INDIAN ECONOMY DURING COVID 19 ERA: A Brief Study

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ABSTRACT

India is the 7th largest country by area, the second most populous country after China and the largest democratic country in the world. India is not only a dynamic but also a fastest growing economy with a diverse society in the 21st century. According to IMF report-2021, India has become the third largest economy in the world on the basis of Purchasing Power Parity with 10.207 trillion dollar and 6th in the world on the basis of nominal GDP. Unfortunately, the massive Covid-19 pandemic has immensely devastated the world economy and led to greater economic equality. 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 the 2021 fiscal year. This is the worst decline ever observed since the ministry had started compiling GDP stats quarterly in 1996. As a result, in 2020, an estimated 10 million migrant workers returned to their native places after the imposition of the Lockdown since March 2020. But the surprising fact was that neither the State Governments nor the Central Government had any data regarding the migrant workers who lost their jobs and their lives during the lockdown.

This paper mainly highlights the economic challenges or the impact of Indian economy during Covid-19 era and the factors for revival of the economy after Covid.

KEYWORDS: - Fastest Growing economy, IMF, Covid-19 Pandemic, GDP, Lockdown.

1.1 INTRODUCTION:

"In his book, 'The Great Leveler', Walter Scheidel, the Austrian economic historian, argues that throughout human history, there have been four types of catastrophic events that have led to greater economic equality**: pandemic, war, revolution and state collapse.** Currently, the world is going through one of them: a massive **COVID-19 Pandemic** **1**. The World Health Organization declared the outbreak a Public Health Emergency of International Concern on 30th January, 2020, and a pandemic on 11th March, 2020.**2** According to Walter analysis", the decline in equality is a result of excess mortality that raises the piece of labour. While the validity of Schiedam's argument for the current pandemic can only be assessed after it is over, the pandemic has been described as a leveler more loosely , both because the disease can strike anyone, and also because the resultant lockdowns have led to widespread job losses and economic hardships across the range of the income and occupational distribution. However, focusing on the looser description of the pandemic as a leveler, preliminary data and early indirect evidence from several parts of the world indicate that the incidence of the disease is not class-neutral; poorer and economically vulnerable populations are more likely to contract the virus as well as to die from it. To the extent, economic class and social identity (e.g. race, ethnicity or caste) overlap, this suggests that socially marginalized groups would be at higher risk of mortality due to Covid-19.

On the other hand, the risks extend beyond mortality as the economic consequences of the current pandemic are likely to be most concentrated among the low wage earners, and less educated workers, segments of the labour force where racial and ethnic minorities are overrepresented. Early evidence from the United Kingdom and the United States reveals that racial and ethnic minorities are indeed the ones most likely at the risk of unemployment.

However, the Covid pandemic unleashed an unprecedented crisis not only for India but also the world. In the fresh memory of human kind, no such tragedy had struck us as severely as this one. It came as no surprise, rationally speaking that, governments were faced with numerous challenges – from ensuring hospital beds to supplies of oxygen and medicines, ration for the poor, and managing anxiety of people. No doubt, the Covid crisis exposed us to new challenges, it also gave some critical lessons and even some fresh new ideas to ponder over, and live with.5 As of 27 January, 2022, globally, there have been 364,164,844 confirmed cases of Covid-19 spreading of more than 225 countries including 5,648,004 deaths, and 9,679,721,754 vaccine doses have been administered, reported to WHO. Similarly in India, confirmed cases of Covid-19 is 40,371,500 including, 491,729 deaths, 37,677,328 recovered and more than 163 crores vaccine doses have been administered till 27th January 2022.

On the other hand, early impacts of the pandemic-induced Lockdown indicate that the resultant economic distress is exacerbating pre-existing structures of disadvantage based on social identity, and investments in education and health that close gaps between social groups would be essential to build resilience in the face of future shocks.7 According to IMF report2021, India has become the third largest economy in the world on the basis of Purchasing Power Parity with 10.207 trillion dollar and 6th in the world on the basis of nominal GDP. Unfortunately, the massive Covid-19 pandemic has immensely devastated the world economy and led to greater economic equality. 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 the 2021 fiscal year. This is the worst decline ever observed since the ministry had started compiling GDP stats quarterly in 1996. As a result, in 2020, an estimated 10 million migrant workers returned to their native places after the imposition of the Lockdown since March 2020. But the surprising fact was that neither the State Governments nor the Central Government had any data regarding the migrant workers who lost their jobs and their lives during the Lokdown.

1.2 OBJECTIVES OF THE STUDY:

The present paper tries to address the following objectives.

a. Firstly, to assess the challenges of Indian Economy during Covid-19 era.
b. Secondly, to evaluate the Post Covid economic status in India.

1.3 IMPACT OR MAJOR CHALLENGES OF INDIAN ECONOMY DURING COVID-19 ERA

The Covid Pandemic unleashed an unprecedented crisis for India and the world. In the fresh memory of humankind, no such tragedy had struck us as severely as this one. This massive Covid-19 pandemic has immensely affected the Indian economy and led to greater economic equality among the people. However, a key element of the pandemic control strategy everywhere has been to shut down economic and social activity, and to impose social distancing with varying degrees of strictness. India's lockdown, imposed in the last week of March 2020. was among the most stringent. The first month of the severe lockdown. April 2020, witnessed a sharp rise in unemployment. It is observed that shifts in employment and unemployment rates using data from the Centre for Monitoring Indian Economy (CMIE)'s Consumer Pyramids Household Survey (CPHS) database. It is a longitudinal data set covering 174,405 households (roughly 10,900 households per week, and 43,600 per month). Each household is followed three times per year. We use unit-level data from six waves of CPHS: Wave 14 (May-August 2018), Wave 15 (September-December 2018), Wave 16 (January-April2019), Wave 17 (May-August 2019), Wave-18 (September-December 2019), and Wave 19 (January-April 2020).

The current and sharp rise in COVID-19 cases in India is proving to be an immediate threat to India's FY22 growth prospects. The economic challenges are set to become tougher if this second wave is not brought under control quickly. The longer the second wave lasts, the more severe would be the adverse impact on the Indian economy. There will be a race between the pace of COVID-19 vaccination vis-a-vis, the speed at which COYID-19 and its new mutants spread. However, the first week of April 2021, both the RBI and the IMF provided their latest assessments on India's growth prospects for FY22. The RBI has pegged India's real GDP growth at 10.5% whereas the IMF has revised its earlier forecast upwards, pegging India's growth at 12.5%, which is 2% points higher than the RBI's forecast. The RBI may be concerned relatively more with the adverse impact of the second COVID-19 wave sweeping almost the whole of India at present. These historically high real GDP growth rates mainly reflect a strong base effect following the contraction of (-)8.0% in FY21. India's projected growth of 12.5% in FY22 is noticeably higher than other major economies of the world, with China at the second position estimated to show a growth rate of 8.4%. These growth projections may come under severe challenge if the current second wave of COVID-19 is not brought under control quickly. Much would depend on the pace at which India's population at large, gets vaccinated. In the meanwhile, indications are that the projected recovery in 1QFY22 may be curtailed due to the debilitating impact that COVlD-19's second wave is currently having on the Indian economy. Major economic and urban agglomerations are already reeling under its impact with partial and localized lockdowns with widening coverage by the day.

On the other hand, PMI manufacturing fell to a seven-month low of 55.4 in March 2021. PMI services also fell to 54.6 in March 2021, down from 55.3 in February 2021. IIP contracted by (-)3-6% in February 2021, its second successive contraction in the final quarter of FY21. Core IIP also contracted by (-) 4.6% in February 2021 as compared to a growth of 0.9% in January 2021. Reflecting supply-side constraints and the upsurge in the global crude and commodity prices, CPI inflation in March 2021 reached a level of 5.5% while WPI inflation shot up to a 96-month high of 7.4%. Indications are that the projected GDP growth by the RBI at 26.2% for 1QFY22, which is dependent on a strong base effect, would be challenged by the adverse impact of COVID-19's second wave. Some estimates consider that this impact would shave off about 5-7% points from this projected growth. This may imply that the annual growth for FY22 may also have to be revised downwards by about 1% point.
Similarly, from a sectoral viewpoint, it is quite likely that the same sectors would suffer more in the second wave as those in the first wave. These include construction (-)494%) trade, hotel, transport et. al. (-)47-6%), manufacturing (0)35.9%), mining and quarrying ((0)18.o%) and public administration, defence and other services ((-)9-7%). Figures in brackets indicate the contraction rates in 1QFY21. Because of strong base effects, there would be recoveries in all of these sectors, but the extent of recovery would be subdued. In minimizing the adverse impact, fiscal policy, which directly impacts the 'public administration, defence and other.

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 2O20, 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 governments 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. 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.

On the other hand, 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 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 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.

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 percent. 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 percent, 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 crore as compared to the budget magnitudes. The main expected shortfall may still be n 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

According to the first advance estimates released by the National Statistical Office; the Indian economy is expected to grow at 9.2 percent in 2021-22. Considering that the economy grew just shy of 14 percent in the first half of the year, these estimates translate to a growth of around 5.6 percent in the second half. This is lower than the RBI's estimates which, in the December monetary policy committee meeting, had projected real GDP growth at 9.5 percent for die full year, comprising 6.6 percent in the third quarter, and 6 percent in the fourth quarter. In nominal terms, though, as per the NSO's estimates, the economy is expected to grow at 17.6 percent this financial year. This number assumes significance as it will farm the basis of the 2022-23 Union budget estimates which will be tabled in Parliament a few weeks from now. The advance estimates confirm that by the end of 2021-22, the Indian economy would have just about managed to reach its 2019-20 level (real terms), growing by just 1.3 percent. The disaggregated data shows that most sectors are expected to recover to their pre-Covid levels. However, trade, hotels, transport and communication, which have been badly hit by the pandemic, continue to struggle. While the growth numbers for the full year are aided by the low base effect, for sectors such as manufacturing, construction, financial, real estate and professional services, the implied estimates for the second half of the year are not very encouraging. These numbers also suggest that both private consumption and investment activity are likely to remain subdued in the second half of the year.

As the first advance estimates are based only on seven to nine months of data, they will be revised in the months to come when more data becomes available. While this injects a degree of uncertainty in the estimates, this year the surge in Omicron cases, and the consequent economic impact which will play out in the fourth quarter (January-March), will only compound the problem. The rapid spread of Omicron has undoubtedly created considerable uncertainty on the economic front. With state governments beginning to impose restrictions. Some have imposed night/weekend curfews, as well as curbs on contact intensive services to what extent this wave of infections will impact the economy will only be evident in the weeks and months ahead. Though the economic impact appears to have lessened with each ' subsequent surge in infections as businesses and consumers have been able to adapt better, in the past, services have been severely impacted. Analysts have already begun to pare down their growth estimates, but. considering the uncertainty considerable variation persists in assessments of the economic impact of the third wave.12

1.4 FACTORS FOR THE REVIVAL OF INDIAN ECONOMY:

The global financial crisis and the current pandemic are likely to reorient our thinking on conventional macroeconomics. As real world developments force intellectual re-evaluation, it also opens the space for policy innovation and experimentation. Policy becomes a function of context rather than ideology.

Although COVID-19 and the subsequent lockdown left a trail of economic devastation on most countries, India can potentially build upon three positive aspects push in the rural ^economy, stronger federalism and a huge consumption base, said by former RBI Governor Duvvuri Subbarao Rao. In his foreword on a Telegu book titled "Maandhyam Mungita Desam" (Nation in Recession) authored by Tummala Kishore, he said the challenge for the government in the months and years ahead is clear: to put the economy back on a healthy growth trajectory and ensure that growth is inclusive, with lower income households too enjoying the benefits of rapid growth. The expanded MNREGA provided a lifeline when most needed, and the frontloaded transfer payments to women, pensioners and farmers have put money in the hands of households and have helped revive demark. He also focused the brisk procurement by the FCI (Food Corporation of India) has buttressed farmers' incomes while it helped the government extend the food security programme until end November," Mr. Subbarao said the second positive aspect he sees is India’s federalism, which, "warts and all", has withstood the test of vigorous democracy though there were tensions between the Centre and the states on some issues such as GST compensation. Notwithstanding all these tensions, it was vividly seen how the Centre and States coordinated in managing the pandemic.

Mr. Subbarao also said the third positivity is the country's huge consumption base with 1.35 billion people and a per capita income of just over $2,000. “In a setting like this, any increase in income of the bottom half will "quickly turn into consumption, which in turn will spur production. That consumption-production cycle can potentially put India on a virtuous cycle of growth and jobs". Stating that the Indian economy was already in a troubled shape even before the COVID-19 crisis, the former RBI Governor said a "V-shaped recovery in the growth rate does not mean a V-shaped recovery in absolute output and the level of output in

2021-22 will be lower than what the country achieved in 2019-20.

Similarly, according to IMF Chief Economist Gita Gopinath, the global economy recovers from the pandemic, a great deal of uncertainty remains about new COVID-19 variants and increased inflation pressures in many countries. Addressing an event organized by economic think-tank NCAER, Gopinath further said the pandemic has been aggravated by the recent advent of the Omicron variant of corona virus. As the global economy recovers from the pandemic, a great deal of uncertainty remains about the new COVID-19 variants and increased inflation pressures in many countries," NCAER said in a statement quoting Gopinath. The new corona virus variant, called B.l.1.529 or Omicron, was first reported to "She flagged the persistent risk of the pandemic, which she said would continue even in 2022". According to the statement, the other issues Gopinath raised include a significant divergence in recovery from the pandemic across nations, especially between the advanced and emerging economies. "If allowed to spread uncontrolled, Omicron could lead to large-scale hospitalizations and further restrictions on mobility and travel, which will again have a negative impact on global economies, both advanced and emerging," it said quoting Gopinath. She also focused on the outlook for global growth in the coming year.

According to the statement, she noted that one of the positive findings was that though the pandemic has now been prevalent for nearly two years, it cannot be likened to the Great Depression of the early-20th century. She also added the impact of the Great Depression was longer and more far-reaching in contrast, after the COVID-19 pandemic, there has been an economic rebound even if an uneven one.

1.5 CONCLUSION:

No doubt, COVID-19 might have brought the world to its knees, but nations have found a way to strike back and emerge from what might have been one of the biggest crises in recent times. However, the world is still reeling from the effects of the COVID-19 pandemic in more ways than one. The world, s a global community, is going through a phase where communication lines are disturbed, ease of movement restricted, and the economy suffering. It might be safe to say that despite the rollout of the vaccines, the pandemic has affected globalization itself. In the post Covid-19 economic universe, most inter-country relationships are likely to undergo major changes. India has also to find its rightful position in the new world economic order. Most importantly, the ‘Atmanirbhar’ strategy has been well conceived and is quite timely. All efforts should be made to attract investment into Indian, so that Indian can play a major role in the global supply chains. Today India has administered more than 164 crore vaccine doses, which is the largest vaccination drive in the world. As a result, India will have to compete to China, US and the EU for attracting investments in order to stable its economy after pandemic. Despite of the massive Covid-19 crisis, India will be the fastest growing economy in the world for the financial year 2021-2022 to 9 percent growth.

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