India has been hit hard by the pandemic, particularly during the second wave of the virus in the spring of 2021. **Swati Dhingra** and **Maitreesh Ghatak** reveal how the largest drop in GDP in the country's history may still underestimate the economic damage experienced by the poorest households.

India: the economic impact of Covid-19

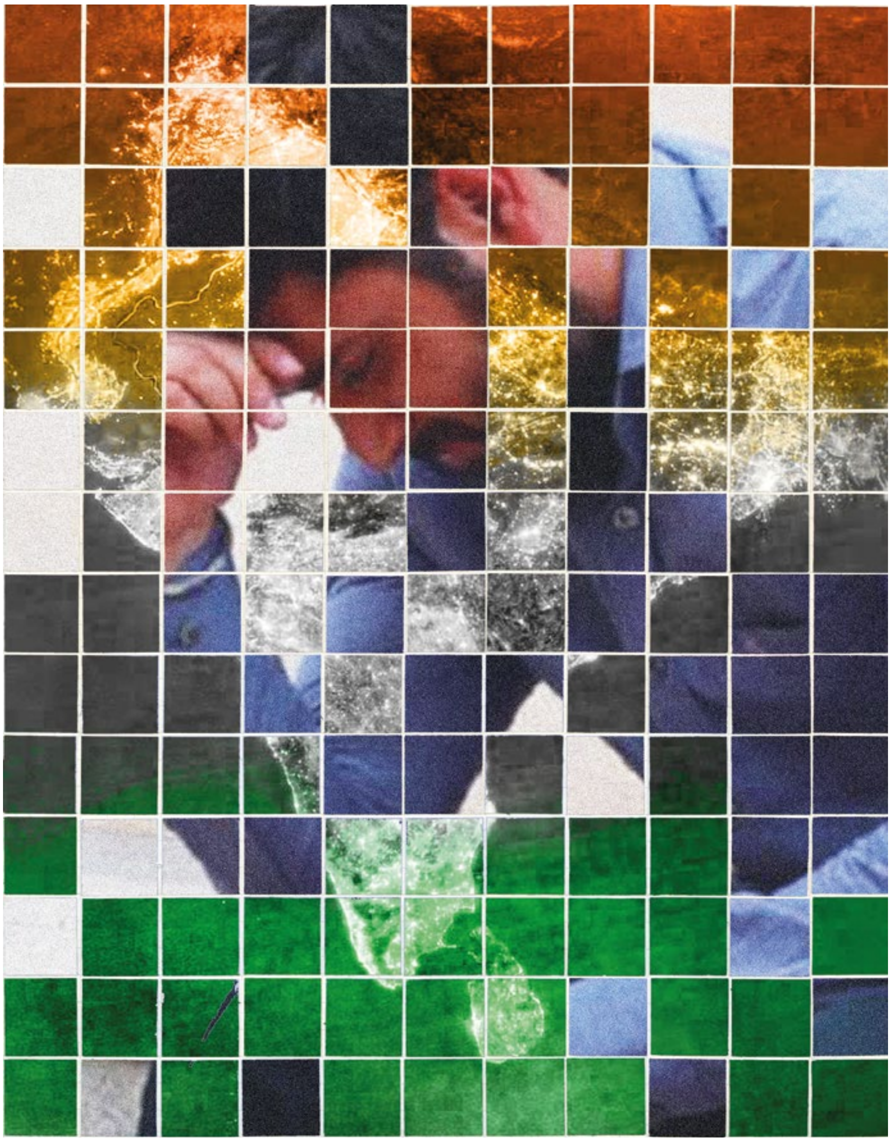


Image credit: https://unsplash.com/@amishthakkar?

From April to June 2020, India's GDP dropped by a massive 24.4%. According to the national income estimates published in May 2021, the economy contracted by a further 7.4% from July to September 2020 and the subsequent recovery in the following six months was weak, meaning that the overall rate of contraction in India was (in real terms) 7.3% for the whole 2020/21 financial year.

In the post-independence period, India's national income had declined only four times before 2020 – in 1958, 1966, 1973 and 1980 – with the largest drop in 1980 (5.2%). This means that 2020/21 is the worst year in terms of economic contraction in the country's history, and much worse than the overall contraction in the world (Figure 1).

The decline is solely responsible for reversing the trend in global inequality, which had been falling but has now started to rise again after three decades.

While economies worldwide have been hit hard, India has suffered one of the largest contractions. During the 2020/21 financial year, the rates of decline in GDP for the world were 3.3% and 2.2% for emerging market and developing economies. The fact that India's growth rate of 4% in 2019 was higher than 3.6% in similar countries and 2.8% for the world, makes the drop due to Covid-19 even more noticeable.

Comparing national unemployment rates in 2020, India's rate of 7.1% indicates that it has performed relatively poorly – both in terms of the world average (6.5%) and compared with a set of reference group economies with similar per capita incomes (6.4%). Unemployment rates were more muted within the reference group economies and were also kept low by generous labour market policies to keep people in work.

Despite the scale of the pandemic, additional funding for various social safety measures has been relatively low in India compared with other countries. The country might look comparable to the reference group in non-health sector measures with a 3% rise in above-the-line additional non-health sector fiscal measures, compared to 2.8% for the reference group. But the additional health sector fiscal measures are 0.4%, less than half those in the reference group (0.9%). More worryingly, the Indian government's announced allocation in the 2021 budget for such measures does not show an increase, once inflation is taken into account.

How has Covid-19 changed income, consumption, poverty and unemployment in India?

While the macroeconomic statistics provide a snapshot of India's economic position, they hide the large and unequal effects on households and workers within the country. Both wealth and income inequality have been on the rise in India. Estimates suggest that in 2020, the top 1% of the population held 42.5% of the total wealth, while the bottom 50% had only 2.5% of the total wealth. Post-pandemic, the number of poor in India is projected to have more than doubled and the number of people in the middle class to have fallen by a third.

During India's first stringent national lockdown between April and May 2020, individual income dropped by approximately 40%. The bottom decile of households lost three months' worth of income.

Microdata from the largest private survey in India, Centre for Monitoring Indian Economy's 'Consumer Pyramids Household Survey' (CPHS), show that per capita consumption spending dropped by more than GDP, and did not return to pre-lockdown levels during periods of reduced social distancing. Average per capita consumption spending continued to be more than 20% lower after the first lockdown (in August 2020 compared with August 2019), and remained 15% lower year-on-year by the end of 2020.

Official poverty data are unavailable, and the CPHS data come with a caveat of 'top' and 'bottom' exclusions. For example, official statistics show a rural headcount ratio of 35% in 2017/18. But the CPHS data estimate it at 25%, which suggests exclusions at the lower end of the consumption distribution.

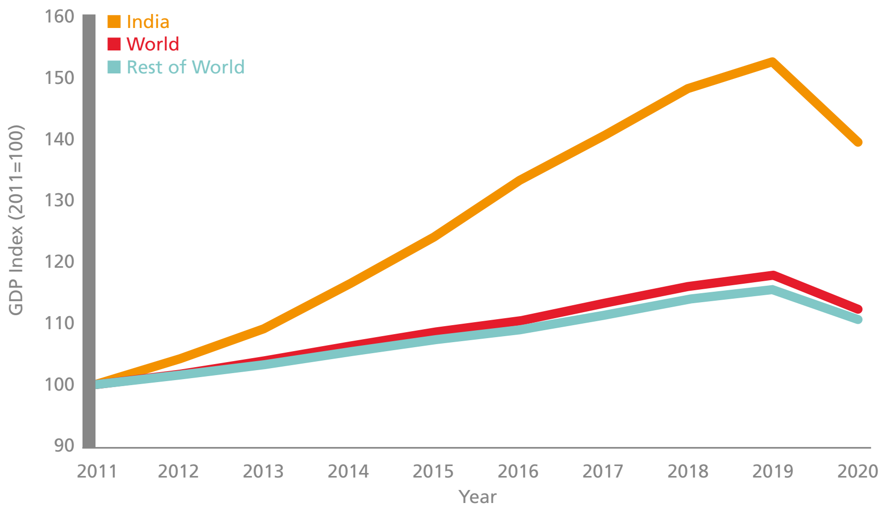
Despite these statistical concerns, the CPHS does provide consumption numbers for a large sample of individuals, which can provide insights into changes in consumption levels arising from the pandemic. The current rural poverty line is set at 1,600 rupees (£15.50) per month or over, and the urban poverty line is 2,400 rupees per month (£23.37) or over.

Based on the latest CPHS data, rural poverty increased by 9.3 percentage points and urban poverty by over 11.7 percentage points year-on-year from December 2019 to December 2020. Earlier months of the CPHS show rural poverty increased by 14.2 percentage points and urban poverty by 18.1 percentage points year-on-year from August 2019 to August 2020. Yet the actual increase in poverty due to Covid-19 is likely to be higher than the CPHS data suggest, as indicated by other surveys. Despite the general trend of reduction in poverty, an estimated 230 million people in India have fallen into poverty due to the first wave of the pandemic.

The pandemic has brought severe economic hardship, especially to the young who are over-represented in informal work

The pandemic has heightened the risk of young people becoming long-term unemployed

Figure 1:
Economic contraction in India and the world during Covid-19



Source: *World Economic Outlook*, International Monetary Fund, April 2021.

Note: Gross domestic product (GDP) per capita, constant prices is measured at purchasing power parity, 2017 international dollars. GDP per capita of each series is normalised to 100 in 2011. Population-weighted average is the aggregation method.

Households in the middle of the pre-Covid-19 CPHS consumption distribution saw large drops in spending after the first wave of the pandemic, helping to create a new set of people entering poverty. The percentage of poor people in the second lowest quintile of pre-Covid-19 consumption jumped from 32% to 60% within a year. This was driven largely by rural areas, where the headcount ratio for the second quintile almost doubled.

In urban areas, the poverty line is set higher due to greater living costs and 72% of people in the second quintile of the urban income distribution were below this poverty line before the pandemic. Within a year, they were joined in urban poverty by many who had higher incomes before. Half of people in the third quintile and 29% of people in the fourth quintile fell below the poverty line after the pandemic.

This sharp rise in poverty after the first lockdown is consistent with a variety of surveys that highlighted the depth of the crisis. The year-on-year urban unemployment rate jumped from 8.8% in April to June 2019 to a staggering 20.8% in April to June 2020.The pandemic has brought severe economic hardship, especially to young individuals who are over-represented in informal work. India has a large share of young people in its workforce and the pandemic has put them at heightened risk of long-term unemployment. This has negative impacts on lifelong earnings and employment prospects.

A CEP study analyses the depth of continuing joblessness among younger workers in the low-income states of Bihar, Jharkhand and Uttar Pradesh (Dhingra and Kondirolli, 2021). The first round of the survey randomly sampled urban workers aged 18-40 during the first lockdown quarter, finding that a majority of those who had work before the pandemic were left with no work or no pay. After the first lockdown in April to June 2020, 81% had no work or pay at all.

Ten months on from the first lockdown quarter, 8% of the sample continued to be out of work, another 8% were working zero hours, and 40% had no work or no pay. The rate of no work or no pay was higher (at 47%) among the youngest low-income individuals (those aged 18-25 who had below median pre-Covid-19 earnings). The recovery after the first wave was too muted to get many young Indian workers back into employment. For example, rural migrants continued to be reluctant to return to work in urban areas even before the second wave hit. And the second wave, which started in mid-February and appeared to be flattening out in June 2021, heightened these risks of long-term unemployment by increasing the spells of economic inactivity.

India's GDP dropped by 7.3% for the whole 2020/21 financial year – the worst yearly economic contraction in the country's history

What do public health indicators reveal about the impact of Covid-19 on India's economy?

To avoid another livelihood crisis, India turned to local lockdowns during the second wave of the pandemic. Before the second wave, India's public health performance (in terms of confirmed cases and confirmed deaths), while not the best, was ahead of several reference group countries. But the second wave has made India's position significantly worse. The total confirmed cases per million now are comparable to those in the rest the world and the rate of vaccination is lower in India.

While death rates seem lower in India, there is massive underreporting. After accounting for the underreporting within official statistics, India's total confirmed cases and deaths might exceed that of the rest of the world by a large margin.

In the conservative scenario, the total confirmed cases per million are about 13 times larger than in the rest of the world, and the total confirmed deaths per million are about 85% of that in the rest of the world. In the worst-case scenario, India is far behind the rest of the world.

There is an important caveat: while the focus of this article is on India, underreporting of Covid-19 cases and deaths is prevalent globally.

How has India fared so far?

About two years have passed since India's first national lockdown was announced. There was talk of a trade-off between lives and livelihoods when the Covid-19 crisis erupted. As India struggled with the second wave, it became clear that the country did poorly in both dimensions.

While India's policy response was strong in terms of some aspects of lockdown stringency, it was ineffective in dealing with the public health and economic aspects of the crisis. What's more, it failed to limit the damaging impact of the crisis on the most vulnerable sections of the population. While expenditure on public services expanded after the second wave, the latest figures show GDP and labour force participation remain lower than their pre-pandemic levels.

Swati Dhingra is an associate professor of economics at LSE and a research associate in CEP's trade programme. **Maitreesh Ghatak** is a professor of economics at LSE and director of the development economics programme at STICERD, LSE.

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Further reading

Swati Dhingra and Fjolla Kondirolli (2021) 'City of Dreams No More, a Year On: Worklessness and Active Labour Market Policies in Urban India', CEP Covid-19 Analysis Series No. 22 (https://cep.lse.ac.uk/pubs/download/cepcovid-19-022.pdf).