International Journal of Advances in Engineering and Management (IJAEM)
Volume 4, Issue 5 May 2022, pp: 208-211 www.ijaem.net ISSN: 2395-5252

Challenges and the Future Threats before Indian Economy after Covid -19

Dr. Santvana Sharma
Associate Professor , Department of Economics Meerut College , Meerut

Submitted: 01-05-2022 Revised: 04-05-2022 Accepted: 08-05-2022

ABSTRACT -

India's economy is experiencing a severe downturn :even before the corona virus outbreak started to have an effect, its growth was slackening and so was job creation while at the same time unemployment is high, consumer confidence and spending are low and trust in the banking is eroding as credit weakness and non performing loans hinder its performance. Contrary to expectations, the union budget for financial year 2021 has not tackled existing structural weakness on generating a large fiscal stimulus as an answer to the slowdown. This paper deals with the challenges and future threaten and prospects of the Indian Economy which is a vital issue among researchers.

Keywords : NCEAR (National Council of Applied Economic Research), RBI (Reserve Bank of India), GDP (Gross Domestic Product) CMIE (Centre for monitoring Indian Economy) Informal Sector, fiscal stimulus, MPS, GST, NPA Vaccination, Covid-19, Structural Reforms, Sustained growth.

I. INTRODUCTION :

The Indian Economy is in turmoil with major signs pointing to a lengthy slowdown. The corona virus pandemic has damaged all sector of the Indian economy and recovery appear doubtful this year.

India's GDP growth is likely to stay negative throughout the year and resent studies show how badly covid-19 has disturbed livelihoods particularly for the poor.

The significant reduction in growth as well as dismal corporate performance and a lack of urban jobs in the midst of the continuing epidemic are obvious signs that India's economic recovery will take considerably long tome than projected. In this context two questions arise i.e. what is the nature of current challenges facing the Indian economy and when do the future threats lie.

Even though hardly any entity knows as much about the Indian economy as the RBI. The more instructive analysis was carried out by the National Council of Applied Economic Research for NCEAR/ in its quarterly economic review the Indian economy is completing the first quarter of the current financial year. April May June two questions can up in this context.

- How far did the second covid ware hurt India's economic recovery.
- What an the more medium to long time impacts of the second covid ware.

About - The national council of applied economic research released its quarter reviews.

NCAER distinguish itself in finding way to map the state of the Indian economy during the pandemic.

At a time when official source of data sufferance large gaps and inadequate, researchers at NCAER found their own ways to assess the extent of economic disruption due to covid.

II. CHALLENGES -

1. Two years worth of GDP has been lost in terms of overall production, India would have lost two full years of growth. There is a chance that India may grow by 10.1% this year, instead of 8.3% and in that case India's GDP would go up to Rs. 149 trillion but even So, India would be far off from when if could have been without covid. The economy will only manage to covid the grow it lost last year since the government began gathering GDP statistics quarterly in 1996. The GDP is anticipated to upturn to Rs. 146 trillion in the current fiscal year following an 8.3% NiSource. This would imply that India would have missed two full years of growth in terms of overall economic output.

There is a potential that India may expand by 10.1% this year instead of 8.3% raising India's GDP to Rs. 149 billion, but even So, India will be for behind where it could have been without covid.

2. Skyrocketing unemployment.

The latest unemployment figures released by the centre for monitoring Indian economy (CMIE) are another evidence of economic weakness. The CMIE data show that nearly five million of 50 lakh salaried jobs were lost in covid time taking the total number of layoffs in the formal sector to over 1.8 crore.

While some businesses in the informal sector have reopened post lockdown relaxations, they are still struggling to survive due to lack of demand and constrained by the lack of available workforce. Experts say most informal businesses depend on the cash flowing from the formal economy i.e. salaried jobs. The economic situation could worsen further if more salaried jobs are lost.

3. **Rising inflation**

Rising inflation has complicated the economic situation further. In July retail inflation rose to 6.93% way above the RBI's medium termtarget of 4 percent.

Economists say it is an unusual situation where prices of food items like vegetables, pulses, meat and fish are on the rise despite weak demand.

The July inflation figure at 6.93 percent is worrisome when compared to the 3.15 percent on the consumer price index (CP) in July 2019. This reduces the possibility of a rate cut by the RBI in near future. It also means that the demands for loans means lessees new business activities and fewer new opportunities.

4. **Low demand for Goods**

Stagnant demand appears to be the economy's main issue right now. Over the previous several months demand for major products and commodities such as petroleum, food consumer goods and power has fallen sharply. This significant low demand for goods has affected the whole cycle of demand and supply in the economy. Due to weak demand, the production has stopped, as a result of which there is a steep decline in the level of employment in India.

5. **Lack of fiscal strenuous**

Many noted economists have made it clear that India needs another round of fiscal stimulus to support growth. While govt at the start of the pandemic, announced a fiscal stimulus package of nearly 21 lakh crore, most of it was focused on bank credit for businesses Experts said the government's inability to provide direct fiscal stimulus, like many other countries, is due to India's stretched fiscal deficit. The fiscal defect has already hit a record $ 88.5 billion. Which is over 83 percent of the target for the current financial year.

Lower tax collection and frontloaded spending are some of the reasons pushing the fiscal deficit higher. Finance minister Nirmala Sita Raman has however promised to take some steps for businesses that have been hurt most travel, tourism, hospitality etc.

6. **Heavy population pressure**

Another factor which contributes to the economic issues in India is population. Today, India is the second most populated country in the world the first being china.

We have a high level of birth rate and a falling level of death rates. In order to maintain a growing population the administration needs to take care of the basic requirements of food, clothing ,shelter, medicine and schooling etc. Hence there is an increased economic burden on the country.

Despite above there are some more challenges for the fiscal health :

- Rising oil prices $ 10 increase in crude oil barrel price can lead to 0.2-0.3% increase in fiscal deficit.
- MS P hikes for kharif crops : Govt's decision to hike minimum support price (MSP) for kharif crops can impact GDP by 0.1-0.2% besides adding to inflationary pressures.
- Less than expected GST Revenues: while the ideal GST monthly revenues to meet the targets of the govt is around 1.1 lakh crores, the actual collection was only around 0.97 lakh crore.
- Non-performing Assets (NPA) : The standing committee on Finance in its recent report had questioned the reserve bank of India (RBI) for failing to take preemptive action in checking bad loans in the banking system.
- Agrariancrisis : Agriculture which employs nearly 52% of population continues to be in deep crisis.
- Inadequate spending by the government given that domestic consumers are holding back consumption and domestic businesses are holding back investments (the second biggest engine of GDP growth), it was incumbent on the third biggest engine of India's GDP. growth that is the government to spend more and pull the economy out of the current rut.

The spending by the govt is not even close to an average mark.

An inexplicably contractionary fiscal policy in 2021-22 sharply reducing the deficit, will delay recovery.

What about the future threats?

Apart from all the current challenges and scenario that the covid-19 prone Indian economy is facing, there are some future threats too that might badly affect the fledgling economy of our country.

International Journal of Advances in Engineering and Management (IJAEM)
Volume 4, Issue 5 May 2022, pp: 208-211 www.ijaem.net ISSN: 2395-5252

1. The slow pace of vaccination and a possible next covid wave.

By now it is clear that there is no economic recovery unless India gets significant majority of its population vaccinated. If the pace of the vaccination continues to lag, there is the possibility of the next wave, which may bring with it another round of disruption.

It is also very important to understand that even the possibility of a third wave is quite damagers for economic recovery. That is because the increased uncertainty further worsens the trends of consumers holding back consumption and businesses holding back new investments. This is more so because the people's resilience and ability to deal with the adverse effects of covid has also been coming down.

2. Monetary policy hitting a barrier Between fiscal policy (which has to do with government's spending) and monetary policy (the ease with which one can take a loan and the interest rate one has to pay on new loans). Most of the heavy lifting towards achieving economic revival has been done by the RBI. As mentioned earlier, the government has not been expanding its fiscal policy by as much as many expected it to. Indeed it was largely left for the RBI to pump in loads of cheap money in the form of new loans in a bid to jump start the economy..

But there are several reasons why RBI may not be able to help out for much longer. For one as shown earlier, inflation rates are spiking. The RBI which is legally required to control inflation, will have to do whatever it takes to keep inflation within bounds. Typically, this would require the RBI to raise interest rates.

There is another reason why RBI might have to raise the domestic interest rates. Thanks to the sharp spurt in economic growth and inflation in the US, its central bank the federal reserve - cooon raise US interest rates. If India has to remain an attractive destination for global investors, RBI would have to give up on the regime of low interest rates,

3. The long term adverse effects of short term shock.

Beyond the above mentioned threats, and in fact regardless of them, NCAER economists such as Sudipto mundle and Bornali bhandari point to another key challenge hysteresis. In other world the long term effects of the short term shocks.

"Starting from a 2020-21 baseline which is 7.3 percent than in 2019-20 GDP has to grow well above the recent pre pandemic trend rate (5.8 percent) for India to catch up with its pre pandemic growth path. This will requires deep and wide ranging structural reforms in the financial sector, power and foreign trade. Reforms in cooperation with the states are also urgent in health, education, labour and land which are all primarily state subjects" they wrote.

Steps taken by the government in thisdirection :-

Special economic and comprehensive package -

The government announced a special economic and comprehensive package under Atma nirbhar bharat including measures taken by RBI amounting to about Rs. 27.1 lakh crore - more than 13 percent of India's GDP to combat the impact of the covid-19 pandemic and to revive economic growth.

The package included among others, in kind and cash transfers relief measures for households.

- Employment provider measures under pradhan mantri garib kalyan rojgar Abhiyaan and increased allocation under NIANREGA.
- Credit guarantee and equity infusion based relief measures for MEMEs and NBFCs and regulatory and compliance measures.
- Structural reforms
- Announcement as part of the Atma Nirbhara Bharat package which included.
- Deregulation of the agriculture sector.
- Change in definition of MSMEs
- New PSU policy
- Commercialization of coal mining
- Higher FDI limits in defence and space sector
- Development of industrial land/bank and industrial information system.
- Revamp of viability grip funding scheme for social infrastructure.
- New power tariff policy and
- Incentivizing states to undertake sector reforms

III. CONCLUSION :-

We are gradually moving into a post covid dispensation. There is a trend towards a more multicolor world and the power centre of the global economy is shifting to Asia in this new era India will prioritize economic expansion and sustainability for sustained growth and influence on the world stage.

Almost two years after the world health organization declared covid 19 a pandemic, the world is coming to terms with the disruptions caused by the virus. The most profound and consequential impact has been the pandemic's toll on healthcare system. And there has been the more persistent and reverberating economic toll it is now clear that the pandemic has brought the world to the second great economic and financial crisis.

The current world has been substantially altered and this is bound to give rise to a new post covid dispensation. Rays of recovery are beginning to emerge in our economy. IMF (International Monetary fund) facets 9.5% growth in the Indian economy. There are hopeful signs but them India will have to prioritize economic expansion and sustainability to maintain its growth. We must continue to embrace transformation, rather than incremental change to shape an economic policy that supports rapid growth. This will requires a continued commitment to wide ranging and systematic sect oral reform with strong measures to restore fiscal balance and strengthen the banking system.

India will also need to continue making strides to increase competitiveness and the ease of doing business. The country will also have to ramp up its manufacture effort, not just for roads and bridges, but for health and education too. Equally critical is the need to ensure that India's demographic advantage becomes a dividend and the millions of young people entering the workforce every year gain meaning ful employment.

Deep and wide ranging structural reforms in the financial sector, power and foreign trade are the need of the hour.

Cooperative federalism is the only key out of the vicious trap of covid-19.

REFERENCES :-

[1]. Bimal Jalan (June-2010) Indian Economy : Problems and prospects of Indian economy.
[2]. Economic survey 2021-22
[3]. India's economic growth history : fluctuations, trends, break point and phases- arivnd virmani.
[4]. Indian economy : current problems and future prospects by T.N. Srinivasan. 2003.
[5]. Indian economy : Before and since the reform - K.N. Prasad.
[6]. A study on impact of covid-19 on Indian banking sector- Neeraj K. Gupta Apr. 2022.
[7]. A study of covid-19 Indian economy mohit fogaat, Sangeeta Sharma, Rajendra Prasad Meena, apr. 2022.