the COVID-19 emergency hit. Yet, Nomura said that with its development projections, the nation's financial shortfall could ascend to 7 percent.[12]

2. Forex gold reserve plunge:

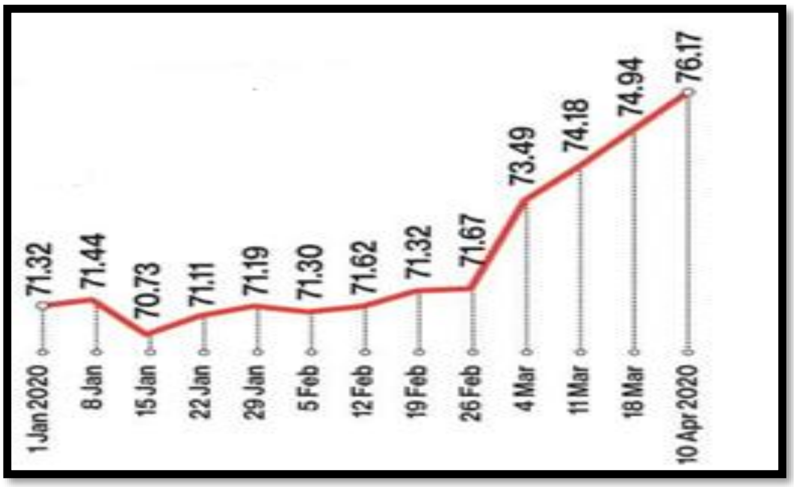
Fig. 2: Forex gold reserve

Source: RBI

The forex gold saving plunges $12BN. Foreign investors pulled cash in the week ended March 20. Gold reserve fell from $ 1.6 billion to $ 27.9 billion. Foreign currency assets hit $ 10.3 bn. A significant segment of the overall reserves. [13]

3. Rupee Falls (INR/USD):

Fig. 3: ER (INR/USD)



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Source: Financial Benchmarks India (FBIL)

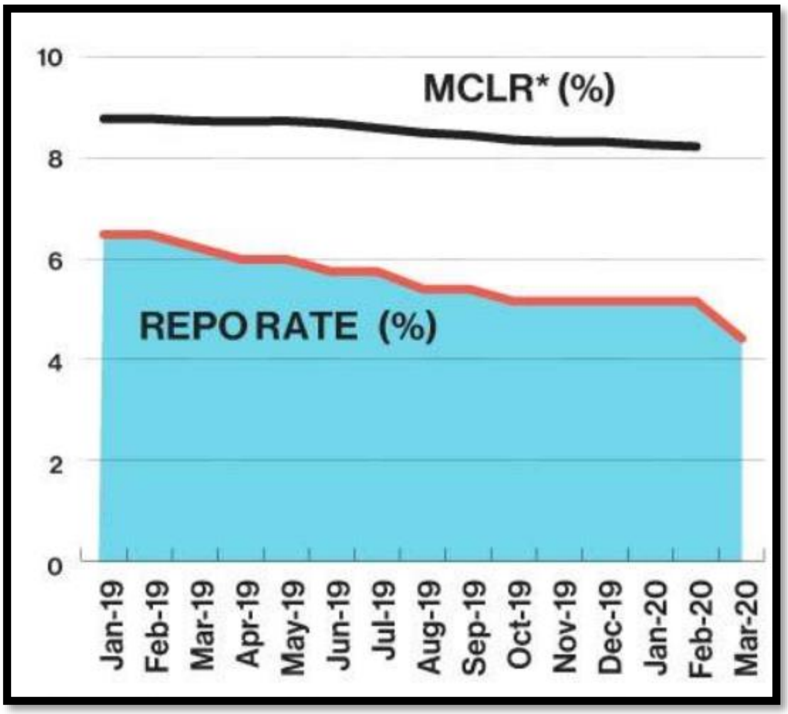
The rupee falls against the dollar because of more instances of coronavirus reported.[13]

The ER of the INR versus the US dollar has moved in the two bearings as of late. Recharged episodes of worldwide monetary market instability brought about by the vulnerability of the macroeconomic effect of the COVID-19, as in Feb.-March 2020, could apply pressure on the Indian rupee. Should the INR deteriorate by 5 percent from the pattern, expansion could edge up by around 20 bps while GDP development could be higher by around 15 bps through expanded net fares. Conversely, ought to COVID-19 standardize rapidly, solid capital streams could restore.

4. Repo rate down at most minimal

The Central bank of India(RBI) has cut the repo rate b a cumulative 1.35 % since Jan 2019. The sustained decline can be attributed to low retail inflation in the economy

Fig. 4:REPO RATE



*MCLR: Marginal cost of funds-based lending rate. Average of schedule commercial banks considered.

Source: Care rating, RBI

5. Retail inflation at a low

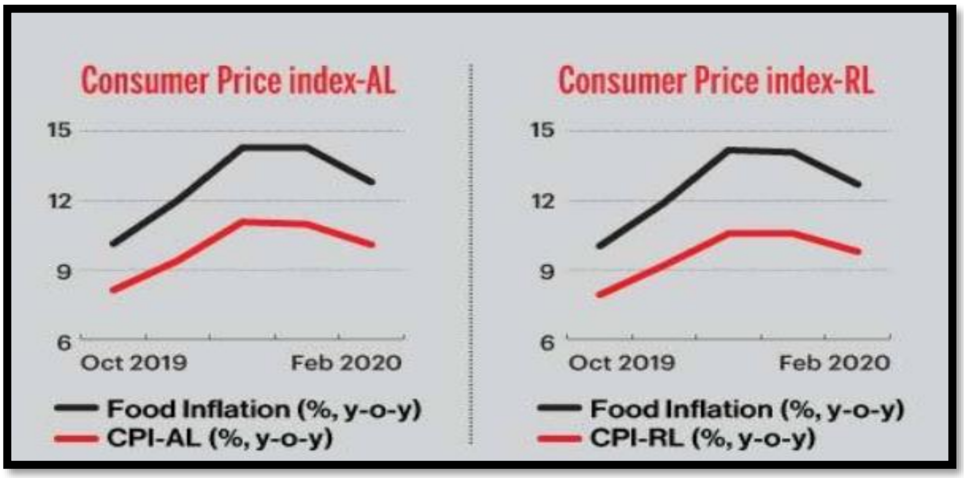


Fig. 5: Retail Inflation

Source: CMIE Economics, Outlook, CRISIL.

Food inflation has slipped quite a bit for both agricultural laborers (AL) and other rural laborers (RL). In the wake of staying curbed for an impressive period, food inflation in India expanded pointedly during October 2019-January 2020, driven by a spike in vegetable costs. The standard way accepts vegetable costs to fall quickly in light of the appearances of rabi harvests. Satisfactory support stocks in grains and a decent rabi collect (2019 season) could mellow food inflation more than foreseen and pull-down feature inflation by 50 bps underneath the standard. Then again, an inadequate or spatially slanted south-west storm and a surprising solidifying of costs of non-vegetable food things could push feature expansion over the benchmark by around 50 bps in 2020-21.

COVID-19, the going with lockdowns and the normal constriction in worldwide yield in 2020 weigh intensely on the development viewpoint. The genuine outturn would rely on the speed with which the flare-up is contained and monetary movement comes back to regularity. Huge money related and liquidity estimates taken by the Reserve Bank and financial measures by the legislature would relieve the unfavorable effect on local interest and help prod monetary action once regularity is re-established.

Dangers around the inflation projections seem adjusted at this crossroads and the speculative viewpoint is favorable comparative with late history. Be that as it may, COVID-19 hangs over the future, similar to a phantom.

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3.2. MEASURES TAKEN BY GOI TO TACKLE COVID – 19.

The Government of India has reported an assortment of measures to handle the circumstance, from food security and additional assets for human services to segment related incentives and tax extension. On 26 March various monetary help measures for the poor were reported totaling over ₹170,000 crores (US$24 billion). On 27 March the Reserve Bank of India additionally reported various estimates which would make accessible ₹374,000 crores (US$52 billion) to the nation's monetary framework. On 29 March the legislature permitted the development of all basic just as unnecessary products during the lockdown.[14] On 3 April the central government released more resources for the states for dealing with the coronavirus adding up to crores (US$4.0 billion). The World Bank and ADB have certified sponsorship to India to deal with the coronavirus pandemic.

On 14 April 2020, the P.M. of India loosened up the lockdown to 3 May. Another game plan of rules for the adjusted opening of the economy and loosening up of the lockdown was moreover set up which would create results from 20 April.[15] On 17 April, the RBI Governor announced more measures to counter the financial impact of the pandemic including ₹50,000 crores (US$7.0 billion) extraordinary cash to NABARD, SIDBI, and NHB.[16] On 18 April, to guarantee Indian associations during the pandemic, the lawmaking body changed India's far off direct hypothesis procedure. The Department of Military Affairs has required to be deferred each and every capital acquiring for the beginning of the cash related year. A money related emergency has never been constrained all through the whole presence of India as yet.[17] On 4 April, previous RBI boss Raghuram Rajan said that the coronavirus pandemic in India may simply be the "best crisis since Independence".[18] On 28 April, previous CEA Arvind Subramanian said that India would require a ₹720 lakh crore (US$10 trillion) improvement to conquer the constriction caused due to the pandemic.[3]

Liquidity Measures to Combat Adverse Impact of COVID-19 [19]:

1. Targeted Long-Term Repo Operations (TLTROs)
2. Cash Reserve Ratio (CRR)
3. Marginal Standing Facility
4. Reduction in the policy rate
5. Widening of policy corridor

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IV. CONCLUSION:

Local money related markets stay defenseless against worldwide turns of events, extending the development lull in India and rising worries about COVID-19. Despite the powerless local development viewpoint, Indian value markets scaled new highs, before turning exceptionally unstable toward the beginning of March couple with worldwide value markets. The viewpoint is described by an elevated vulnerability with capital surges proceeding and applying pressures on the INR. This viewpoint is dubious and is progressively getting reflected in security advertise yields. Credit development is probably going to stay humble, reflecting the frail interest and hazard avoidance. Going ahead, liquidity conditions would be overseen under the re-examined liquidity the board system, steady with the accommodative position of money related arrangement as long as important to restore development and alleviate the effect of COVID-19, while guaranteeing that swelling stays inside the objective. Better transmission of money related strategy driving forces to the credit market would stay a need.

V.FURTHER SCOPE:

The data in this research paper is limited to a few macroeconomic variables. This can be further extended to other factors such as FIIs, FDI, Stock market index, Import, and Export, etc. Further research can be done on various macroeconomic indicators affected by COVID-19.

ETHICS

We ensure that the present article is the original work carried out by the authors. The article submits for the publication is carefully read by the author and approve for publication. There are no ethical issues involved in publishing this article.

CONFLICT OF INTEREST:

There is no conflict of interest among the authors.

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