Impact of Covid-19 on Indian economy

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The Impact of Covid-19 on Indian Economy

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. 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. 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.

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.
How have 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.
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.
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.

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 2022. 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 2022-23 was at 3.3% and 3.1% respectively.

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.

What is 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. 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.

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

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.
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 2022 at 2.2% of the total loans before it recovers to 1.8% in 2023. 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. 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.