



INDIA HEADS TOWARDS ECONOMIC RECESSION AMID COVID-19

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



Covid-19 has affected the entire world politically, economically and culturally. No state has remained immune to the pandemic. Among strict lockdowns and restrictions on movement, both of the people and goods, the pandemic has had huge and long-lasting ramifications for the world economy. India, the second most populous country after China, has so far been unsuccessful in combating the pandemic. After the US, India is home to second largest confirmed cases of Covid-19. The country recorded the world's largest increase in the number of confirmed cases over September 2020, and has been a hotspot of confirmed cases with more than 5 million infections.¹ Consequently, following a strict lockdown and the rising number of Covid-19 cases, the country has been heading towards a rapid economic recession.²

At -23.9% till the end of June 2020, India has become the fastest and largest contracting economy of the world.³ The intensifying contracting rate of the economy puts it in the deepest economic recession with no precedence since independence. McKinsey at Global Institute estimates that India will have to generate 90 million non-farm jobs by 2030 in order to absorb employment for its

¹ Sohail Ahmad, Indian economy heading for double-digit plunge due to COVID and is set to fall behind Pakistan and rest of S Asia, *The Newser* October 4, 2020

² Sheikh Saaliq and Aniruddha Ghosal, "India Now Has More Confirmed COVID-19 Cases Than Any Country Except the U.S.", *Associated Press*, October 2, 2020

³ "India's economic woes may have only just begun", *BBC News*, October 3, 2020

younger generation. According to McKinsey, it would be a herculean task for the Indian economy to create 90 million jobs by 2030 with the prevailing -23.9% contracting rate. McKinsey further asserts that India ought to expedite its economic growth rate by 8 to 8.5% in the post-Covid-19 period to accomplish the desired goal that under current juncture seems to be impossible with exacerbating growth rate of 3.1%.⁴

Tourism industry which contributed massively to India's revenue generation now faces a downturn giving a crippling blow to its economy. According to the Confederation of Indian Industry (CII), "The coronavirus pandemic has given a crippling blow to the Indian travel and tourism industry... The entire value chain linked to Travel & Tourism is likely to lose around \$65.57 billion, with the organized sector alone likely to lose \$25 billion."⁵

Strict lockdown during the pandemic has also hit daily wagers badly in restaurants and hotels. India's National Restaurant Association forecasted that 40% of the country's restaurants are unable to survive the pandemic. Indian hotels and trade have witnessed a contraction rate of 47% and heralded the path to soaring unemployment.⁶ Indian economy, thus, is falling behind Pakistan and rest of the South Asian economies. One of the major reasons for this has been that the modus operandi of Pakistan and other South Asian countries in curbing the virus has remained more successful than that of India.

Capital Economics Ltd. unveils in its recent report that Indian approach of curbing the contagion has proved ineffective and virus surge is paving the way for Indian economy to lag behind than the rest of South Asia countries. The report further argues that Pakistan, Bangladesh, and Sri Lanka's productivity in their gross domestic product would be higher than that of India by virtue of their organized and systematic approach during the lockdown. A senior economist at Capital Economics, Shilan Shah, views that "New cases per capita in these three economies are far lower than in India."⁷

Taking the above facts into account, Indian economy is at a low ebb and is likely to bear severe economic implications. Indian GDP has been shrinking with greater speed. GDP growth rate of the country in March 2018 was 8.2% that has rapidly declined to 3.1% in August 2020. Consumption demand in Indian economy plays a crucial role in consolidation of its economy. Private Final Consumption Expenditure (PFCE) in 2019-20 contributed approximately 57% to India's GDP. However, in March 2020, PFCE growth collapsed to nearly 2.7% per quarter, the lowest since June

⁴ Ibid

⁵ "Travel and tourism sector likely to lose Rs 5 lakh crore due to covid-19 crisis: Report", *The Economic Times*, October 5, 2020

⁶ Ibid.

⁷ Ibid.

2012. Deteriorating investment demand has also ostensibly been causing negative implications for the growth potential of the economy in the future.⁸

Indian Premier League (IPL) which is being hosted every year by Board of Control for Cricket in India (BCCI) is regarded as the biggest revenue earner. Foreign players in IPL are now reluctant to play in India due to surging cases of Covid-19 in India. Consequently, IPL matches are now being hosted in UAE. Shifting of IPL cricket matches from India to UAE has been causing a colossal damage of Rs. 4,000 crores to the Indian economy and has also been tarnishing its image globally.⁹

India, unlike China, lags far behind in terms of robust economy, advanced technologies and artificial intelligence (AI). Though Covid-19 originated from China, its remarkable recovery from the pandemic is phenomenal. India being a developing country will soon outstrip the US in confirmed cases of Covid-19. On account of India's largest poor population, lack of sophisticated medical equipment and technological advancement, Covid-19 cases are going to rise and will further add to its economic woes that may see the Indian economy fall behind that of Pakistan, Bangladesh and Sri Lanka.

⁸ Roshan Kishore, India's economy was facing worst-ever deceleration before Covid-19 hit, *Hindustan Times*, New Delhi, October 4, 2020

⁹ Aditya Chaturvedi, IPL 2020 in UAE? Moving India's most important cricket tournament abroad is not the best decision, *Scroll.in*, October 4, 2020