

# COVID-19 and India's GDP Growth Estimation for 2020-21

Abhijit Pathak

Assistant Professor, Department of Economics, Dhruva Chand Halder College, Dakshin Barasat, South 24 Parganas, West Bengal, India

---

## ARTICLE DETAILS

### Article History

Published Online: 15 June 2020

### Keywords

COVID-19, GDP Growth, Stimulus Package, Demand Constraints.

### Corresponding Author

Email: [abhijitdch\[at\]gmail.com](mailto:abhijitdch[at]gmail.com)

---

## ABSTRACT

*The spread of COVID-19 has ushered in a new concept of 'lock down' across the globe. Though 'lock down' was the only available alternative to a country like India and so far it has paid off to a large extent to contain the spread of the disease, it has serious economic costs. To estimate the economic cost we should understand the ground realities and not become unnecessarily pessimistic. Simultaneously, we must not undermine the economic losses we had to incur to combat this COVID pandemic and become patriotic about our GDP growth prospects. This paper has attempted to estimate India's GDP growth through some broad calculations. It has found that in all probabilities India is going to have a negative real GDP growth of 6.8 per cent in the current fiscal year 2020-21. Given the spread and extent of the pandemic, if the country takes some more time to return to normalcy, India may even end up with a near double digit negative real GDP growth in spite of the fiscal stimulus measures taken by the government so far.*

---

## 1. Introduction

The spread of COVID-19 has ushered in a new concept of 'lock down' across the globe. None of us were acquainted with any such measure in our lifetimes. In India, nationwide lockdown was implemented from the midnight of March 24, 2020 and continued up to May 31, 2020. The restrictions of lockdown are being relaxed thereafter in a phased manner but normalcy is yet to return in most parts of India while some parts of the country are still under lockdown in different forms. The experience of total shutdown of almost all economic activities, transportation and movement of public for weeks was a new experience. Though 'lock down' was the only available alternative to a country like India and so far it has paid off to a large extent to contain the spread of the disease, it has serious economic costs. It is the utmost priority to a nation to save the life of its citizens and nothing can be more important to us than life but still it is also important to comprehend the economic costs and implications of our actions. This will be extremely crucial to us once we will be out of the pandemic and would attempt to retrieve our employment, output and economic prosperity. We should understand the ground realities and must not become unnecessarily pessimistic. Simultaneously, we must not undermine the economic losses we had to incur to overcome this COVID pandemic and become patriotic about our growth prospect.

In recent years, many economists and institutions have predicted growth rate of India's GDP (IMF, 2020). Though growth estimates ranged around 1.5 per cent to 2.0 per cent for the Indian economy during April, 2020 but it turned into negative territory since May 2020 when it was realised that the lockdown is going to be extended beyond the initial three weeks and that will lead to a substantial loss of output, income and employment in the economy. In the statement issued by the governor of RBI on May 22, 2020 (RBI 2020), the RBI has

accepted that India's GDP growth will be in the negative territory only in 2020-21. But still it has refrained itself from providing the estimation of the GDP growth in anticipation of the backlash of the foreign investors. However, it is true that in the present uncertain conditions, it is extremely difficult to estimate the upper limits of decline of GDP growth. Even the possibility of a double digit negative GDP growth may actually be hard to rule out. This paper has attempted to estimate India's real GDP growth through some broad calculations for the fiscal year 2020-21.

## 2. Impact on the Economy

In the midst of all adverse developments, the only good news is that our agricultural production has remained intact even in this pandemic and a robust agricultural output is almost secured. All reports are indicating that this year, we are going to have bumper Rabi crop production. The IMD has projected a normal monsoon this year and states producing majority of Kharif crops have already started sowing activities within the lockdown. But fisheries, dairy production and many allied activities came to a halt for a month in most of the states. Agriculture and allied activities contribute around 14.0 per cent of our Gross Value Addition (GVA). For the sake of simplicity, let us assume that the agricultural and allied sector will grow at the rate of 6.0 per cent during 2020-21 over and above the previous year. The public administration and defence services are expected to continue to grow at around 10%. This sector also contributes around 14% of GVA (at constant price). All analysis in this paper is based on GVA at constant 2011-12 prices.

In all production units, getting adequate labour will be a challenge in the short-run as most of the labourers have migrated back to their respective villages and they will take time to come back to the cities and metropolises for multiple

reasons including the fear of outbreak of the disease again. Similarly, getting adequate raw materials for the full operation of industries were not possible for at least two months due to the shortage of road transportations during lock down and after. Loading and unloading of goods and materials is a labour intensive job and it comes in the way of the social distancing rule. Mining and quarrying activities (2.8 % of GVA) also came to a standstill almost for two months due to the 'lock down' and its subsequent delays in production. Construction business (8.0 % of GVA) will take a long time to come back to its earlier level and on average three months output will be lost to arrange its labour and raw materials. Similarly, the manufacturing units (17.5 % of GVA) on most occasions will suffer a loss of at least two months output. Electricity plants were operating (2.2 % of GVA) at only 25% of its capacity for around two months of lock down. International trade remained insignificantly low for two months. Trade, hotels, transport, communication and services related to broadcasting constitutes 19.3 per cent of GVA. In this category hotel, tourism business may be in its historic low for the next six months. Indian railway operated on average around 50% of its capacity since the lock down in March 25, 2020. It includes 40 days total lockdown on all passenger trains and expected loss of passenger revenue due to their limited operation till mid-August 2020. All domestic and international air travel services were completely grounded for at least 60 days. In this category only services related to tele-communications and broadcasting (1.6% of GVA) remained broadly unaffected. The decline in income of large numbers of

employed people may have affected the telecom sector but this may be compensated by increase in uses of telephone and internet facilities by people working from home during the lockdown and unlocking periods.

Financial, real estate and professional services contribute 22.4 per cent of GVA. Within this sector, financial services which contribute 6.0 per cent of the GVA will register a decline mainly due to the slump in issuances of fresh insurance policies and mutual fund purchases in the lock down period. The expected decline in income of the employed population will also dampen the business possibility of this sector in the near future. The business activities in the real estate came to a halt in end-March and remained largely subdued since then. Professional services also received a huge setback during the lockdown period. This may continue even in the unlocking period to avoid the spread of virus. Thus, real estate and professional services that contributes around 16.0 per cent of GVA within this sector turned out to be one of the worst affected sectors in the economy. Thus in any fair judgement, a loss of output and income of two months on average would be a conservative estimation.

Therefore, in any conservative estimate, apart from agriculture (14% of GVA), administrative and defence services (14% of GVA), the rest of the economy (72% of GVA) is going to incur a loss of output and revenue for at least two months (Table 1).

**Table 1: First Advance Estimates of GVA at Basic Prices by Economic Activity**

(At 2011-12 Prices)

(Rs.crore)

Industry	2017-18	2018-19 (PE)	2019-20 (1st AE)	Share in GVA	2018-19 Growth	2019-20 Growth
1. Agriculture, Forestry & Fishing	1803039	1855632	1907605	14.1	2.9	2.8
2. Mining & Quarrying	365667	370564	376119	2.8	1.3	1.5
3. Manufacturing	2176923	2328040	2374176	17.5	6.9	2.0
4. Electricity, Gas, Water Supply & other Utility Services	267720	256427	301966	2.2	7.0	5.4
5. Construction	969194	1058901	1087201	8.0	8.7	3.2
6. Trade, Hotels, Transport, communication and Services related to Broadcasting	2312214	2471128	2616095	19.3	6.9	5.9
7. Financial, Real Estate & Professional Services	2649146	2846393	3027407	22.4	7.4	6.4
8. Public Administration, Defence and other Services	1560252	1694851	1849803	13.7	8.6	9.1
<b>GVA at Basic Prices</b>	<b>12104165</b>	<b>12906936</b>	<b>13540380</b>	<b>100</b>	<b>6.6</b>	<b>4.9</b>

Source: Press Note on First Advanced Estimate of National Income 2019-20 dated 07.01.2020 by National Statistical Office, Ministry of Statistics and Programme Implementation

### 3. Estimation of GDP Growth and Analysis

We have discussed and assumed earlier that agriculture and allied activities which consists of 14 per cent of GVA is going to expand by 6.0 per cent during 2020-21 by best case scenario. The expenditure on administrative and defence activities will continue to grow annually at the decadal average of 10 per cent. Now, we have also found that due to this lock down measure, India on average is going to lose two months output and revenue for 72 per cent of its GVA (industry and services) with respect to its previous year. The stimulus packages announced by the government are estimated to increase in government expenditure in the current fiscal year

by around 3.9 lakh crore only (only 2.0% of India's GDP) (Table 2). A large part of the expenditures are purely revenue and developmental expenditure and given the low fiscal multiplier for revenue and development expenditure (Bose and Bhanumurthy 2014, Jain and Kumar 2013) and poor delivery mechanism of welfare schemes in India, the expected expansion of demand from the stimulus package can no way exceed Rs. 6.0 lakh crore (assuming a fiscal multiplier of 1.5 for revenue and developmental expenditure in India) which will be around 3.0 % of GDP. Thus this stimulus package has the potential to revive growth by almost 3.0 percent.

**Table 2: Estimated Expenditure from Government Exchequer in All Stimulus Packages**

SL No	Items	Amount in Rupees Crore
1	Estimated Expenditure of Package I (out of 1.93 lakh crore announced on 26.03.2020)	119284
2	Estimated Expenditure of Package II Total (announced during 13.5.2020 to 17.05.2020)	183300
2	Expenditure Under Extension of Pradhan Mantri Garib Kalyan Anna Yojna	90000
<b>4</b>	<b>Total Expenditure Under All Stimulus Packages (1+2+3)</b>	<b>392584</b>
		<b>(2.0 % of GDP)</b>

Source: Government of India and Author's Own Calculations.

Therefore, if India produced a GVA of Rs. 100 last year, this year we are going to produce a GVA =  $14 \times 1.06 + 14 \times 1.1 + 72 \times (10/12) = \text{Rs. } 90.2$ . This implies a negative growth of GVA by almost 9.8 percent. The stimulus package announced by the government can generate a GDP growth of around 3.0%. Thus, a negative real GDP growth around 6.8% is a genuine possibility for the Indian economy during the fiscal year 2020-21. Similarly, if the period of loss of output increases to three months due to spread of the COVID or rearrangement of labour and raw material, the negative growth of real GDP may settle around 10.0 per cent in 2020-21. However, the Indian economy is highly resilient and we need not be over pessimistic about the decline in demand in the economy and the consequent recessionary spirals. A detailed estimation may give us a more precise number but the final number will not be much different from our predictions.

The above analysis has taken into account mostly the supply side problems of the economy and has almost excluded the demand side problems. It automatically assumes that economic packages announced by the government will be effective in restoring normal demand conditions after the lockdown period and the loss of production will only be due to factors like restoration of transport facilities, availability of labour and smoothing out other glitches created during the lockdown period. However, this may not be the reality. The revival of MSME that contributes around 45 per cent of the manufacturing output and employs over 12 crore people (GOI 2019) may take longer time to revive from this present crisis even after the large credit support from the government to this sector. The unemployment data published by CMIE has indicated an increase in unemployment rate from 7.78 per cent in February and 8.74 per cent in March to 23.52 per cent in April 2020. It will surely have large negative impacts on the demand conditions of the economy. In spite of a good harvest, active government intervention is required to provide farmers a

remunerative price for their products. Any failure in this front will depress rural demand further, aggravate the present agrarian crisis and jeopardise the revival of demand in the economy. Though there are genuine concerns about the economy but there is no need to be pessimistic. The Indian economy is resilient and backed by a large domestic market. It has the potential to bounce back faster than anticipated with a large and young labour force.

#### 4. Conclusion

We are going through an unprecedented crisis. It is very difficult to predict what is going to happen because we have never experienced a situation like this before. However, one thing is for sure - our policymakers are not willing to accept the writing on the wall. We are going to get a negative real GDP growth around 6.8 per cent for the current fiscal year 2020-21. Given the present conditions of the spread of the disease, if the country takes more time to return to normalcy, India may even end up with a near double digit negative real GDP growth in 2020-21. Let us not bother much about the growth. The lock down was inevitable and so was its economic cost. India was not left with much option to fight this pandemic given its present state of medical infrastructure. The value of human lives saved can never be measured economically.

Now, India will have to handle both the demand deficiencies and supply constraints of the economy simultaneously. The stimulus packages announced by the government are good moves in these directions. But these measures are not enough and no one can really tell us how much fresh expenditure by the government will be enough to reduce the distress of its citizens and revive the economy. Policy makers in India have a tough job at hand.

#### References

- [1]. Bose, Sukanya and Bhanumurthy, N. 2013. 'Fiscal Multipliers for India', Working Paper, NIPFP, [https://www.nipfp.org.in/media/medialibrary/2013/09/WP\\_2013\\_125.pdf](https://www.nipfp.org.in/media/medialibrary/2013/09/WP_2013_125.pdf). Accessed on 25.03.2020.
- [2]. GOI 2019. 'Nourishing Growth to become Giants: Reorienting Policies for MSME Growth', Chapter 3, Economic Survey 2018-19. July 2019.
- [3]. GOI 2020a. 'Finance Minister announces Rs 1.70 Lakh crore relief package under Pradhan Mantri Garib Kalyan Yojana for the poor to help them fight the battle against Corona Virus' PIB Delhi. March 26. <https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1608345>. Accessed on 30.03.2020.
- [4]. GOI 2020b. 'Atmanirvar Bharat', Part 1-5, Presentations by Finance Minister, Ministry of Finance, Government of India, from 13.05.2020 to 17.05.2020, [www.pib.gov.in](http://www.pib.gov.in).
- [5]. IMF 2020. 'World Economic Outlook (April 2020): Real GDP Growth'.

[https://www.imf.org/external/datamapper/NGDP\\_RPCH@WEO/OEMDC/ADVEC/WEO\\_WORLD/IND](https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/OEMDC/ADVEC/WEO_WORLD/IND). Accessed on 20.05.2020.

- [6]. Jain, Rajeev and Kumar Prabhat 2013. 'Size of Government Expenditure Multipliers in India: A Structural VAR Analysis', RBI working Paper Series, W P S (DEPR): 07 / 2013, Department of Economic and Policy Research, RBI,

September.

<https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/WP07180913F.PDF>. Accessed on 28.04.2020.

- [7]. RBI 2020. 'Governor's Statement, May 22, 2020' [https://rbidocs.rbi.org.in/rdocs/Content/PDFs/GOVERNOR\\_STA1BE078EC8D2F4F53A8C3A74AE98E4573.PDF](https://rbidocs.rbi.org.in/rdocs/Content/PDFs/GOVERNOR_STA1BE078EC8D2F4F53A8C3A74AE98E4573.PDF). Accessed on 25.05.2020.