COVID-19 PANDEMIC AND INDIAN ECONOMY

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Finally the dreaded number that India has been frightening itself with is out: The GDP shrank by the steepest extent ever, 23.9 per cent, in the April-June period when the coronavirus brought the country to a standstill.In the official data released, agriculture stood out as the only outlier; all other sectors, including manufacturing, construction and services, suffered steep declines.

In the same quarter last year, India's economy had grown by 5.2 per cent.

As per data released by the National Statistical Office (NSO), gross value added (GVA) growth in the manufacturing sector contracted by 39.3 per cent in the first quarter of 2020-21, from 3 per cent expansion a year ago.However, farm sector GVA grew at 3.4 per cent, compared to 3 per cent in the corresponding period of 2019-20.

The construction sector GVA contracted by a whopping 50.3 per cent from 5.2 per cent expansion earlier. Mining output declined by 23.3 per cent, as against a growth of 4.7 per cent a year ago.

Electricity, gas, water supply and other utility services segments too shrank by 7 per cent against 8.8 per cent growth a year ago.

Similarly, trade, hotel, transport, communication and services related to broadcasting declined 47 per cent in the first quarter from 3.5 per cent growth earlier.

Financial, real estate and professional services fell by 5.3 per cent in Q1 FY20 from 6 per cent growth in same period last fiscal.

Public administration, defence and other services saw a decline of 10.3 per cent , from 7.7 per cent growth a year earlier.

"GDP at Constant (2011-12) Prices in Q1 of 2020-21 is estimated at Rs 26.90 lakh crore, as against Rs 35.35 lakh crore in Q1 of 2019-20, showing a contraction of 23.9 percent as compared to 5.2 percent growth in Q1 2019-20," the NSO said in a statement.

"With a view to contain spread of the Covid-19 pandemic, restrictions were imposed on the economic activities not deemed essential, as also on the movement of people from 25 March, 2020.

Though the restrictions have been gradually lifted, there has been an impact on the economic activities as well as on the data collection mechanisms.

The timelines for filing statutory returns were extended by most regulatory bodies.

"In these circumstances, the usual data sources were substituted by alternatives like GST, interactions with professional bodies etc. and which were clearly limited.

The Centre began easing the lockdown for certain economic activities from April 20 onwards.

Most rating agencies had projected contraction in India's GDP for the first quarter of 2020-21.

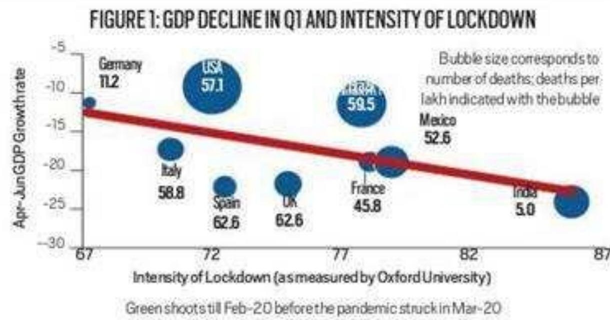
China's economy grew by 3.2 per cent in April-June after recording a decline of 6.8 per cent in January-March 2020.

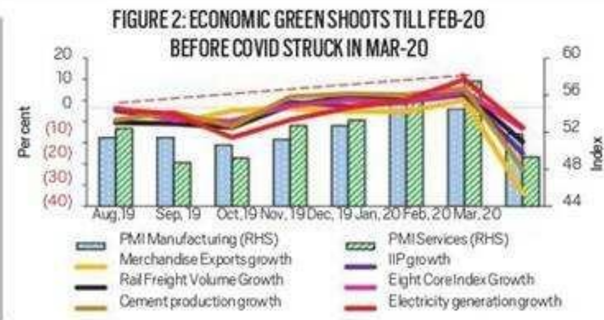
The GDP decline in the April-June quarter (Q1) is primarily due to the pandemic and does not relate to the economy's performance leading into the pandemic. The data unmistakably establish this fact and also suggest that the economy is recovering strongly in the unlock phase.

Let us first correct an elementary, conceptual misunderstanding among some commentators that "one quarter of the GDP as on June 30, 2019, has been wiped out in the last 12 months". As GDP is a flow variable, the GDP in the April-June quarter measures economic activity undertaken in these three months. Changes in GDP are compared to the GDP during the same quarter last year only to adjust for seasonality in economic activity. Therefore, it is conceptually incorrect to infer that "one quarter of the GDP has been wiped out in the last 12 months". The correct inference is that economic activity in April-June 2020 was 23.9 per cent lower than in April-June 2019.

India had the most intense lockdown starting from March 25. This was required because, by definition, network effects that drive the pace of a pandemic's spread are more pronounced in larger populations, and particularly so when the population density is high. But for the intense lockdown, the pandemic would have spread like wildfire from March itself, thereby providing no time to ramp up the health or testing infrastructure.

Spain and the UK are negative outliers as their GDP declines in Q1 were worse than those predicted by the intensity of their lockdowns. The US and Brazil — positive outliers on economic growth, but the two countries with the largest number of deaths — have paid an enormous human cost for not imposing stringent lockdowns. Apart from the absolute number of deaths, India's death per lakh is an order of magnitude lower. This reinforces India's humane economic policy based on the principle that while GDP growth will recover — and the evidence establishes the same — human lives that are lost cannot be brought back.





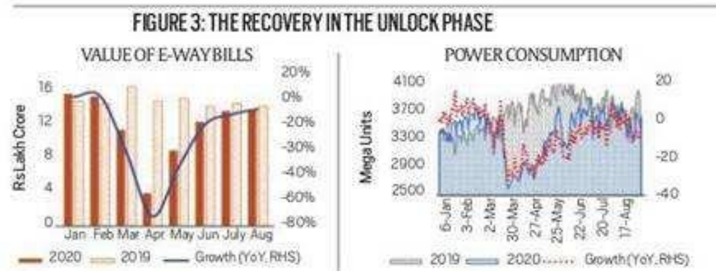


TABLE 1

OTHER INDICATORS	RECOVERY IN AUG-20 (YOY)
Railway Freight Traffic	107%
Steel Production	86%
Cement Production	87%
GST collection	88%
Value of UPI Payment Transactions	198%
Core Industries Index	90%
Area sown Kharif crops	107%
IIP Growth	83%

This inference is also strengthened by the fact that the economy was undeniably displaying green shoots till February, when the COVID pandemic struck India. Google's index of mobility reveals that the pandemic started affecting economic activity in India from March, when mobility dropped by about 20 per cent vis-à-vis January and February. The services sector — the dominant engine of growth in India — has been most affected by the need for social distancing and the lockdown.

Figure 2 establishes unambiguously that economic green shoots were developing until February. First, all the key economic indicators showed positive growth for the first time in seven months in February 2020; this occurred last in July 2019. Second, each of these indicators had been trending upwards from October 2019 to February 2020. Third, the purchasing managers index (PMI), which captures the future direction of economic activity, had trended up sharply with Services PMI registering the best growth by February before dropping precipitously below 50 per cent in March. Absent the impact of the pandemic in March, the Q4 growth rate would have been significantly higher than 3.1 per cent. The green shoots before the advent of the pandemic display undoubtedly that the government's policy thrust since July 2019 was having the desired impact.

Critically, the high-frequency indicators show that the economy is recovering strongly in the unlock phase. As seen in Figure 3 and Table 1, several indicators such as PMI Manufacturing, eight core sectors, e-way bills, power consumption, railway freight, cargo traffic, passenger vehicle sales and kharif sowing are converging to levels observed at the same time last year. The V-shaped recovery in these indicators suggests that the government's measures are enabling a recovery in the unlock phase. Specifically, all countries including India used measures for liquidity, credit and transfers as all of these

collectively impact aggregate demand. The recovery in the unlock phase is an outcome of these steps.

The pandemic, however, is a severe exogenous shock that affects consumer sentiment in an unprecedented manner. Every crisis creates uncertainty that leads individuals and firms to save rather than spend. However, every crisis witnessed before originated from economic factors. In contrast, this crisis originates from a pandemic that requires social distancing. Therefore, the effect on consumer spending, especially discretionary spending, and thereby on investment, is unmatched. Further, in an economy where private consumption and investment contribute about 90 per cent to GDP and government spending (excluding transfers) about 10-12 per cent, every 1 per cent decline in consumption and investment requires an 8-9 per cent increase in government spending to keep GDP at the same level. While the government remains committed to responding to this enormous crisis, this basic arithmetic must be kept in mind.

The Q1 decline has sparked debate — rightly so — as an informed debate is essential to policymaking. The evidence, however, clearly demonstrates that the decline is primarily due to the pandemic and does not relate to the economy's performance leading into the pandemic. Crucially, the economy is recovering strongly in the unlock phase.

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