



IMPACT OF COVID-19 ON INDIAN ECONOMY

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June 8, 2020

(Views expressed in the brief are those of the author, and do not represent those of ISSI)



COVID-19, a global pandemic has severely affected economic activity around the globe. Indian economy which was already facing an economic slowdown is now facing severe repercussions due to the impact of lockdown; imposed to control the spread of coronavirus. According to recently released estimates of State Bank of India, the nearly two-month lockdown could contract the Indian economy by 40 per cent in April-June quarter of 2020-21.¹ Moody's has predicted that India's GDP could contract by 4 percent in Fiscal Year 2020.²

Leading economists have predicted that India would face the worst recession in 40 years as coronavirus has halted the economic activity in most of the sectors. India's manufacturing and services sector recorded a sharp decline in production activity in the month of April. The services industry accounts for India's 52 percent of the GDP.³ Aviation, hospitality and retail sector have been affected the most. Supply side disruptions have resulted in shortages of imported raw materials necessary for the production process. India's exports and remittances have also been severely hit. India has the largest diaspora in the world with 17.5 million people that send huge amount of

¹ Annapurna Singh, "Coronavirus Lockdown: India's economy could contract by over 40% in April-June quarter this year, says SBI research", *Deccan Herald*, May 30, 2020, <https://www.deccanherald.com/business/business-news/coronavirus-lockdown-india-s-economy-could-contract-by-over-40-in-april-june-quarter-this-year-says-sbi-research-841926.html>

² "Moody's says, even prior to COVID-19, Indian economy was in bad shape; downgrades India's sovereign rating", *National Herald India*, June 2, 2020, <https://www.nationalheraldindia.com/national/moodys-says-even-prior-to-covid-19-indian-economy-was-in-bad-shape-downgrades-indias-sovereign-rating>

³ Prathamesh Mulye, "Covid-19 has hurt India the most among the world's top 10 economies", *Quartz India*, May 7, 2020, <https://qz.com/india/1852968/covid-19-hurt-indian-economy-more-than-us-uk-china-or-italys/>

remittances (\$83 billion in 2019) every year.⁴ However, the global pandemic has made thousands of them jobless and it is expected that most of them would be flocking back home due to increased unemployment in host countries. More than 300,000 Indian migrants living in the Gulf countries are seeking to return to India as they've lost their jobs.⁵ The global economic slowdown will impact the Indian export sector in the months to come as the demand for India's exports will reduce. Moody's have predicted that Indian government's debt ratios can go as high as 81 per cent of GDP in the next few years.⁶ However, the drop in oil prices could be a boon for India's fiscal and current account deficits.

Lockdown was imposed on March 25, since then India's unemployment has increased sharply. According to the Centre for Monitoring the Indian Economy (CMIE), India's unemployment rate now stands at 27.1 per cent. Around 122 million people lost their jobs in April.⁷ The daily wage workers are being affected the most as around 90 per cent of India's workforce is employed in the informal sector. According to the World Bank estimates, COVID-19 may push 12 million people into extreme poverty, reversing the development gains achieved in the past decade.⁸ Consumption which was already low will now be further affected. The fiscal response of the Indian government to support poor households was initially quite limited (\$22.6 billion) but after severe criticism, Prime Minister Modi announced a \$266 billion special economic package on May 12 which is about 10 per cent of India's GDP.⁹

In its efforts to reduce unemployment, the Indian government is relaxing the labor laws in order to encourage investment in this global crisis. India has one of the strictest labor laws, despite being a developing country. States like Uttar Pradesh and Gujarat have suspended most of the labor laws. Working hours have been increased in states such as Punjab, Gujarat, Madhya Pradesh, Himachal Pradesh and Rajasthan from 8 to 12 hours. Investors often choose Bangladesh, Thailand or Vietnam over India due to India's strict labor and land laws, and high borrowing costs. In its desperate

⁴ Jayant Sinha, "Covid-hit world is shutting out Indians. It will affect remittances, economies and lives", *The Print*, May 26, 2020, <https://theprint.in/opinion/coronavirus-pandemic-closes-border-after-border-flow-of-indians-abroad-reversing/429453/>

⁵ Ibid.

⁶ "Moody's Sees India's Economic Growth At 0% In 2020-21 Amid COVID-19", *NDTV*, May 8, 2020, <https://www.ndtv.com/business/coronavirus-news-moodys-sees-indias-economic-growth-at-zero-in-current-financial-year-amid-covid-19-2225381>

⁷ Nikhil Inamdar, "Coronavirus lockdown: India jobless numbers cross 120 million in April", *BBC*, May 06, 2020, <https://www.bbc.com/news/world-asia-india-52559324>

⁸ "Covid19 could push 12 million Indians into extreme poverty: World Bank", *India Today*, May 7, 2020, <https://www.indiatoday.in/india/story/covid-19-could-push-12-million-indians-into-extreme-poverty-world-bank-1675173-2020-05-07>

⁹ Anadolu Agency, "Job losses soar amid Covid-19 lockdown in India", *The Express Tribune*, May 17, 2020, <https://tribune.com.pk/story/2223499/3-job-losses-soar-amid-covid-19-lockdown-india/>

attempts to revive its economy, India is trying to lure investors from the US, Japan and elsewhere by portraying India as an alternative to China.

India's Coronavirus cases crossed 199,000 and deaths rose to more than 5,500; once the lockdown was eased after almost two months. It is expected that India will become the next COVID-19 hotspot as new coronavirus cases continue to increase rapidly. India was already going through a severe economic slowdown with 8.7 per cent unemployment rate before the lockdown. The pandemic has further aggravated India's economic problems along with increasing number of people falling below the poverty line and rising unemployment. Since Indian government has now eased the lockdown, the coronavirus cases are expected to rise rapidly. The only possible solution to that would be to enhance the testing and tracing capability. Indian economy will continue to grow at a relatively low rate in the coming year as it tackles with the shocks from the spread of COVID-19.