ORIGINAL RESEARCH PAPER

Commerce

POST COVID IMPACTS IN INDIA: A CONCEPTUAL FRAMEWORK

KEY WORDS: Impacts, Covid Etc.

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ABSTRACT

The unprecedented outbreak of COVID-19 in India turned out to be pandemic that affects the whole world and paralyzes economic activities. The widespread of this epidemic has not only threatened human health but also production, economy, social functioning, education, etc. In this critical pandemic situation, a large number of the population are fighting for their lives and economic challenges for survival. It has seriously affected the Indian economy as well. The objective of this paper is to explore the available COVID-19 statistics and understand the impacts in India caused by covid-19 pandemic.

INTRODUCTION

The perturbations from repeated waves of the COVID-19 pandemic have come in the way of sustained growth recovery in India. The supply constraints pushed up shipping costs and commodity prices, thereby intensifying inflationary pressures and threatening the nascent economic recovery across the world. In India, the private corporate sector showed resilience as firms adopted new modes of operations and aligned their business strategies to the new environment. The capital expenditure push in the Union Budget for 2022-23 can provide the much-needed support to achieve sustained high growth by enhancing productive capacity, crowding in private investment and strengthening aggregate demand. Though both private consumption expenditure and investment marginally surpassed their respective pre-pandemic levels in 2021-22, there is a need to strengthen the growth momentum to compensate for the lost output.

The ongoing COVID-19 pandemic has been the first of its kind the world has witnessed in the 21st century. The cyclical slowdown that set in the Indian economy before the outbreak of the pandemic, got exacerbated on the back of cliff effects and scarring generated by the pandemic. Despite having witnessed one of the steepest contractions in gross domestic product (GDP) in Q1:2020-21 and being hit by three successive waves, the Second Advance Estimates of National Income released on February 28, 2022 indicate that the economy has surpassed its pre-COVID level in 2021-22, on the back of unprecedented policy support from monetary and fiscal authorities. Nonetheless, India's recovery from the pandemic, despite its innate strength of macroeconomic fundamentals, remains fragile and is yet to become broad-based.

The Lockdown and the Economy

In a poor country like India, such a sharp decline can cause enormous pain and hardship for millions of poor households, force firms and businesses into bankruptcy, and make our financial stability vulnerable. Even as India entered the crisis, its economy was quite vulnerable. In January, before the crisis hit us, our growth was decelerating. It was 8% four years ago, 7% three years ago, 6% two years ago, and 5% last year, and it's forecast to drop to less than 0% this year. Growth that was already slowing has now stalled. Before COVID-19, we worried about our high fiscal deficit, that our central and state governments were borrowing too much. By the time this crisis is over, we will worry that our state and central governments are borrowing even more. Before the crisis, we were worried about the state of our financial sector – the health of our banks, our non-bank financial companies, the level of non-performing assets, and the trust deficit in some of our private sector banks. Our financial sector, which was already under deep stress, will be under deeper stress when this crisis is behind us.

Every government confronting the COVID-19 crisis is battling with the lives vs. livelihoods dilemma.

That dilemma is arguably the sharpest for India. Given our weak medical infrastructure and high population density, any easing in prevention can mean the loss of millions of lives. On the other hand, a stringent lockdown can mean the loss of livelihoods for millions of people. The impact of the lockdown is nonlinear; if the lockdown's duration is doubled, the economic impact will be more than double.

It's a grim situation. But if you look at the International Monetary Fund (IMF) numbers, India is still better positioned than most other countries. That's little consolation given the enormity of pain and hardship, both to our economy and our people.

Three Silver Linings

Even in this grim scenario, there are some silver linings.
The external sector. The rupee has depreciated somewhat but less so than the currencies of peer emerging markets, like South Africa, Brazil, Mexico, or Indonesia. Sure, exports are hit because the world is in a recession, but that will be balanced somewhat by decline in imports because the price of oil – a big import item for India – has crashed. The rupee depreciated in March because about $80 billion in capital had fled, but that has stabilized for now. Most important, the Reserve Bank has about $475 billion of foreign exchange reserves. That should allow us to buffer any volatility in the exchange rate.

The agriculture sector. India had a bumper crop this year. Agriculture contributes to only about 15% of our GDP, but more than 55% of our population is locked into the agriculture sector. Essentially, the well-being of most of our people and, indeed, that of our economy depends to a large extent on the agriculture sector's performance, and the fact that agriculture has delivered a bumper crop is a silver lining.

The probability of a "V"-shaped recovery. While the chances of a "V"-shaped recovery decline day by day, it's still feasible. This crisis is not a natural disaster like a flood, cyclone, or earthquake. This is not a war. Our infrastructure and factories are standing. Our transport system is intact. After the pandemic's over, we should be able to engineer a revival of the economy quickly enough as well as a "V"-shaped recovery, which, although not automatic or inevitable, is highly probable.

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.

CONCLUSION

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. India may be able to sustain a reasonably high growth rate based on the strength of its domestic demand. In a comparative perspective, India is expected to do well in the short-to medium term. Its projected growth in FY23 is 8.2% as per IMF and 7.2% according to RBI. The ADB has forecasted India's growth at 7.5% in FY23, increasing to 8% in FY24 based on continued momentum of infrastructure investment. With these prospects, India would be a global growth leader among major economies of the world. However, India may not remain unaffected by the subdued global growth prospects. Many developed countries are currently struggling with high inflation levels which is forcing them to raise domestic interest rates. This may lead to a growth slowdown and in some cases, even a recession. According to a recent research report2 the US economy is projected to be in recession by end 2023 due to unprecedented high levels of inflation that is expected to last longer than anticipated. India's exports to the US and the European economies may be adversely affected if these economies go into a recession. Further, India's foreign exchange reserves have depleted sharply over the period from end October 2021 up to 13 May 2022 by a margin of US$48.7 billion. In the medium term, India is projected to show the highest growth rate up to FY28. Its growth rate is expected to be well above the world average as well as that of China.

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