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Performance Of Indian Economy In Covid-19 Eon: An Inferential Study

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Abstract-

The unprecedented COVID-19 pandemic caused a major setback in the process of growth and development of the Indian economy. The world economy and the Indian economy got a major setback in their goals of developing faster trade relations, manufacturing, distribution and supply chain of goods and services. It also caused inflation and affected us in terms of employment generation, marketing and consumption of goods and services, growth in infrastructural development and ushered volatile phenomena in the business and corporate activities in both the developed and developing economies. Most sectors were shattered barring perhaps only sector that is agriculture or primary sector. The health economy was badly hit in terms of medical and research expenditure and pharmaceutical industries got a valuable opportunity to excel in their manufacturing and marketing. In this paper, we shall come across the performance of various selected sectors which have experienced disruption from the repeated wave of the pandemic. We shall realize the impact on the quantum of business performance and the various effects of such a pandemic sector-wise.

Key Words: COVID-19, Business, Industry, Economy, GDP, Pandemic.

1.1 INTRODUCTION

The pandemic has severely disrupted global value chains (GVCs), domestic production networks, domestic and international trade, services sector and micro small medium enterprises (MSMEs), thereby affecting overall economic and industrial growth. The pandemic interconnected the financial sector, goods and services markets and production and supply chain networks. The two sets of lockdowns affected both the demand side and the supply side on not only the Indian economy but the global economy too. It led to the loss of employment, shocks on the supply-side that created demand-side effects by reducing the economy's disposable income, savings and giving rise to unwanted uncertainty. It also broke the speed and preference of investments, export-import activities, industrial production, development of social infrastructure and creation of employment. There are many projections and estimations by institutions and scholars on the economic fallout of COVID-19 pandemic. Most existing studies have focused on global growth, trade and unemployment; a few are country-specific, especially for India. In this context, the present study aims to make an assessment of COVID-19 on the Indian economy and highlights data-based key policy measures to control the possible fallout on the economy. The study contributes to the existing literature while analyzing the impact on the Indian economy with more focus on growth, trade, manufacturing and small industrial sectors.

1.2 METHODOLOGY OF STUDY

This study relies on the secondary data to make an assessment of impact due to COVID-19 on Indian economy. The data sources are reports of National Account Statistics, a publication of ministry of statistics and programme implementation (MOSPI), Handbook of Statistics on Indian Economy and Monthly Bulletin, Reserve Bank of India; Export–Import Database, Ministry of Commerce, Government of India; and annual reports (various issues), Ministry of Micro Small and Medium Enterprises. There are diverse methodologies of economic growth projections amid different types of economic shocks. There has been a strong debate about the accuracy of growth projections in India. In the present study, the impact assessment of COVID-19 pandemic is carried-out on India’s GVA, manufacturing sector, international trade and MSME sector. The impact on economic growth we take the real GVA based on 2011-2012 prices. The impact of Corona outbreak and subsequent lockdown on GVA at aggregate as well as broad sectors for the calendar year 2020 over previous year is reported.

1.3 SECTOR-WISE-PERFORMANCE

As the authentic data available from various departments and ministries, the agricultural sector was the least impacted by the pandemic-related disruptions. It was estimated to grow 3.9 per cent in 2021-22 on top of 3.6 per cent and 4.3 per cent respectively in the previous two years. This sector now accounts for 18.8% GVA for the year 2021-22 (table-1&2).

Table-1 Annual Growth of GVA at constant (2011-12) prices (per cent)

S.No.	Sectors	2019-20st RE	2020-21 (AE)	2021-22 (1st AE)	Recovery over 2019-20
1.	**Agriculture & Allied Sectors**	4.3	3.6	3.9	107.7
2.	**Industry**	-1.2	-7.0	11.8	104.1
3.	**Services**	7.2	-8.4	8.2	99.2
	GVA at basic price	4.1	-6.2	8.6	101.9
Table 2: Share of Sectors in Nominal GVA (per cent)					
	Agriculture & Allied Sectors	**18.4**	**20.2**	**18.8**	-
	Industry	**26.7**	**25.9**	**28.2**	-
	Services	**55.0**	**53.9**	**53.0**	-
	GVA at basic price	**100.0**	**100.0**	**100.0**	-

The primary sector experienced stable performance whereas the performance of the industrial sector experienced major setbacks by first contracting by 7 per cent in the year 2020-21 and then excelled by 11.8 per cent in the current financial year. The industry share is now estimated at 28.2 per cent as per GVA. We know that more than 50 per cent of the Indian economy accounts for the service sector which was badly impacted by COVID-19 related restrictions. This sector contracted by 8.4 per cent in the year 2020-21 and then was estimated to grow by 8.2 per cent in 2021-22. It is also found that there is a wide dispersion of performance shown by different sub-sectors of the economy. Despite contact-sensitive services being impacted by COVID, there had been a strong recovery of the Purchasing Managers' Index-Services from August 2021 onwards.

1.4 INVESTMENT

Gross Fixed Capital Formation (GFCF) is supposed to measure the expected growth on investment have achieved full just before the declaration of pandemic spread in India. The related policies of the government were to expedite the virtuous cycle of growth via CAPEX and infrastructure spending. This has increased capital formation in the economy lifting the investment to GDP ratio to about 29.6 per cent in 2021-22, which is the highest in the last seven years.

1.5 EXPORTS and IMPORTS

It was found that India's total exports were expected to grow by 16.5 per cent in 2021-22 that exceeding pre-pandemic periods from the perspective of demand. At the same time imports also recovered strongly with the revival of domestic demand and a continuous rise in the price of imported crude and metals.

Imports were expected to grow by 29.4 per cent in 2021-22 exceeding the corresponding pre-pandemic periods. It is found that India's net exports have turned negative in the first half of 2021-22, compared to a surplus in the corresponding period of 2020-21 with the current account recording a modest deficit of 0.2 per cent of GDP in the first half. World Economic Outlook (WEO) growth projections released on 25th January 2022 shows India's real GDP is projected to grow at 9 per cent in both 2021-22 and 2022-23 and at 7.1 per cent in 2023-24. This projects India as the fastest-growing major economy in the world in all these three years (Table-3).

Table-3: Year over year assessment / estimated of economic growth.

S.No.	Country	**Year over Year** (Percent change, unless noted otherwise)			
1.		**Estimate**		**Projections**	
2.		2020	2021	2022	2023
3.	United States	–3.4	5.6	4.0	2.6
4.	Germany	–4.6	2.7	3.8	2.5
5.	France	–8.0	6.7	3.5	1.8
6.	Italy	–8.9	6.2	3.8	2.2
7.	China	2.3	8.1	4.8	5.2
8.	**India**	**–7.3**	**9.0**	**9.0**	**7.1**
9.	Russia	–2.7	4.5	2.8	2.1

Source: IMF WEO, January 2022 Update

1.6 GLOBAL ECONOMIC ENVIRONMENT

In 2021 almost all the months of the year, the COVID-19 pandemic continued to impact the global economic environment. The World Economic Outlook (WEO) projected higher growth of global trade volume in goods and services of 9.7 per cent in 2021, moderating to 6.7 per cent in 2022, in line with the projected global recovery, in the publication of the October 2021 edition. India's merchandise exports recovered strongly from the pandemic-induced collapse and registered positive growth in the current financial year as per global trends. During 2021-22 (April-December), the merchandise exports recorded growth of 49.7 per cent to US$ 301.4 billion, compared to the corresponding period of last year and 26.5 per cent over 2019-20 (April-December), exceeding the pre-pandemic stage. This shows that India is well on track as far as attaining the export target is concerned (Source: Department of Commerce, 2022).

1.7 IMPORTS

As the pandemic ebbed, India witnessed a revival in domestic demand resulting in strong import growth. The merchandise imports grew at the rate of 68.9 per cent to US$ 443.8 billion in April-December, 2021 over the corresponding period of last year and 21.9 per cent over April- December 2019, crossing the pre-pandemic stages. Like in the case of merchandise exports, imports also showed a secular rise since quarter -1: the financial year 2021 and reached about US$ 166 billion in quarter-3: financial year, 20 22, crossing the pre-COVID stages.

1.7.1 Agriculture Sector

The agriculture and allied sectors grew at a positive growth rate of 3.6 per cent during 2020-21. This became possible due to good monsoon and various government measures to enhance credit availability, improve investments, create market facilities, promote infrastructure development in the agriculture sector and increase the provision of quality inputs to the sector. The timely intervention in the form of Atma Nirbhar Bharat (ANB) Abhiyan coupled with other growth-promoting schemes (ANB and other schemes are discussed under respective sections) have further helped agriculture to achieve an improved growth of 3.9 per cent in 2021-22 (Source: First Advance Estimates of National Income, 2021-22).

A trend in the percentage share of agriculture and allied sectors to total GVA of the economy at current prices for the last ten were impressive. The share of the sector in the total GVA of the economy has a long-term trend of around 18 per cent. The share of the agriculture & allied sector in total GVA, however, improved to 20.2 per cent in the year 2020-21 and 18.8 per cent in 2021-22 (data of DAFW as per 1st Advance Estimates of National Income, 2021-22.). Knowing the increasing importance of allied sectors, the Committee on Doubling Farmers' Income (DFI, 2018) considers dairy and animal husbandry, livestock, poultry, fisheries and horticulture as engines of high growth and has recommended a focused policy with a concomitant support system in the sector.

1.8 INDUSTRY

The Indian industry experienced an interlude in business activity leading to a slowdown in the performance of most of the sectors. The gross value added at constant prices (GVA) in the industrial sector grew at the compound annual growth rate (CAGR) of 4.53 per cent between 2011-12 and 2019-20 while total GVA grew by CAGR of 5.63 per cent over the same period. The share of the industrial sector in the nominal GVA (at current prices) was 25.9 per cent in 2020-21. With the industrial sector recovering and expected to grow at 11.8 per cent, as per advance estimates for 2021-22 by National Statistical Office, the industry's share is expected to increase to 28.2 per cent (Survey calculations based on MoSPI data, 2022.) The percentage fall in the shares of different sectors in total GVA and percentage fall in the respective sectors' GVA for 2020 under different scenarios. Overall negative performance in manufacturing, the top value-added sectors such as base metals, electronics, machinery, coke and refined petroleum products, motor vehicles, etc., have much dependence on the imports. For instance electronics industry imports about 67 per cent of its electronic components from China. With the lockdown in China, there are reports of the price rise by Chinese vendors on certain components owing to factory shutdown and short supply. The manufacturing sector will also slow down due to exports slowdown owing to lockdown across countries and slowdown of the global economy. Manufacturing constitutes more than 60 per cent of India's total exports, and the import content in India's exports is very high. Some of the sectors that feature in India's top exports are also in India's top imports. Therefore, a lockdown affecting imports used for manufacturing will severely affect India's exports.

1.9 INDEX OF INDUSTRIAL PRODUCTION (IIP)

The impact of the pandemic on the industrial sector is reflected in the negative growth of 8.4 per cent in 2020-21 in terms of industrial production. The supply-side measures as also stepped to encourage the demand, taken to address the contraction, are responsible for the significantly improved performance of the industrial sector in 2021-22. The monthly Index of Eight Core Industries (as identified by ICI) measures the collective and individual performance of production in selected eight core industries like Coal, Crude Oil, Natural Gas, Refinery Products, Fertilizers, Steel, Cement and Electricity. This is an index of the eight most fundamental industrial sectors of the Indian economy and comprises 40.27 per cent of the weight in IIP. This acceleration in ICI is mainly driven by improved performance in steel, cement, natural gas, coal and electricity. Fertilizers and crude oil registered a negative growth of 0.6 per cent and 2.7 per cent respectively (Survey calculation based on data from MOSPI and DPIIT, 2022).

1.10 Medium, Small and Micro Enterprises (MSME)

Micro, Small & Medium Enterprises (MSMEs) contribute significantly to the economic and social development of the country by generating employment opportunities and by fostering entrepreneurship amongst the youths of the country. MSMEs can be gauged from the fact that the share of MSME (GVA) in total GVA (current prices) for 2019-20 was 33.08 per cent. The domestic production networks are experiencing a shortage of raw materials, components and are forced to bear the higher cost. The manual labour supply chain has been badly disrupted and the closedown of industries may also lead to the loss of skills who are tuned to industrial processes. Therefore, the negative growth for the year 2020 looks feasible (Shahoo, 2020).

1.11 SERVICE SECTOR

The services sector contributes over 50 per cent to India's GDP. While the Covid-19 pandemic has had an adverse impact on most sectors of the economy, the services sector has been the worst affected as its' share in India's GVA declined from 55 per cent in 2019-20 to 53 per cent in 2021-22. Our assessment reveals a pessimistic picture for aggregate GVA and across broad sectors. The impact on trade, hotels and restaurants are inevitable amid the overall slowdown of economic activities, massive plummet in global trade and social distancing. The estimated fall in financial services, real estate and professional services looks realistic given the overall expected slowdown, as the performance of these sectors depends on economic activities across other sectors.

1.12 FOREIGN DIRECT INVESTMENT (FDI) IN THE SERVICE SECTOR

The services sector is the largest recipient of FDI inflows in India. According to the World Investment Report 2021 by the UN Conference on Trade and Development (UNCTAD), India was the fifth-largest recipient of Foreign Direct Investment (FDI) in 2020 improving its rank by four places, from the ninth position in 2019.

1.13 TRADE IN SERVICE

World trade in commercial services plummeted in 2020 following the Covid-19 pandemic. The slowdown in global services was predominately due to restrictions on travel and tourism and a reduction in transportation services, largely in the passenger segment (WTO, 2021). In 2021 so far, world trade in services has shown signs of recovery as a result of worldwide extensive immunization and resumption in global economic activity.

1.14 SERVICE EXPORT

India has a dominant presence in services exports at the global level. It remained among the top ten services exporter countries in 2020, with its share in world commercial services exports increasing from 3.4 per cent in 2019 to 4.1 per cent in 2020 (World Bank, 2020). The impact of Covid-19 induced global lockdown on India's services exports was less severe as compared to merchandise exports. The improvement in exports had been seen in almost all services sub-sectors, barring travel services which remained in contractionary mode due to persisting restrictions on travel and tourism at the international level.

India's software exports, with a share of 48.5 per cent in total services exports, remained relatively resilient during the Covid-19 period with higher demand for digital support, cloud services and infrastructure modernization catering to the new pandemic challenges. The top software companies have reported an average revenue growth rate of above 21 per cent (in $ terms) in the first half of 2021-22 on account of the increased revenue from their manufacturing, financial, banking and insurance, communication, retail, life sciences and health care segments.

1.15 SOCIAL INFRASTRUCTURE and EMPLOYMENT

The need for a strong and elastic social infrastructure became even more important during the ongoing COVID-19 pandemic that brought into focus the vulnerabilities in social infrastructure across countries. Specifically, pandemics posed the challenge of balancing livelihoods while saving lives. To save lives and livelihoods amidst the COVID crisis, countries have adopted various strategies. India, the country with the second-largest population and a large elderly population, adopted a multi-pronged approach. Given the nature of the pandemic, the health response including vaccination strategy remained critical.

Like most other countries, India also faced two COVID-19 waves- the first in 2020 and the second in 2021. During the first wave, the cumulative number of COVID-19 cases started rising progressively from the month of May 2020 and peaked in mid-September 2020. Thereafter, the country faced a massive surge in COVID-19 cases starting in March 2021, with a peak of more than four lakh daily cases in May 2021 and more than 4400 daily deaths at the end of May 2021. A fresh surge of cases and a new variant of Omicron had surfaced in December 2021 and were spreading at the time of writing. To save lives, the government adopted a multi-pronged approach viz., (i) restrictions/partial lockdowns, (ii) building capacity in health infrastructure, (iii) COVID-19 appropriate behaviour, testing, tracing, treatment, and (iv) vaccination drive.

To meet the exponential rise in medical oxygen demand during the second COVID wave, the government engaged even railways, Air Force, the Navy and the industry. In the fight against coronavirus, COVID vaccines emerged the best shield against the disease to save lives and sustain livelihood.

1.16 CONCLUSIONS

The last two years have been difficult for India and the world economy on account of the COVID-19 pandemic. Repeated waves of virus infection, supply-chain disruptions and, more recently, inflation have created particularly challenging times for policy-making. Indian economy is expected to witness a real GDP expansion of 9.2 per cent in 2021-22 after contracting in 2020-21. This implies that overall economic activity has recovered past the pre-pandemic levels. Almost all indicators show that the economic impact of the "second wave" was much smaller than that experienced during the full lockdown phase in 2020-21 even though the health impact was more severe. The services sector has been the hardest hit by the pandemic, especially segments that involve human contact. Exports of both goods and services have been exceptionally strong so far in 2021-22, but imports also recovered strongly with a recovery in domestic demand as well as higher international commodity prices. The Indian economy is in a good position to witness GDP growth of 8.0-8.5 per cent in 2022-23. The combination of high foreign exchange reserves, sustained foreign direct investment, and rising export earnings will provide an adequate buffer against possible global liquidity tapering in 2022-23. India's Consumer Price Index (CPI) inflation stood at 5.6 per cent in December 2021 which is within the targeted tolerance band.

Overall, macro-economic stability indicators suggest that the Indian economy is well placed to take on the challenges of 2022-23. One of the reasons that the Indian economy is in a good position is its unique response strategy. Rather than pre-commit to a rigid response, the government of India opted to use safety nets for susceptible sections on one hand while responding iteratively based on Bayesian-updating of information. Another distinguishing feature of India's response has been an emphasis on supply-side reforms rather than a total reliance on demand management. These supply-side reforms include deregulation of numerous sectors, simplification of processes, and removal of legacy issues like 'exposition tax', privatization, production-linked incentives and so on.

The economic impact of the COVID-19 pandemic is huge and it would need a humongous effort on the part of the government, industry, civil society and all key stakeholders to ensure that the Indian economy recovers sufficiently. The assessment is that the Indian economy may have 0.4 per cent growth this calendar year 2020 in the most realistic scenario and negative growth of around 3 per cent in the worst-case scenario with 50 per cent overutilization of the public sector and private sectors. Given the extent of economic fallout, the government of India has announced a series of economic packages to give stimulus to the economy.

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