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State-level lockdowns, a bungled vaccination policy, and likelihood of a third wave of Covid-19 are expected to continue to disrupt growth

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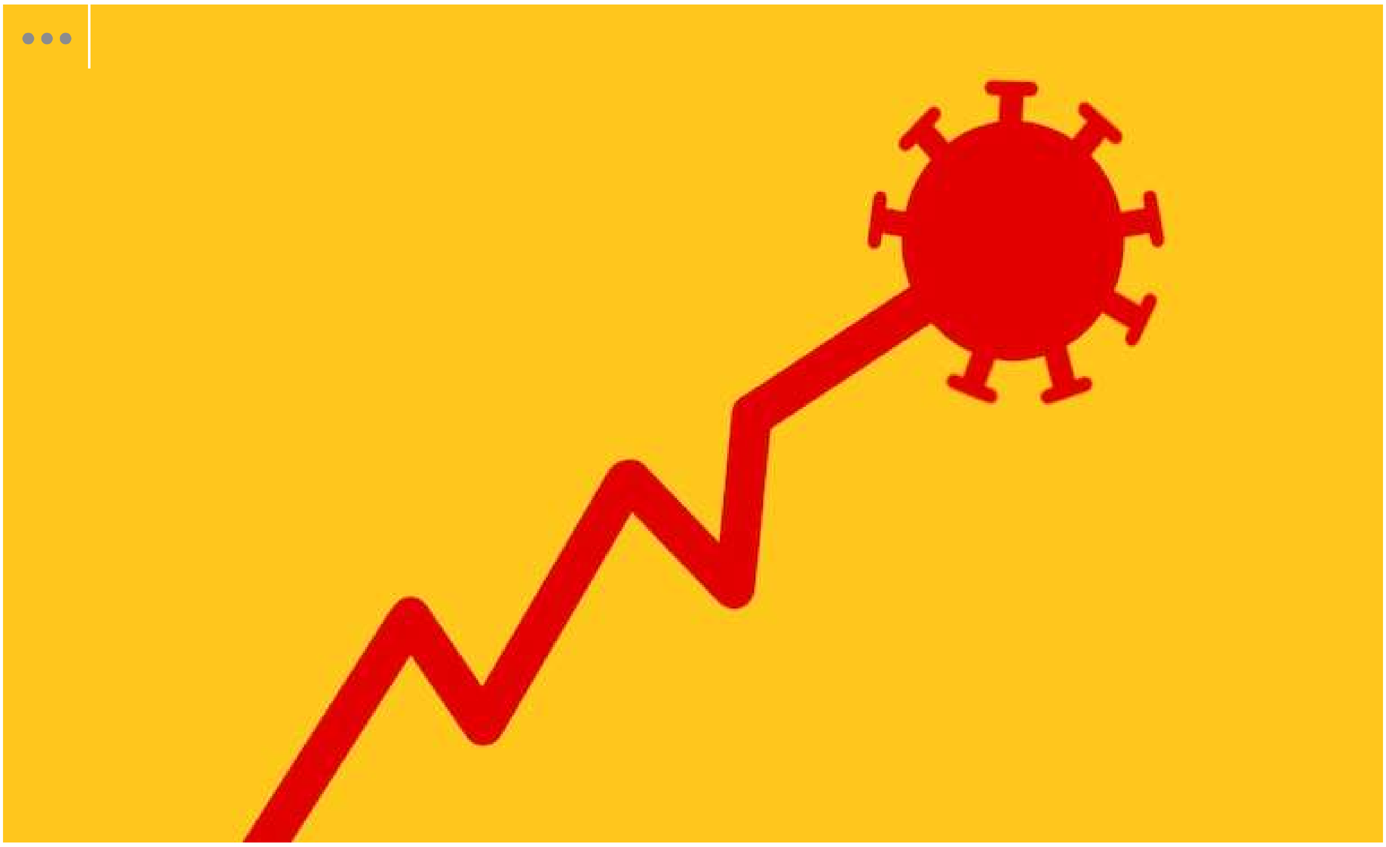

Illustration by Siddhant Jumde

One of the key differences between the first wave of Covid-19, which began in India around February last year, and the second wave this year, is the dire shortages of hospitals beds and oxygen. Directly, this resource shortage has led to more deaths; indirectly, it has led to more panic. And although the number of daily new cases has fallen from its peak of near 400,000 earlier this month, it remains worryingly high—on May 26, 208,921 cases were recorded—with the overall death toll now over 300,000. It is, then, but natural for the focus of public discourse to remain on the gaps in India's medical infrastructure, with efforts to correct this taking prime importance. Livelihoods and economic growth, despite their importance, must take a backseat.

However, this does not mean that economic troubles—job losses and slumped GDP growth—will have no consequences. The intensity of pain will depend, to a large extent, on how soon the economy can be reopened. Going by the downward trend in the number of new Covid-19 cases, it is likely that several states will begin easing the restrictions announced in April by June. This will likely take place in a phased manner, with two critical aspects remaining in focus—the spread of the pandemic in rural areas and the progress of preparations for a possible third wave. This suggests that many restrictions—including those on the movement of people and vehicles and on the opening of malls, cinemas, marketplaces and shops dealing in non-essential goods—will be phased out over a few weeks, with the potential for curbs to be reimposed if another wave of cases strikes the country. This will have a serious impact on economic growth.

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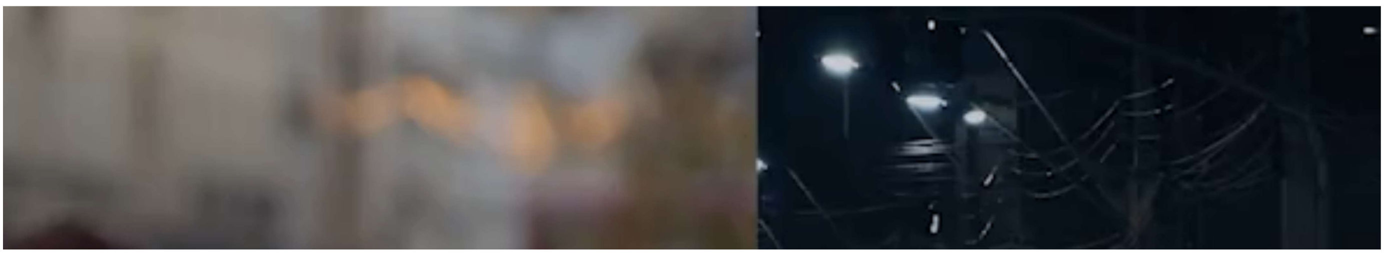
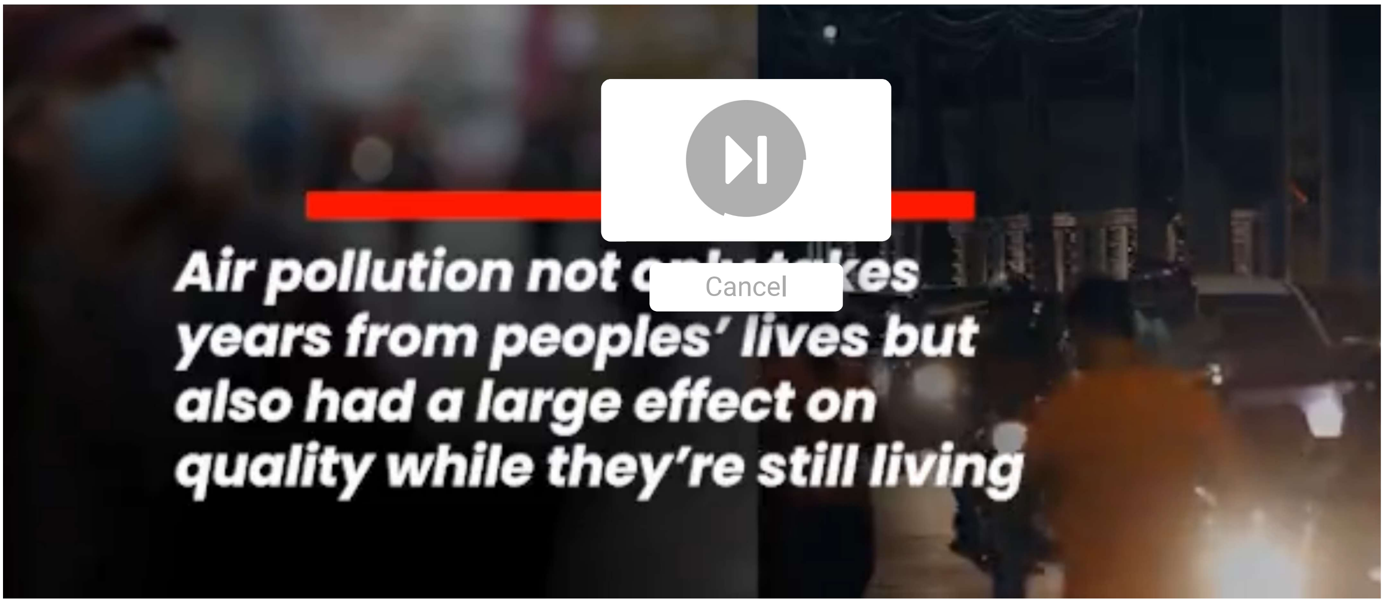
Several agencies have begun factoring in the prolonged uncertainty into their projections of India's GDP growth for the next few quarters and for the fiscal year as a whole. Investment firm Barclays has pegged India's GDP growth at 7.7 per cent for fiscal 2022, assuming the sluggish economic conditions continue, in what could be termed a 'bear-phase' that could be caused by a third wave hitting the country. It believes that the economic costs of such a situation—a third wave that forces authorities to reimpose economic costs of such a situation—a third wave that forces authorities to reimpose restrictions—could be a further $42.6 billion (over Rs 3 lakh crore). It pegged the economic cost of the shutdowns at $8 billion (Rs 58,165 crore) per week in May, much higher than $5.3 billion (Rs 38,534 crore) per week it projected for the last two weeks of April.

On May 5, Reserve Bank of India governor Shaktikanta Das had exuded optimism when he said that people and businesses had learned to live with the localised lockdowns, and that the impact on demand would therefore not be as severe as it had been last year. However, reports from the ground show a drop in demand for fast moving consumer goods, consumer durables, automobiles and so on. For instance, overall auto sales fell over 28 per cent in April this year, compared to March. Passenger vehicles sales fell over 25 per cent, while two-wheeler sales fell 28 per cent. Commercial vehicles sales fell 23 per cent, according to data shared by the auto dealers’ association FADA. A Dun & Bradstreet survey says business optimism for the second quarter for calendar year 2021 fell by 23 per cent compared to the first quarter, reflecting lockdown concerns. Crisil, which had earlier forecast an 11 per cent growth in GDP for the current fiscal, has talked about two probable scenarios: one with a moderate economic impact, where the economy grows by 9.8 per cent, assuming that the second wave peaks by May-end, and the other where the lockdown impact would be severe, and the GDP growth would be 8.2 per cent, assuming the second wave peaks only by June-end. Crisil had expected the second half of the fiscal to see economic growth led by higher number of vaccinations and the public adapting better to the pandemic. However, given the uncertainties on the vaccination front, there is little room to believe in such a recovery.





Care Ratings, which had projected the GDP growth to be 10.2 per cent in 2021-22, revised it to 9.2 per cent earlier this month, saying, 'the infections are spreading to the interiors in most states which also means that agriculture, which was isolated in the first wave, can be affected this time, though there is not a perceptible impact presently.' The spread of cases has also affected workers in various businesses in this round, which is directly affecting companies, it said. Supply chains are being affected this time due to workers getting infected unlike the first wave in 2020 when there were restrictions on the movement of goods. "Therefore, there is a double whammy due to the second wave—of a lockdown as well as personal health of workers," it added. Meanwhile, India is set to announce its March quarter GDP numbers of the previous fiscal on May 31. A note by the State Bank of India's research team estimates GDP growth for the March quarter at 1.3 per cent and for the entire fiscal (2020-21) at -7.3 per cent.

It is not often that the economy goes through such uncertainties over a protracted period of time. While the pandemic imposes uncertainties that cannot be avoided, India needs to build more surety on the vaccination front as well as to plug the loopholes in medical infrastructure if it must deal with yet another wave of the pandemic and prevent a precipitous economic fall, as seen during the initial weeks of the first wave.

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