Chapter 9
Indian Economic Crisis: COVID-19 Versus Russia-Ukrainian War

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Abstract The economic stability of a country is important for the country's economic growth. This paper focuses on the economic crisis India has been facing currently due to inflation. The study is based on the impact of COVID-19 and the Russia-Ukrainian on the Indian economy. The objective of the paper is to analyse the economic crisis of India and the policy measures taken by the government. The current study is based on an extensive literature review and secondary data analysis. The secondary data has been used from different published reports. Trend analysis is done for unemployment and inflation to measure the impact of the crisis on the Indian economy. It was found that India was facing a range of economic issues that have both short-term and long-term implications. The country needs to take proactive steps to address the issues and improve the economic outlook of the nation.

Keywords Indian economic crisis · Inflation · Russia-Ukrainian war · Oil prices

9.1 Introduction

The current economic crisis in India is a result of a combination of factors, including the COVID-19 pandemic, the oil price crash and a slowdown in global demand. It has caused a severe slump in the Indian economy, with GDP growth rates falling to their lowest levels in decades. The oil price crash has also had an adverse impact on India's economy, as the country is heavily dependent on oil imports for its energy needs. The sharp fall in the price of oil has resulted in a significant loss of revenue for the Indian government, with the budget deficit rising to 6.8% of GDP in 2020–21. Finally, the slowdown in global demand has also had a negative effect on India's economy, as the country is heavily dependent on exports for its economic growth. Exports have declined significantly since the onset of the economic crisis, with exports of

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goods and services falling by 23% in 2020–21. The decline in global demand has had a negative impact on India's manufacturing sector, further reducing economic activity. The Indian government has implemented several measures to address the crisis, including a massive stimulus package, an expansion of the MSME sector and an increased focus on digital infrastructure (Bhattacharya and Patnaik 2014). Despite these efforts, the crisis has continued to deepen, leading to a sharp contraction in GDP growth, rising unemployment and a widening of the country's fiscal deficit. It is clear that the current economic crisis in India is one of the most severe in decades, and its resolution will require long-term economic reforms and an integrated approach to policymaking.

The following sections consist of a literature review to unearth the research gap. The following section highlights the economic crisis and the policies that were taken to tackle the crisis. Finally, the conclusion section gives the suggestions to the pertinent problem along with the study's limitations and the future scope for further research.

9.2 Literature Review

Ghosh and Chandrasekhar (2009) disprove the myth that, due to its low level of integration and other natural advantages, the Indian economy will not be impacted by any type of global financial crisis. In reality, however, India's prior dependence on export, capital flow, and supporting credit-fueled consumption and investment will depend greatly on global integration. Both the domestic and global economy will be impacted by the growing process.

Walia (2012) opines how the world economy is actually having a detrimental impact on the rapidly expanding Indian economy. The Indian economy claimed during the global financial crisis of 2001–2002 that it was unaffected by the US housing market disaster, but later came to admit that there was some impact. The paper argues that various economic crises have both beneficial and negative effects on the Indian economy.

Kumar (2009) found that the Indian economy has been severely impacted by the effects of the global economic crisis in three key areas: finance, commerce and exchange rates. Although the Indian economy has not been seriously impacted by the micro-crisis, just 22% of GDP is contributed by exports of goods and services. In 2009, India saw a dip in the GDP growth rate due to a drop in exports. By improving the investment climate, lowering entry barriers for corporate investment, upgrading the provision of public goods and services, and boosting the physical infrastructure's capacity, fiscal policy should remove structural obstacles that prevent a fall in GDP growth.

Das et al. (2012) explain that US economic crisis that occurred in 2008–2009 as a result of sub-prime mortgages, which led to homeowners making excessive mortgage payments and facing foreclosure. Due to weak global corporate governance in the US, excessive mortgage payments caused an imbalance between financial innovation and regulation. Developed countries suffered a decline in FDI inflow, which had the biggest impact on their economies as a result of the crisis. The Indian economy and agriculture are not completely immune to domestic and global economic downturns.

Dev and Sengupta (2020) observed that even before the COVID-19 outbreak, the Indian economy had already suffered greatly; the shutdown just made things worse. The study describes the pre-COVID 19 economic situation in India, assesses the policies adopted by the Indian government and discusses how India managed to emerge from this crisis.

Mehta and Jha (2020) undertook a thorough analysis of the macroeconomic effects of numerous health crises that have already happened and projected the impact of the COVID-19 pandemic in India. All countries' priorities during the COVID-19 pandemic were the slowing of the virus's spread rather than the economy, as this minimized the effects of the global slump. The research advocates building a framework for a macroeconomic model that accounts for the relative costs and effects of an outbreak on a global scale.

Mohammed (2022) demonstrated a number of economies' inflation rates that have been impacted by the conflict between Russia and Ukraine, which contributed to the global economic crisis. The price of various products has increased in the countries due to the war between Russia and Ukraine, which is the producer of significant exports. Petroleum has had tremendous impact on the current account balance, particularly on the Indian economy. As a result, consumers are suffering.

Singh and Verma (2016) ran a regression analysis on GDP, unemployment and inflation; the outcome demonstrates that there is an insignificant relationship between unemployment on real GDP and Inflation. The paper examines the trade-offs between India's inflation and unemployment from 2009 to 2015. According to the report, policymakers should concentrate on the level of market volatility, the employment rate and the restructuring of the Indian economy.

Veni and Choudhury (2007) stated that growth and inflation are subjected to a causality test in the study, which conclusively demonstrates that they are two distinct factors. A co-integration test is also undertaken, which demonstrates that the two variables are not associated. The test period included the years 1981 to 2004. As a result, the analysis indisputably shows that there is no long-term relationship between inflation and economic growth in India. According to the study, the Indian government should promote economic expansion and take prompt action to lower inflation.

The above studies confirmed that there were no studies on the Indian economic crises based on trend analysis.

9.3 Research Methodology

The current study is based on an extensive literature review and secondary data analysis. The secondary data has been used from different published reports. Trend analysis is done for unemployment and inflation to measure the impact.

9.4 Economic Crisis in India

Over the last two years, there have been too many supply chain disruptions caused by COVID-19 and the Russia-Ukrainian war. During COVID-19 due to the shortage of supply, the government and central bank injected excess liquidity to beat the recession but that led to demand-pull inflation. The COVID-19 outbreak in India has sparked an economic collapse and a rise in pricing. This has been driven by a combination of factors, including the disruption of supply chains, reduced consumer spending and increased costs of production. The reduced purchasing power of consumers due to job losses and pay cuts has further contributed to rising inflation. The WPI-based food inflation was 6.8% in November 2021 and increased to 9.93% in August 2022.

Figure 9.1 shows that the unemployment rate in India was 7.3% before the onset of the pandemic in July 2019 and then gradually increased to 8.8% in March 2020. After that, the unemployment rate decreased to 7.4% in July 2020 and then further decreased to 6.5% in November 2020. The inflation rate in India was 3.1% in July 2019 and then gradually increased to 5.8% in March 2020. After that, the inflation rate decreased to 6.7% in July 2020 and then further decreased to 5.5% in November 2020. Overall, the data indicates that the COVID-19 pandemic has had a significant impact on the economy of India. The pandemic has caused a rise in unemployment rate and inflation rate in India, but the effects have been gradually decreasing over time. The demand-pull inflation has been caused by an increase in the demand for essential goods, such as food and medical supplies, due to the rise in the death rate. This has led to an increase in the prices of these goods due to the limited supply. Additionally, the government's decision to provide relief packages to those affected by the pandemic has also increased demand, leading to higher prices.

Further, there has been increase in demand for basic necessities in Indian Households because of the socio-economic condition. With limited purchasing power, households have had to spend more on essential goods and services, leading to a further rise in prices. Demand-pull inflation is a type of inflation caused by an increase in aggregate demand in the economy. During the COVID-19 pandemic in India, the socio-economic status of many Indian households has caused an increase in demand for basic necessities such as food, housing and healthcare. As the demand for these basic necessities increases, their prices also rise, resulting in demand-pull inflation. In addition, as the pandemic has led to a decrease in the incomes and employment opportunities of many people, they are forced to resort to borrowing and spending, which further adds to demand-pull inflation. As a result, the cost of living is increasing, leading to a decline in the purchasing power of Indian households.

The economy was working towards revamping all the sectors but Russia-Ukrainian War led to the worsening of the crisis situation. The war has had a major impact on the global economy, including India. The conflict has resulted in higher prices for many commodities due to increased demand from the warring countries and a decrease in the availability of these commodities. This has caused India to suffer from cost-push inflation, which is when prices increase due to an increase in the cost of production. The WPI spiked to 15.88% and retail inflation at 7.3%

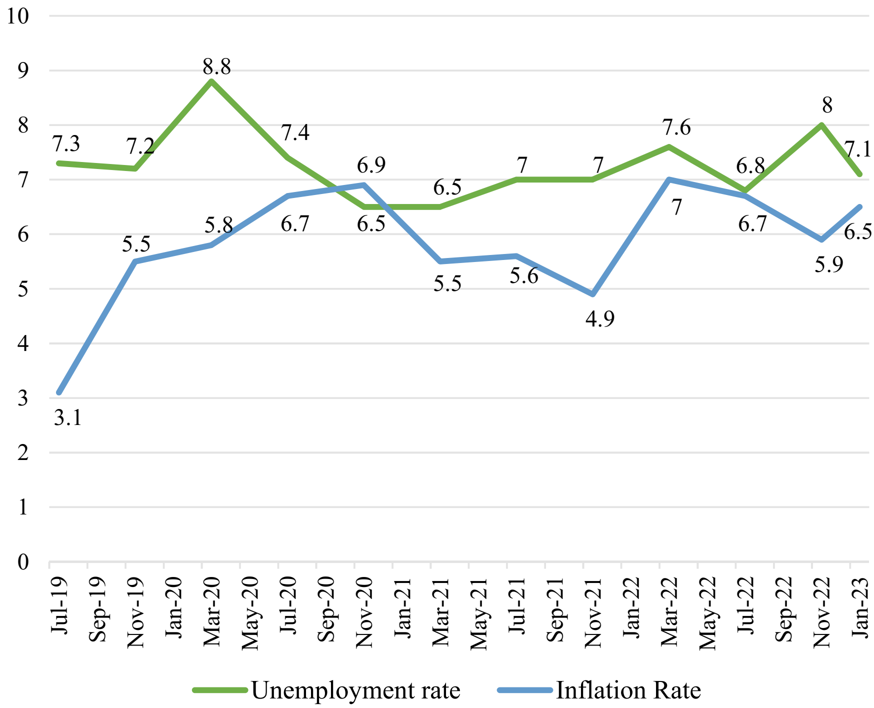

Fig. 9.1 Trend analysis: unemployment rate versus inflation rate

in September 2022. This is due to the rise in prices of minerals, oils, food articles, crude oil, etc. High food price inflation threatens the living standard of the majority of our population as food expenses amount to more than 50% of average household spending.

Russia and Ukraine are significant sunflower oil producers due to the volatility of various foreign governments that have taken protectionism measures. Indonesia banned palm oil exports on May 2022 to reduce export levies and taxes due to excessive domestic supplies. India in response to that issued a zero-duty tariff quota of 4 million metric tonnes of soybean oil and sunflower oil alleviating inflation. Also, India has imposed a ban on the export of certain food items such as wheat, maize, pulses and cooking oils. This ban was put in place to ensure that the domestic food supply remains secure and to prevent further price increases. In order to satisfy the rising demand, India has also taken initiatives to improve food production.

As is evident from Fig. 9.2, total export has been rising steadily both before and after the pandemic, but exports of agricultural products have been declining since 2022. Until that point, exports of agricultural products were rising, and even during the pandemic period, agriculture was the only industry to demonstrate growth, particularly in terms of commerce. However, due to the Russia-Ukraine war, exports of agricultural products have been purposefully declining to lessen reliance on food imports.

The shortage of food caused by the Russia-Ukraine war also had a significant impact on India's export sector. Many of the food products exported by India are now in short supply, which has led to a decrease in exports. This has caused India to suffer from a decrease in international trade and a loss of income, resulting in a negative impact on the country's economy. Oil production was reduced by 2 million barrels per day (bpd) on October 4 by the Organization of Petroleum Exporting Countries (OPEC) and its partners, known as OPEC+, which helped crude oil futures. Beginning in November, OPEC+ reduced oil output by 2 million bpd, citing the "uncertainty that surrounds the global economy and oil market outlooks" as the reason for the move. Due to sanctions against OPEC countries like Russia, Venezuela and Iran as well as production concerns in Nigeria and Angola, the actual decline would be between 1.0 and 1.1 million bpd. When OPEC cuts its production, it reduces the supply of oil and this leads to a rise in oil prices. This is because a reduction in the supply of oil reduces the amount of oil available for consumption, and the resulting scarcity causes an increase in price.

For India, an increase in oil prices will have a significant impact. India is one of the largest importers of oil in the world and relies heavily on crude oil imports to meet its energy needs. As such, an increase in oil prices will lead to a significant increase in India's import bill, putting a strain on the country's economy. Additionally, it will increase inflation and reduce the purchasing power of consumers, thus making it

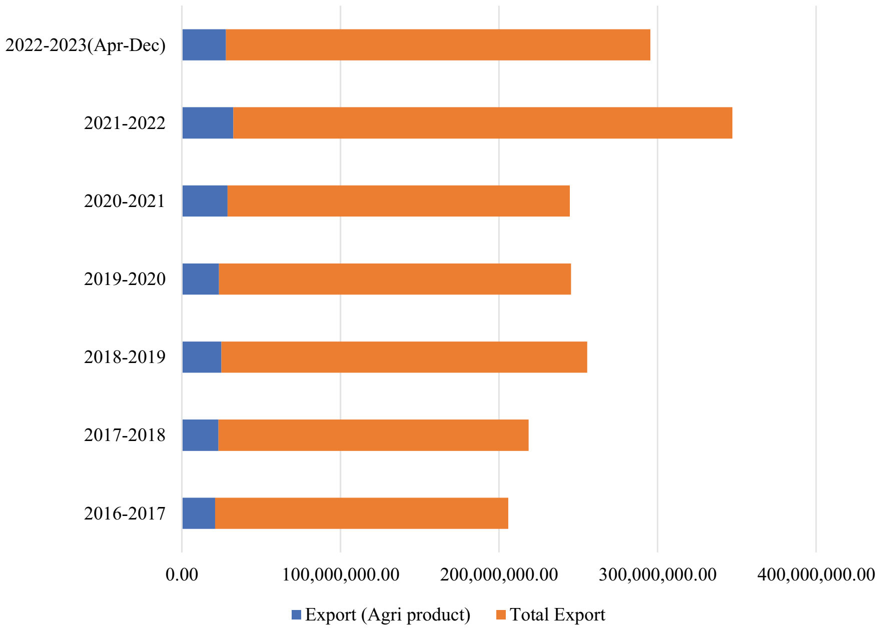

Fig. 9.2 Indian export from 2016 to 2023

more difficult for people to afford basic necessities. Finally, higher oil prices may also lead to a decrease in investment as companies struggle to cover the higher cost of oil. To solve this problem of petrol and oil consumption, India has introduced many schemes and tax concessions under Budget 2023 to promote E-vehicles among Indian users like imposing Customs Duty reduction from 21 to 13% on Lithium Batteries, which reduces the cost of producing the E-vehicles and further increase the sale of E-vehicle.

9.5 Government Policies to Check Economic Crisis

The Indian Government has implemented a number of policies to control inflation during the COVID-19 pandemic. These policies aim to reduce the prices of essential commodities and to provide financial aid to those affected by the crisis. One of the main policies is the Pradhan Mantri Garib Kalyan Yojana (PMGKY), which provides direct cash transfers to vulnerable individuals and families. The government has also set up a special fund to provide direct benefit transfers to the most vulnerable households in the country.

- The government has also reduced import duties on essential commodities such as pulses, edible oils and other food items. This has helped to reduce the prices of these items, making them more affordable for consumers.
- Import restriction on selected pulses has been removed on 15 May 2022 as the government allowed unrestricted import of black gram lentils, mung beans, etc. till 2026.
- The government has also implemented a number of measures to reduce the cost of production and distribution of essential commodities, such as reducing the cost of freight and transportation, waiving or reducing the cost of storage and providing tax benefits to producers.
- The government has also introduced an Interest Subvention Scheme for small and medium enterprises to help them sustain their operations during the pandemic. Additionally, the government has set up a special fund to provide credit to MSMEs. These policies have helped to reduce the prices of essential commodities and to provide financial assistance to those affected by the crisis. This has helped to control inflation in the country.
- India has been diversifying sources to reduce oil dependency on a few countries. Indian oil corporation recently linked a long-term supply deal with Brazil's Petrobras and Columbia's Ecopetrol.

9.6 Conclusion

In conclusion, India is facing a range of economic issues that have both short-term and long-term implications. The country needs to take proactive steps to address the issues and improve the economic outlook of the nation. This can be done through policy reforms, better utilization of resources and making sure that the benefits of economic growth are shared with all sections of society. India also needs to focus on creating jobs, improving access to capital and increasing the efficiency of the financial sector. With the right policies and investments, India can become a global leader in the economy and provide a better quality of life for its people. Even India came up with an increase in the Repo rate for the 6th time and the recent budget is also helping to control inflation. For instance, India came with many skill-based courses for youngsters to decrease the unemployment rate in India. Government has to ensure that there is a balance between the fiscal situation and the income support, therefore the government should find the maximum opportunity for poor people for earning, which depends on the hands of municipal and state governments. The paper has taken a timeline of events that took place only between 2016 and December 2023. It took into consideration only about the export, unemployment and inflation rate into consideration. Other factors like foreign exchange rate, balance of payment, Gross National Product could be taken in the future research.

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