ISAS Insights
No. 662 – 19 April 2021

The V-shaped COVID-19 Surge in India: How will it impact Growth?

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Summary

While the forecast for India's economic growth for this fiscal year has been pegged by all institutions at around 12 per cent, a sharp surge in COVID-19 cases has put a shadow on its recovery. With the hindsight of the slowdown of the economy in 2020, government policies have attempted to ensure that a balance between lives and livelihoods is maintained so that the public is not subjected to greater hardship. In the ultimate analysis, the government will have to ramp up vaccination, boost vaccine production and ring fence economic activity to minimise disruption.

Forecast

In its latest edition of the World Economic Outlook, the International Monetary Fund (IMF) expects India's gross domestic product (GDP) to grow at 12.5 per cent in fiscal year (FY) 2021-22,[1] the highest among emerging and advanced economies reflecting a stronger recovery than initially expected after lockdowns were eased in some large countries. However, the report cautions that emerging market economies and low-income developing countries have been hit harder and are expected to suffer significant medium-term losses.

The IMF has exhorted countries to work together to ensure universal vaccination. Obviously boosting vaccinations will require ramping up vaccine production and distribution. Countries like India may also have to cut back on export commitments. Policymakers will need to continue supporting their economies while dealing with more limited policy space and higher debt levels than prior to the pandemic. The Reserve Bank of India (RBI), during its Monetary Policy Committee announcements, retained the GDP growth forecast at 10.5 per for the current fiscal with the first quarter doing best at 26.2 per cent, 8.3 per cent in the second quarter, 5.4 per cent in the third and 6.2 per cent in the fourth quarter of FY2021-22.[2]

Market Downturn

These forecasts aside, renewed across-the-board selling due to rising COVID-19 cases coupled with various deficiencies in state governments' handling of the issue, have worried investors. Bearish cues from global markets further impacted market sentiments negatively. There were repeated scares of selling by foreign portfolio investors, which has further aggravated the pain. The Sensex and Nifty have both seen rapid up and down movements.

1 India and the IMF - International Monetary Fund. https://www.imf.org/en/Countries/IND.
2 'RBI retains GDP forecast at 10.5% in FY 2021-22', *Mint*, 7 April 2021. https://www.livemint.com/news/india/rbi-retains-gdp-forecast-at-10-5-in-fy-202122-11617771225628.html.

Though the capital market is not necessarily a good barometer of prevalent conditions, these movements are certainly sending confusing signals to investors.

Also, the rapid spike in COVID-19 infections, coupled with reports of vaccine shortages, has not only spooked the market but is also worrisome for the poorer sections of the Indian population. The fear is that India already has wide income inequalities and the COVID-19 induced disruption, could just make them wider.

COVID-19 Surge

The COVID-19 cases have registered a V-shaped recovery.[3] At the last count, India had 1.75 times more daily cases now than the past peak, which was in September 2020, with over 184,000 new COVID-19 cases on 14 April 2021.

What's worse is that this new surge is taking place despite a year of awareness about the crying need to follow COVID-19 appropriate behaviour. The new strains seem to be more contagious, which is perhaps the reason for the sudden surge. It is also feared that mass gatherings such as the Kumbh Mela and political rallies across states could turn out to be super spreaders. Added to this, the public is displaying signs of COVID-19 fatigue, with precautions such as wearing masks and social distancing being ignored. Many cities and even states have reported a shortage of the vaccines. It is also alleged that certain states have mismanaged the immunisation programme, though the overall numbers of vaccination undertaken are very large.

States such as Chhattisgarh, Karnataka, Delhi, Tamil Nadu, Gujarat and Maharashtra need to recalibrate their strategy to deal with the pandemic as the number of new cases being reported every day is soaring. The central and state governments have to work in tandem as the situation is assuming crisis proportions. There is an equally crying need for the government to work in close partnership with the private sector, for conducting at least two million tests daily and ramping up production of the vaccine. The immediate need is to ensure that healthcare facilities have sufficient number of beds, intensive care unit facilities with oxygen, apart from adequate medical and para-medical staff, to deal with the rush of patients.

Vaccine Production and Immunisation Drive

The magnitude of India's immunisation drive is humungous as the nation plans to vaccinate nearly 350 million people by August 2021. The government has been steadily improving the logistics and supply of vaccination. In certain centres, vaccination is being given round the clock. By 10 April 2021, India became the fastest country to deliver 100 million doses. After frontline workers were vaccinated, the initial target population was the over 70-year age group. Currently, the 45-year-old and above group is being vaccinated. It is assessed that the national vaccination campaign is delivering an average of four million doses per day, of which over 60 million people above the age of 45 have received at least one dose. About

3 Coronavirus Outbreak in India, www.Covid19India.org.

nine million healthcare workers and 10 million frontline workers have also received at least one dose of the vaccine.

The only way India can quickly ramp up production of COVID-19 vaccines would be to commandeer all production lines for the vaccine. The cost of this, in the case of Serum Institute of India (SII), is estimated to be around ₹30 billion (S$534,932). It seems the SII has approached the government for funding support. Whilst, SII will be able to raise that sum from other sources, it would be a good signal for the government to advance that sum. Considering that all the research and development for the production of both the Covaxin and Covishield vaccines has been done in the private sector and the government seems to have put a lid on the price of the dose, it would certainly be justified to provide this funding support. It is reported that the United States (US) government has given substantial funding to Sanofi and Moderna, besides placing large advance orders to assure them of purchase support. A temporary ban on exports of Indian vaccines by the government seems to have created further contractual difficulties for the Indian companies and it seems that SII has received a legal notice from Oxford-AstraZeneca for failing to meet its obligations.

The issue causing concern in the minds of the public and the government as well is the lack of adequate research evidence to show that the Astra Zeneca vaccine is successful against the South African variant. It is learnt that SII had to refund money to South Africa since that the government found that the Oxford-AstraZeneca vaccine manufactured by it did not work against the South African variant. Presently, India faces the spectre that the Indian or the 'double mutant' variant has some characteristics that are similar to the South African and Brazilian variants.[4] According to a government press release,[5] 15-20 per cent of the 10,787 samples that were genome-sequenced in Maharashtra show the double mutation. Such mutations are reported to confer immune escape and increased infectivity. There is no conclusive finding of the government on the efficacy on these variants of either of Covishield or Covaxin manufactured in India.

The government has meanwhile announced its decision to fast-track emergency approval for all foreign-produced COVID-19 vaccines that have been approved for use in certain other countries, like the US and European Union member states. The first 100 beneficiaries of such foreign vaccines will be assessed for seven days for safety outcomes before these are rolled out for further immunisation programmes within the country. Russian shots of Sputnik V were also given formal approval on 13 April 2021. Both these actions will give a boost to the immunisation programme and probably allow the indigenous manufacturers to continue with export obligations. This will enable the country to continue with its vaccine outreach, 'Vaccine *Maitri*' (Friendship) programme.

Economic Growth

On the economy front, the rest of this and next quarter will be critical as green shoots of growth signs of which were visible, are yet to gain maturity. The renewed COVID-19 surge

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[4] Soutik Biswas, '"Double mutant": What are the risks of India's new Covid-19 variant', *BBC News*, 25 March 2020. https://bbc.in/3wPilEO.

[5] Press Release, Ministry of Health and Family Welfare, 'Genome Sequencing by INSACOG shows variants of concern and a Novel variant in India', 24 March 2021. https://bit.ly/3mDKji7.

should not instigate a second wave of reverse migration of labour. The saving grace could be the realisation among the working class that this surge of the mutant has a milder impact and may not last too long. Policymakers have realised the limited benefit of total lockdowns and, hence, have resorted to 'micro containment zones' to deal with the present wave of infections. A Barclays report has maintained that localised lockdowns may cost the economy US$1.25 billion (S$1.67 billion) a week and may shave off 140 basis points from the nominal GDP of the first quarter. However, in the ultimate, it is expected that the economic setback may not be as damaging as it was in the same period last year. A note of caution needs to be sounded to the media and such other agencies to exercise restraint by not creating an alarm or fear psychosis.

The encouraging feature of the current year is the good *Kharif* crop (monsoon or autumn crop) with food production touching about 303 million tonnes which is higher than ever before. However, the manufacturing Purchasing Managers' Index registered a decline in March 2021 with a fall in production of certain core sectors.[6] On the other hand, goods and services tax collections in March 2021, which hit a record high of ₹1.23 trillion (S$22.07 billion), are indicative of increased economic activity. Companies have begun to use innovative methods to beat the COVID-19 restrictions. For example, fast-moving consumer goods companies, which are reportedly still functioning at full capacities, are pushing their products aggressively on e-commerce platforms. This has helped them overcome the decline of footfalls in stores. The share of sales of smart-phones through e-commerce last year was up 48 per cent and in the current year the proportion is slated to increase.[7] The same applies to white goods such as televisions, microwave ovens, washing machines and refrigerators. The positive spinoff is that the demand for delivery agents is on the rise, leading to higher employment opportunity. Large e-commerce and online delivery companies such as Flipkart, Big Basket and Swiggy have announced their plans to ramp up their frontline workforce amid a growing demand for online delivery in various parts of the country. The force, as per estimates, will double to 200,000 to 300,000 per month over this quarter.

It should be recalled that India could not provide the kind of stimulus packages that the US and the United Kingdom did involving large sums of fiscal support from the government. However, the Indian government's stimulus package was devised to incentivise private investment by providing tax breaks such as the corporate tax cuts that were announced in 2019. It had even arranged for credit support from banks and other agencies. The attempt was to have private investment piggy back on the stimulus provided by the government. However, the issue is whether this strategy has worked? It does not seem to have attracted large investments since companies would typically invest only when their current installed capacities are nearing exhaustion. Hence, sizeable investments in manufacturing or long gestation period industries, does not appear to be forthcoming. This will require the

6 'Manufacturing PMI falls to 7-month low of 55.4 in March, *Business Lines*, 5 April 2021. https://www.thehindubusinessline.com/news/manufacturing-pmi-fell-to-7-months-low-of-554-in-march/article34242225.ece.

7 'India online smartphone share to touch record 45% in 2020: Report', *Business Standard*, 15 June 2020. https://www.business-standard.com/article/companies/india-online-smartphone-share-to-touch-record-45-in-2020-report-120061500317_1.html.

proposed development finance institution and asset reconstruction companies to take shape urgently.

From the wisdom gained by experience in tackling the pandemic by attempting to ramp up health and vaccination infrastructure, the government has broad-based its approach and the priority is in trying to balance lives and livelihoods. As a consequence, Maharashtra has allowed its factories to remain functional though an otherwise strict lockdown has been ordered. This will discourage workers from rushing back to their villages in the fear that livelihoods will be lost. Simultaneously, the states have been advised to contain the spread by enforcing a test-track-treat protocol along with the earlier advised measures. With the hindsight that a lockdown can be disruptive since it impacts supply chains and affects production cycles and creates restrictions elsewhere, the approach has been far more localised.

In the ultimate analysis, while the government is confident of managing the spread and ensures that it does not impact economic activity, concerns remain on external factors such as price of crude oil and base metals. Crude oil is the single factor which impacts all sectors and pushes up cost of transportation, manufacturing and commodity prices. While, inflation may be an issue to deal with, the solution will lie in a concerted strategy of accelerated vaccination, localising the spread and adherence to the prescribed COVID-19 safe protocol. Thus, on the one hand, lives will have to be protected and kept safe, while on the other hand, livelihoods will have to be assured. It is expected that the surge will not last beyond May 2021, and if these protocols can be ensured, the impact on the economy will be minimised.

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