



## Impact of COVID-19 Second Wave on Indian Economy

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### INTRODUCTION

Over a year and a half has passed since the COVID-19 epidemic wreaked havoc on human society and made us understand just how mighty Mother Nature is. In India, after the first wave, it was believed that the situation was under control, but the second wave left us in need of oxygen and medical supplies, among other things. COVID-19 has now claimed over 3.8 lakh priceless lives (Behera et al., 2020). In the expectation that the medical condition would considerably improve, it is now time to analyse the macroeconomic impact of the second wave. In dealing with the two waves, the administration took a different strategy. The states have limited second-wave responses, whereas India's response to the first wave was to impose a national lockdown. It began in the west with Maharashtra, moved north, and is currently reaching the south of the country. Economically speaking, a nationwide lockdown is suboptimal because of the propagation of the threat (The financial express, 2021). The first wave in India was marked by a lengthy national lockdown and a much smaller number of peak cases.

A series of lockdowns had brought a complete shutdown of manufacturing and the urban economy, but rural economies continued to thrive. 58 per cent of our people are employed in agriculture, which is the primary driver of our rural economy (The financial express, 2021). As a result, agriculture grew. Furthermore, the agriculture sector was aided by a favourable monsoon season and cheaper and more readily available labour. In FY21, the agricultural sector expanded by 3.4 per cent, while the entire economy declined by 7.7 per cent, according to the GDP data (The financial express, 2021). The initial wave's expansion was predominantly urban. After five months, urban regions reported more instances than rural ones (Sahoo et al., 2020). Rural regions began reporting more cases than urban areas in the second wave. 26 of the 50 most badly affected districts were located in rural areas, according to a study of more than 50 such districts (Cnbctv18, 2021). Although the second wave has been devastating in terms of lives and livelihood, its impact will be minimal.

According to RBI, the second wave is expected to have a subdued effect on the April-June quarter, possibly spillover into July. SBI, the state-run bank, slashed its growth estimate from 11 per cent before the second wave struck India to 7.9 per cent today, a three-point drop (TOI, 2021) (Figure 1). Like the Paris-based OECD, the organisation has decreased its forecast from 12.6% to 9.9% (TOI, 2021) (Figure 1). Several private-sector analysts have lowered their predictions to single-digit levels (Figure 1). This unlocking process may begin gradually if vaccination progresses rapidly and the pandemic is brought under control, as evidenced by the current situation on this ground.

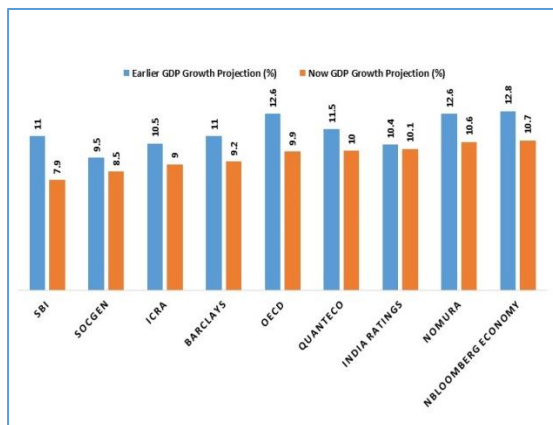


Fig. 1: Altered GDP growth projections due to COVID surge (Source: TOI, 2021)

### Impact of COVID-19 second wave on agriculture, services and overall GDP of India

Countrywide lockdowns were more challenging and more extensive with the second wave. Lockdowns have forced APMC Mandis to shut business or adopt voluntary measures. Specific APMC Mandis were closed during the peak harvesting season in Gujarat, Rajasthan, and Maharashtra. Agriculturalists were unprepared for the subsequent confusion. Because the Mandis hasn't fully opened, crops are withering in the fields while they wait. Since Mandis was shut down, vegetable sellers and processing companies have also been impacted by this decision. In the statistics on farm wage growth, we can see the differential effects of the first and second waves. Between November 2020 and March 2021, the average pay increase for the agriculture industry has decreased from 8.5% in April to August 2020

to 2.9% (Cnbctv18, 2021) (Figure 2). Both wave one and wave two struck manufacturers. Most production sectors had to work at a reduced capacity or shut down to stop the spread of the coronavirus. The manufacture of non-essentials was impacted for a more extended period and with more severe limitations. The global and local supply networks had not yet fully recovered (Cnbctv18, 2021). Both small and large companies have had to pay more for raw materials as a result. The IHS Markit India Manufacturing Purchasing Managers' Index (PMI) for May 2021 has dropped to 50.8 from February's 57.5 (The financial express, 2021) (Figure 2). With a GDP contribution of more than half, the Indian services industry has become the country's economic backbone in recent decades (Cnbctv18, 2021; & Sahoo et al., 2021). Fortunately, the digital revolution has rendered this premise obsolete and unneeded. Anyone may work from anyplace till 4G internet is available. In the initial wave, companies had a steep learning curve to create infrastructure and processes for remote working, which took time and effort. As a result, it took some time for the staff to acclimate to working from home and be productive (Cnbctv18, 2021). Early in the first wave, both the employer and employees settled into a rhythm, resulting in production levels approaching pre-covid groups. As soon as the second wave hit, this pattern was interrupted (Sahoo et al., 2021).

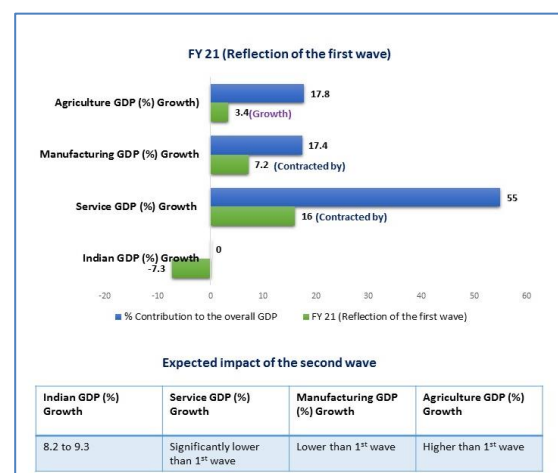


Fig. 2: Illustration summarises the saturated agriculture, manufacturing, services and overall impact on GDP (Source: The financial express, 2021)

But the second wave's impact was limited and focused on specific groups of people, with average interruptions costing 3-4 weeks in output (Cnbctv18, 2021). As of May 31, the Indian government announced GDP statistics showing a 7.3% contraction for the 2020-21 fiscal year (The financial express, 2021) (Figure 2). Lockdown resulting from the closure of business units, a growing unemployment rate, and a considerable drop in domestic consumption are the apparent causes for this trend (Figure 2). This year, the Reserve Bank of India projects a 10.5% increase in GDP (The financial express, 2021). Due to the impact of COVID-19's second wave, rating agencies throughout the world have downgraded it. Moody's initially predicted a growth rate of 13.7% for the fiscal year 2021-22 but then decreased it to a rate of just 9.3%. S&P Global Ratings is no different. Assuming a mild impact from the second wave, the growth rate has been decreased to 9.8%, but in the worst-case scenario, it would be 8.2% (Figure 2) (The financial express, 2021).

### Rising unemployment during the COVID-19 second wave and its impact on rural India

A viral outbreak in rural regions may impair agricultural supply lines, which would impact the rural economy, even if agriculture production is solid this year. The credit rating firm India Ratings and Research report that salary growth in rural India has fallen precipitously between April and August 2020. India's rural population makes up about 70 per cent of the total population (URI, 2021). Assume that both the agricultural and non-agricultural economies are affected. Because rural regions have a greater marginal propensity to spend a measure of how much additional income is spent on consumption, this will substantially influence rural demand and consumption. The economic growth will be affected if we do not have greater MPC in rural regions because a higher MPC has a multiplier effect on the economy. India's economic potential will shrink as rural demand declines. According to a 2017 NITI Aayog research, India's rural nonfarm sector contributed roughly 60 per cent to overall rural earnings (Sahoo et al., 2020). On May 16, 2021, rural unemployment doubled in one week, reaching around 14%. A week later, it was still about 14%. By the end of May, it had

crept up to approximately 10 per cent (URI, 2021) (Figure 3).

However, due to widespread illnesses and insufficient health care in rural India, human suffering has been exacerbated this time around due to the second wave. There have been several anecdotal reports of sickness and human death in rural locations where businesses are located. As a result of lockdowns and supply interruptions, the non-agricultural sector in rural India, more prominent in the gross domestic product (GDP) than agriculture, sustained a more significant loss than agriculture. Particularly for daily wage employees, income losses are unlikely to be made up (Cnbctv18, 2021). As a result, migrant workers were not subjected to hardship. Rabi crops were harvested without incident, resulting in record wheat procurement. Thanks to a substantial decline in new infections, the approaching Kharif planting season will be a success. As a result, no detrimental impact is predicted on-farm productivity.

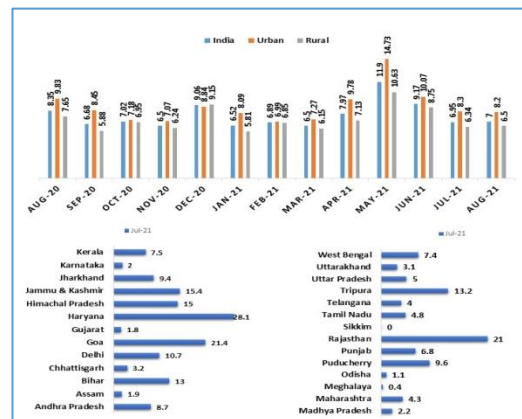


Fig. 3: Monthly unemployment rates (%) in India (Source: URI, 2021)

Due to loss of money and, in some circumstances, loved ones, household emotion is muted. Consumers' spending on FMCG items and durables will be affected by the fear of a third wave. Rural residents are beginning to rebuild their lives, but there are a few bright spots that will help them get through this difficult moment of transition. There is a need to maintain or perhaps increase government expenditure on the MGNREGA programme to help landless labourers. While agro commodity prices have remained steady, distressed sales and exports have helped keep them that way. There is a favourable prognosis

for the next monsoon. As soon as the supply situation for vaccinations improves, the central and state governments may take three actions to boost morale. First, they must have access to it. Begin storing oxygen and vital medications at the local health centre and reassure rural residents that government preparations are in place. Third, the development of rural roads, rural houses, and highways, which have significant employment potential, should be restarted energetically (Cnbctv18, 2021).

### **Economist's point of view on impact of Covid-19 on Indian economy**

Economists believe the government should quickly increase expenditure in the second wave and unveil an economic assistance package. After the Covid-19 lockdown last year, the federal government offered relief measures, but not this year. Several state lockdowns significantly impact the poor's livelihoods, and this year the centre has no duty to ease such conditions. As a result of their financial predicament, some governments such as Kerala and Tamil Nadu announced relief measures, while others haven't taken any action or haven't taken any at all. Because this is such a rare incident, the government should be prepared to do everything it takes to prevent residents from becoming permanently traumatised. Still, this signal has not yet been sent. Indian youth might face long-term unemployment if the pandemic's economic impact continues. The scars will last an extended period. There's no indication that the economy will rebound on its own and put these individuals back to work unless the minimum wage and government job allocations are raised. According to the World Bank, India has the lowest level of consumer expenditure among both developed and developing nations. As a result, according to the International Monetary Fund (IMF), India's budgetary condition is under strain. Even in metropolitan regions with better earnings than rural ones, this epidemic is causing many new individuals to fall into poverty (Cnbctv18, 2021).

### **CONCLUSION**

According to macroeconomic data, the second wave is projected to have a less severe effect

on GDP due to less stringent, localised lockdowns and a shorter period until illnesses reach their peak. Agriculture will be hit worse by the second wave than it was by the first. An expedited vaccination push, which eliminates the fear of a third wave and boosts consumer confidence and spending, is crucial to our aspirations for economic recovery. Conclusion: The Indian economy's agriculture sector is likely to be the least affected. The government and business sector need to lend a helping hand to the rural non-agricultural industry. As a result, we can't afford to let our guard down. Meanwhile, let's create an environment that will prevent the third wave from occurring.

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