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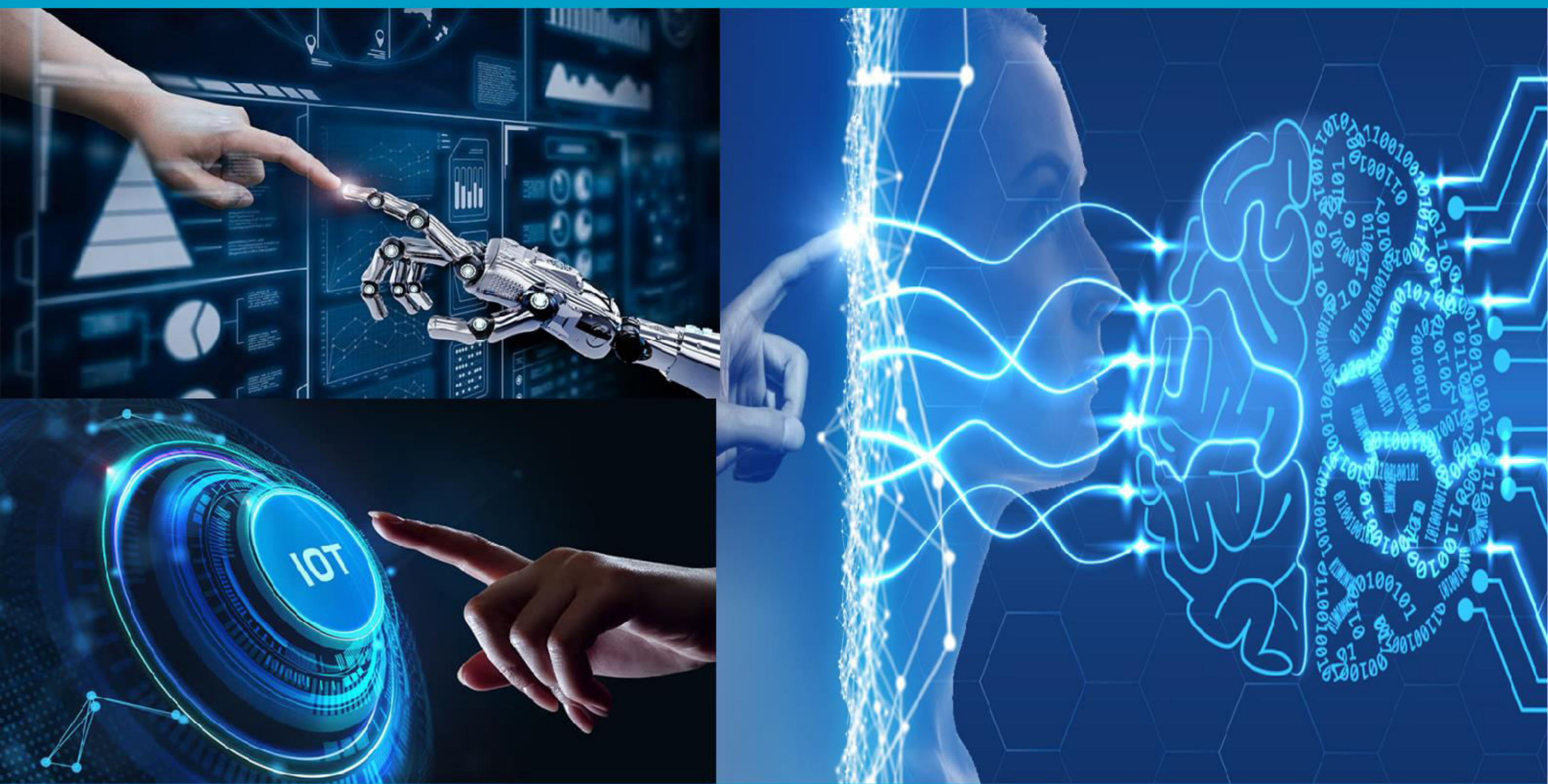

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The Economy of India During Covid-19

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ABSTRACT: As per the official data released by the ministry of statistics and program implementation, the Indian economy contracted by 7.3% in the April-June quarter of this fiscal year. This is the worst decline ever observed since the ministry had started compiling GDP stats quarterly in 1996. In 2020, an estimated 10 million migrant workers returned to their native places after the imposition of the lockdown. But what was surprising was the fact that neither the state government nor the central government had any data regarding the migrant workers who lost their jobs and their lives during the lockdown.

The government extended their help to migrant workers who returned to their native places during the second wave of the corona, apart from just setting up a digital-centralized database system. The second wave of Covid-19 has brutally exposed and worsened existing vulnerabilities in the Indian economy.

KEYWORDS: economy, lockdown, Covid-19, India, sectors, business, silent, migrant, corona

I.INTRODUCTION

India's $2.9 trillion economy remains shuttered during the lockdown period, except for some essential services and activities. As shops, eateries, factories, transport services, business establishments were shuttered, the lockdown had a devastating impact on slowing down the economy.[1] The informal sectors of the economy have been worst hit by the global epidemic. India's GDP contraction during April-June could well be above 8% if the informal sectors are considered. Private consumption and investments are the two biggest engines of India's economic growth. All the major sectors of the economy were badly hit except agriculture. The Indian economy was facing headwinds much before the arrival of the second wave. Coupled with the humanitarian crisis and silent treatment of the government, the covid-19 has exposed and worsened existing inequalities in the Indian economy. The contraction of the economy would continue in the next 4 quarters and a recession is inevitable. Everyone agrees that the Indian economy is heading for its full-year contraction. The surveys conducted by the Centre For Monitoring Indian Economy shows a steep rise in unemployment rates, in the range of 7.9% to 12% during the April-June quarter of 2021. The economy is having a knock-on effect with MSMEs shutting their businesses. **Millions of jobs have been lost permanently and have dampened consumption. The government should be ready to spend billions of dollars to fight the health crisis and fast-track the economic recovery from the covid-19 instigated recession**. The most effective way out of this emergency is that the government should inject billions of dollars into the economy.[2]

The GDP growth had crashed 23.9% in response to the centre's no notice lockdown. India's GDP shrank 7.3% in 2020-21. This was the worst performance of the Indian economy in any year since independence. As of now, India's GDP growth rate is likely to be below 10 per cent.

The Controller General of Accounts Data for the centre's fiscal collection indicates a gross-tax revenue (GTR) of rupees 20 lakh crore and the net tax revenue of rupees 14 lakh crore for 2020-21. The tax revenue growth will be 12 per cent, which would mean the projected gross and the net tax revenues for 2020-21 would be rupees 22.7 lakh crore and 15.8 lakh crore respectively.

This suggests some additional net tax revenues to the centre amounting to rupees 0.35 lakh crores as compared to the budget magnitudes. The main expected shortfall may still be in the non-tax revenues and the non-debt capital receipts. If we look down in the past, the growth rate for the non-tax revenues and non-debt capital receipts have been volatile, but if we add them together, they average to a little lower than 15% during the five years preceding 2020-21.[3]

II.DISCUSSION

Different sectors been affected due to Covid-19

Hospitality Sector:

As many states have imposed localised lockdowns, the hospitality sector is facing a repeat of 2020. The hospitality sector includes many businesses like restaurants, beds and breakfast, pubs, bars, nightclubs and more. The sector that has contributed to a large portion of India's annual GDP has been hit hard by restrictions and curfews imposed by the states.

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Tourism Sector:

The hospitality sector is linked to the tourism sector. The sector that employs millions of Indians started bouncing back after the first wave, but the second wave of covid was back for the devastation! The tourism sector contributes nearly 7% to India's annual GDP.

It comprises hotels, homestays, motels and more. The restrictions due to the second wave have crippled the tourism sector, which was already struggling to recover from the initial loss suffered by the businesses in 2020.[4]

Aviation and Travel sector:

Aviation and other sector establishments faced a massive struggle during the second wave of the pandemic. The larger travel sector is also taking a hit as people are scared to step out of their homes. For airlines and the broader travel sector, its recovery will depend on whether people in future will opt for such services. At present, the outlook for the aviation and broader travel sector does not look good.

Automobile sector:

The automobile sector is expected to remain under pressure in the near term due to the covid-19 situation in India.[5]

Real Estate and Construction sector:

The real estate and construction activities have started facing a disruption during the second wave as a large number of migrant workers have left the urban areas. The situation has not been grave as of 2020 for this sector.

Fiscal Deficit:

The Covid-19 pandemic has not affected our fiscal deficit and disinvestment target much. In this year's union budget, Finance minister Nirmala Sitharaman announced a fiscal deficit target of 6.8% for 2021 to 2021. India's fiscal deficit for 2020-21 zoomed to 9.5% of GDP as against 3.5% projected earlier. Our finance minister has promised to achieve a fiscal deficit of 4.5% of GDP by 2025-26 by increasing the steaming tax revenues through increased tax compliance as well as asset monetization over the years. According to the medium-term fiscal policy statement that the government had presented in February 2020, the fiscal deficit for 2021-22 and 2021-23 was at 3.3% and 3.1% respectively.[6]

The impact of the lockdowns and restrictions:

The extent to which localised lockdowns and restrictions have been imposed in the past have impacted the economic recovery timeliness. There is a scope for sustained fiscal stimulus going throughout the year. To some extent, if credit is made available to businesses at low-interest rates, then monetary stimulus is also possible. The second wave has pushed back India's fragile economic recovery. Rising inequality and strained household balance sheets have constrained the recovery. From growing only 4% in 2019-20 to contracting 7-8% in 2020-21 to staring at another low economic growth recovery in 2021, India has been virtually stopped in all its tracks. Therefore, fiscal policy must lend a generous helping hand to lead vulnerable businesses and households towards economic recovery.[7]

The path to recovery

If the outbreak worsens over time, or if the case numbers are very high, this would elevate the risk to India's economic and fiscal recovery. The Indian economy should resume its recovery once the covid waves recede and the Indian economy will continue to grow at a faster pace than its peers at similar levels of per capita income around the world. On the downside, there will be less vigorous recoveries in the government revenues and severe downside scenarios may entail additional fiscal spending. Commodities and the automobile sector are severely affected by the initial stream of infections and associated lockdown measures. It recovered strongly in the second half of 2021.[8]

The recovery in the global economy has made it unlikely that a sharp price decline like 2020 will happen again. The pent up demand in the automobile sector will likely drive a strong recovery when curbs are relaxed as was seen in 2020. The second wave of covid-19 has challenged an otherwise strong recovery for Indian Infrastructure. As consumers strive to maximize their utility, they will maintain earning due to regulated returns, fixed tariffs and quick recovery in demand. Airports are most at risk with international traffic recovery likely delayed by another year. This may impede a strong domestic recovery if the government increases the severity and scope of restrictions on mobility. A strong recovery is needed after a crushing 2020. As the outbreak grew worse the state governments have applied restrictive lockdown measures that halted the budding economic recovery in tracks.[10]

Downgrades are a warning not to take economic recovery for granted. The slow pace of vaccinations is likely to be a burden on India's economic recovery. The Indian recovery has been vigorous across many sectors particularly in the last quarter of fiscal 2021. Halts to domestic air traffic and subdued international travel have dismantled recovery for airports. The covid wave has hit small and medium-size enterprises particularly hard. It has delayed recovery in banks' asset quality. Mobility has been down to 50-60% of the normal levels. Therefore, people are staying home more and

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spending less. Recovery will take hold later this year. India's budding economic recovery throughout March solidified government revenues.[11]

III.RESULTS

Power Sector: The Indian power sector will generate huge revenues and it would track the recovery of the GDP of India.
Airports: The second wave has threatened India's air recovery traffic. The domestic passenger traffic has decreased by 75% of the pre-covid levels. The traffic recovery in the worst-case scenario could be 10% lower than what is predicted. Weaker traffic hits the cash flows of the airports. There will be a sharp recovery in road traffic after a short disruption. The commercial vehicle traffic will see better resilience as it supports logistics and essential services.
Ports: A modest recovery will be witnessed by import volumes. Fertilizers and containers will increase at a greater pace than crude and coal segments.[12]
Operating cash flows will recover most infrastructure and utilities such as water, sewage, dams and natural gas segments. Credit loss will remain high in the fiscal year 2021 at 2.2% of the total loans before it recovers to 1.8% in 2021. India's strong economic recovery and the steps taken by the central governments and the state government to mitigate the effects of the economic crisis have lessened the burden on the banks. Additionally, banks have raised capitals to strengthen their balance sheets. **This will smoothen the hit from covid related losses. The weak consumption accompanied by large scale job losses and the salary cuts in the formal sector may hit the banking sector's loans and 'credit card' loans**. This is accompanied by lower recovery rates in the bank's non-performing assets. That could lead to a rise in weaker loans.
If we have to move towards sustained and real economic growth against v-shaped, k-shaped or w-shaped paths, the states and the centre need to work towards a cooperative strategy through their "cooperative federalism" scheme to increase the vaccination drive.[13]

Last year, the government chose life over livelihoods. By choosing to protect the former, the covid 1.0 was delayed in September and its intensity was much lower than predicted. By January 2021, the government had declared victory over covid-19. The first threat to economic recovery is the regional cases which are resulting in further extension of lockdowns and hence they are limiting the pace of economic recovery. The second threat is the vaccination rates arising from the vaccine supply. Without inoculating a major portion of our labour force, there is a threat that viruses will disrupt our real economy. It is apparent from the worldwide cases of Covid-19.

India has been hit hard by the pandemic, particularly during the second wave of the virus in the spring of 2021. The sharp drop in GDP is the largest in the country's history, but this may still underestimate the economic damage experienced by the poorest households.[14]

From April to June 2020, India's GDP dropped by a massive 24.4%. According to the latest national income estimates, in the second quarter of the 2020/21 financial year (July to September 2020), the economy contracted by a further 7.4%. The recovery in the third and fourth quarters (October 2020 to March 2021) was still weak, with GDP rising 0.5% and 1.6%, respectively. This means that the overall rate of contraction in India was (in real terms) 7.3% for the whole 2020/21 financial year.**In the post-independence period, India's national income has declined only four times before 2020 – in 1958, 1966, 1973 and 1980 – with the largest drop being in 1980 (5.2%).** This means that 2020/21 is the worst year in terms of economic contraction in the country's history, and much worse than the overall contraction in the world .The decline is solely responsible for reversing the trend in global inequality, which had been falling but has now started to rise again after three decades [15]

What do the main macroeconomic indicators tell us about India's economy during the pandemic.
While economies worldwide have been hit hard, India has suffered one of the largest contractions. During the 2020/21 financial year[26], the rates of decline in GDP for the world were 3.3% and 2.2% for emerging market and developing economies. Table 1 summarises macroeconomic indicators for India, along with a reference group of comparable countries and the world. The fact that India's growth rate in 2019 was among the highest makes the drop due to **Covid-19 even more noticeable.Comparing national unemployment rates in 2020, India's rate of 7.1% indicates that it has performed relatively poorly – both in terms of the world average and compared with a set of reference group economies with similar per capita incomes.** [16]Unemployment rates were more muted within the reference group economies and were also kept low by generous labour market policies to keep people in work.Despite the scale of the pandemic, additional budgetary allocation to various social safety measures has been relatively low in India compared with other countries.[25] Although the country might look comparable to the reference group in non-health

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sector measures, the additional health sector fiscal measures are less than half those in the reference group. More worryingly, the Indian government's announced allocation in the 2021 budget for such measures does not show an increase, once inflation is taken into account.[17]

Table 1: Summary of key macroeconomic indicators

	India	Reference group	World
GDP at constant prices 2019 (% change)	4.0%	3.6%	2.8%
GDP at constant prices 2020 (% change)	-7.3%	-2.2%	-3.3%
Unemployment rate 2019 (% of total labour force)	5.3%	5.5%	5.4%
Unemployment rate 2020 (% of total labour force)	7.1%	6.4%	6.5%
Above-the-line additional health sector fiscal measures in response to Covid-19 (% of GDP)	0.4%	0.9%	1.2%
Above-the-line additional non-health sector fiscal measures in response to Covid-19 (% of GDP)	3.0%	2.8%	7.8%

IV.CONCLUSIONS

The pandemic has brought severe economic hardship, especially to young individuals who are over-represented in informal work. India has a large share of young people in its workforce and
the pandemic has put them at heightened risk of long-term unemployment. [18]This has negative impacts on lifelong earnings and employment prospects .**A study by the Centre for Economic Performance (CEP at the London School of Economics) analyses the depth of continuing joblessness among younger workers in the low-income states of Bihar, Jharkhand and Uttar Pradesh .The first round of the survey randomly sampled urban workers aged 18-40 during the first lockdown quarter, finding that a majority of them who had work before the pandemic were left with no work or no pay.** After the first lockdown in April to June 2020, 20% of those sampled were out of work, another 9% were employed but had zero hours of work and 81% had no work or pay at all.[19]

Ten months on from the first lockdown quarter, 8% of the sample continued to be out of work, another 8% were working zero hours,[24] and 40% had no work or no pay. The rate of no work or no pay was higher (at 47%) among the youngest low-income individuals (those aged 18-25 who had below median pre-Covid-19 earnings). To avoid another livelihood crisis, India turned to local lockdowns during the second wave of the pandemic. Before the second wave, India's public health performance (in terms of confirmed cases and confirmed deaths), while not the best, was ahead of several reference group countries. But the second wave has made India's position significantly worse. The total confirmed cases per million now are comparable to those in the rest the world and the rate of vaccination is lower in India.[20]

While death rates seem lower in India, there is massive underreporting. After accounting for the underreporting within official statistics,[21] India's total confirmed cases and deaths might exceed that of the rest of the world by a large margin .In the conservative scenario, the total confirmed cases per million are about 13 times larger than in the rest of the world, and the total confirmed deaths per million are about 85% of that in the rest of the world. In the worst-case scenario, India is far behind the rest of the world.[22]There is an important caveat: while the focus of this article is on India, underreporting of Covid-19 cases and deaths is prevalent globally.**More than a year has passed since India's first national lockdown was announced. There was talk of a trade-off between lives and livelihoods when the Covid-19 crisis erupted last year. As India struggles in the second wave, it is clear that the country did poorly in both dimensions.While India's policy response was strong in terms of some aspects of lockdown stringency, it was ineffective in dealing with both the public health and economic aspects of the crisis.** What's more, it failed to limit the damaging impact of the crisis on the most vulnerable sections of the population.[23]

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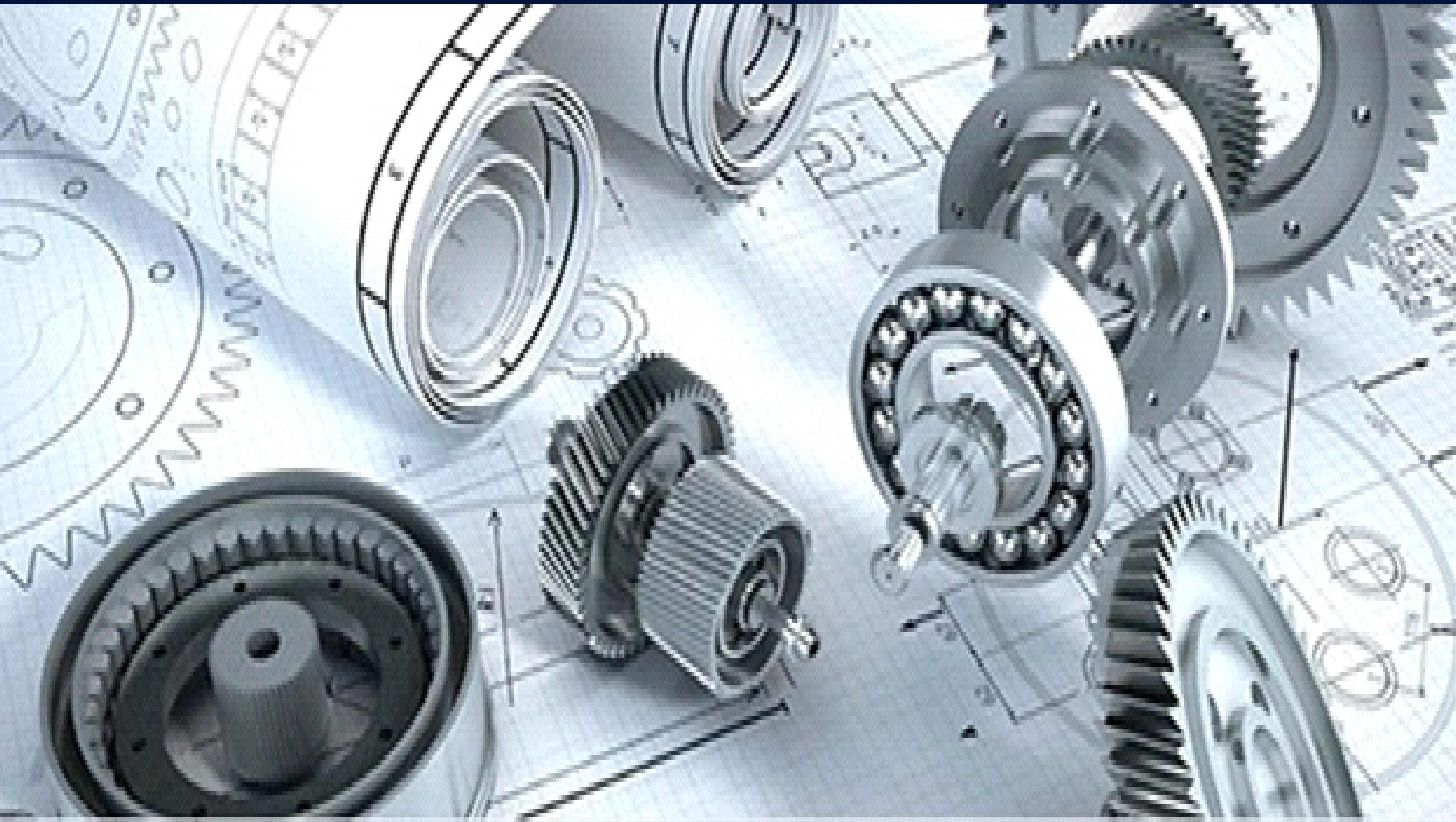

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