In May 2020, we assessed the impact of the Covid-19 Pandemic on Indian economy with different levels of capacity utilisation due to lockdown and gradual unlocking for the Calendar Year (CY) 2020 (see Sahoo and Ashwani, 2020) where we predicted that the Indian economy may barely manage to have a positive growth of half a percent in an optimistic scenario but also faces the possibility of a 3 to 7 percent negative growth in the worst case scenarios. Further, India’s exports may fall from 13.7 to 20.8 percent and imports from 17.3 to 25 percent respectively for the CY 2020. Overall we found that the impact of Pandemic is going to be severe on trade, Manufacturing and MSME sector. We estimated the impact under four hypothetical scenarios such as:-

- Scenario A: Resumption of normal level of economic activity post 40 days lockdown i.e. after 3rd May 2020.
- Scenario B: Complete lockdown up to 3rd May and 50% capacity utilization of the economy till 31st May 2020.
- Scenario C: 70% of capacity utilization by 30th of June in addition to 50% capacity utilization from 3rd May to 31st May.
- Scenario D: Normalcy level is assumed in three phases - 50% by end of May, 70% by June and 90% by September 2020.

Now we have updated our assessment of Covid-19 on growth and trade for the Financial Year (FY) 2021. The impact of the ongoing Corona outbreak on real GVA, with normal behavior of Public Administration and Defense (PAD) services, would be in the range of -3 to -6.3 percent for FY21. In case of vertical recovery under optimistic scenario, with 50 percent over utilization of PAD, the GVA is estimated to decelerate, in the most likely scenarios (scenarios B to D), in the range of -0.8 to -3 percent in FY21 (Fig 1). Similarly, the impact on India’s trade is going to be severe. The exports and imports are expected to decline

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**Fig 1: Percentage Change in GVA in FY21 over FY20**

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Change in GVA (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>1.65</td>
</tr>
<tr>
<td>B</td>
<td>-3.00</td>
</tr>
<tr>
<td>C</td>
<td>-4.78</td>
</tr>
<tr>
<td>D</td>
<td>-6.34</td>
</tr>
</tbody>
</table>

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**Fig 2: Change (%) in India’s Trade in FY21 over FY20**

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Change in Trade (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>0.15</td>
</tr>
<tr>
<td>B</td>
<td>-5.25</td>
</tr>
<tr>
<td>C</td>
<td>-11</td>
</tr>
<tr>
<td>D</td>
<td>-16.6</td>
</tr>
<tr>
<td>E</td>
<td>-20.8</td>
</tr>
</tbody>
</table>

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Source: Authors’ Computations Based on NAS Data

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Source: Authors’ Computations based on RBI Data

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in the range of 11.1 to 20.2 percent and 16.6 to 26.1 percent respectively under Scenarios A-D for FY21 over FY20 (Fig 2). In the scenario E, considering the U-shape recovery similar to global financial crisis (GFC), the potential fall in exports and imports in FY21 could be to the tune of around 20 percent.

Our assessment of negative growth from 3 to 6 percent for FY 21 for Indian economy in best and worst-case scenarios is away from the IMF’s projection of a negative growth of 4.5 percent with band of +/- 1.5 percent. Though the exact number would vary depending how we succeed in containing the Pandemic and unlocking the economy, the Indian economy looks certain at this point to experience a negative growth. India’s trade, both exports and imports, are estimated to witness a fall between 15 to 20 percent for FY 21 though deceleration of imports is expected to be higher. Severe restrictions on movements of goods, services and personnel along with heightened protectionism and lower demand across the countries will not only pull-down India’s trade but is likely to hamper the domestic production networks and overall competitiveness.

The developmental implications of shrinking growth and trade will be humongous. The fall out of Covid-19 has humongous developmental implications on poverty, inequality and standard of living of the masses. Economic growth is essential to provide jobs to millions of people, empowering the state to channelize the resources for health and education and welfare schemes to reduce poverty, improving the quality of life, etc. The study by Adams (2002) finds that a 10 per cent increase in a country’s average income will reduce the poverty rate between 20 and 30 per cent in developing countries. DFID (2008) reports says that 1 per cent increase in per-capita income could reduce the poverty rates by 1.7 percent. India has seen significant fall in poverty since the 1980s mainly led by impressive growth. The covid impact on Indian economy casts a doubt on the sustainability and inclusivity of growth in India, thereby affecting its development agenda.

Economic theory underscores the role of international trade on economic development through increased per-capita income. With free proliferation of trade, the access to ideas, technology, goods, services and capital becomes easy, which in-turn leads to faster income growth. Empirically it is estimated that rise in ratio of trade to GDP by one percentage point was found to raise income per person by 1 to 2 percent (Frankel & Romer 1999). Trade has been recognized as an engine for inclusive economic growth and poverty reduction in the 2030 Agenda for Sustainable Development.[1]

The time is to revive growth by stimulating demand and repairing domestic supply chains. The comprehensive stimulus measures announced so far by GoI, more though providing liquidity in the form of providing loans and funding opportunities and less through fiscal measures, may not be sufficient. The time is for sector specific fiscal stimulus to revive demand and growth. The stimulus measures announced so far address the basic needs of the majority and also few specific sectors but not the drivers of the growth. For example services sector contributes 55% to GDP but there is hardly anything specific - in terms of easing the financial stress, funding opportunities and tax holidays - to sectors likes transport, travel, hotel, tourism and other services which are the worst affected and struggling to survive.

References

DFID (2008), Growth: Building Jobs and Prosperity in Developing Countries, Department for International Development. [1]


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