

Covid-19 and its economic impact on the Indian Economy (Poverty and Inequality)

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1)Introduction

The coronavirus pandemic has had a significant influence on India's economic activity as well as the loss of human life. The unique coronavirus-caused economic catastrophe is wreaking havoc on global living standards, forcing millions of people out of the middle class and into poverty. During this time, the unemployment rate has risen dramatically as many people, primarily daily wage laborers, petty job workers, and many private sector employees, have lost their jobs. According to the report, income levels in India fell substantially for a huge portion of the population after the nationwide shutdown, based on World Bank forecasts of economic development. Last year, the pandemic wreaked havoc on practically every industry, leading to enormous employment losses in both the formal and informal sectors of the economy. India, being one of the world's major economies, has a big say in these trends. During the period 1990-2019, income inequality in India climbed, even while worldwide inequality decreased. The trend of rising income disparity in the country is projected not only to continue but worsen, with the occurrence of Covid-19.

2)Objective and Purpose of Study

This research examines the shifting patterns of unemployment, poverty, and income inequality in India during Covid-19, as well as their economic implications. With the use of CMIE statistics, we will first look at the change in the unemployment rate during the last few years and throughout the pandemic in this research. Second, we look at how changes in unemployment in India resulted in a widening wealth gap and, ultimately, increased poverty. Finally, we consider the pandemic's total impact on India's GDP.

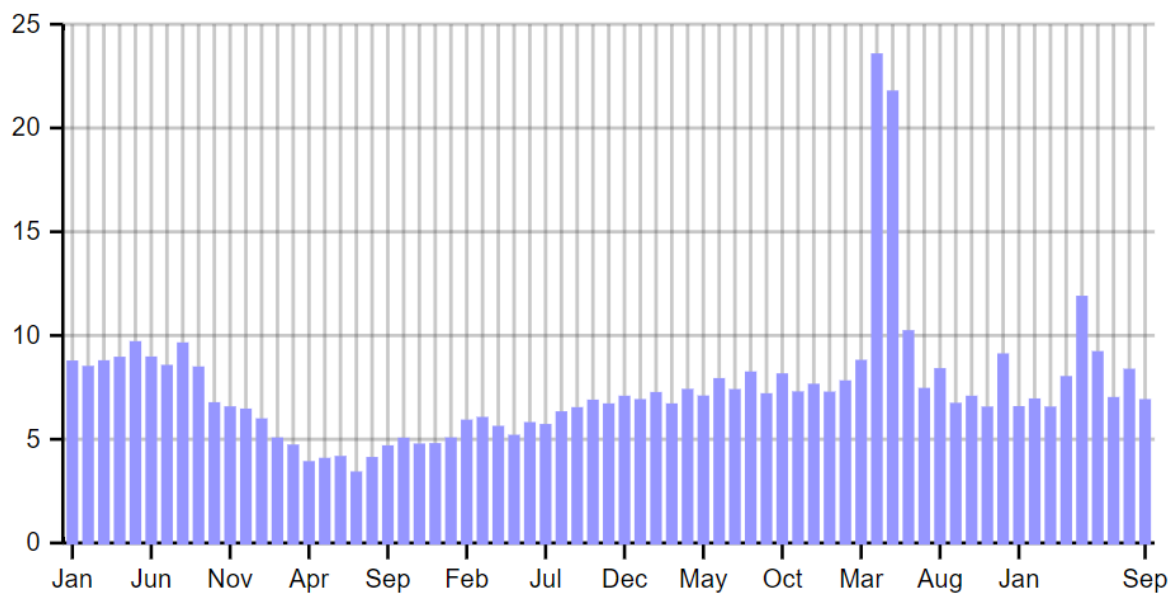
3)Data Interpretation

3.1)Unemployment Rate

Unemployment is one of India's most serious socio-economic problems. According to The Economist, the main reason for India's unemployment predicament is its inflexible and restrictive labor rules, as well as its weak infrastructure. The overall result of the unemployment rate is already unfavorable; however, the coronavirus effect has had a disastrous effect on India's economy.

The COVID-19 situation has resulted in the country's catastrophic economic loss. Unemployment soared from 6.7 percent on March 15 to 26 percent on April 19 in less than a month. An estimated 14 crore (140 million) individuals lost their jobs as a result of the lockdown. According to reports, the income of more than 45 percent of households across the country has decreased from the previous year. During the first 21 days of complete shutdown, the Indian economy was estimated to lose over 32,000 crore daily. According to the Centre for Monitoring Indian Economy (CMIE), the country's unemployment rate increased to 27.11 percent for the week ending May 3, up from around 7% before the pandemic began in mid-March.

CMIE Series of Unemployment: unemployment rate (UER) (≥ 15)

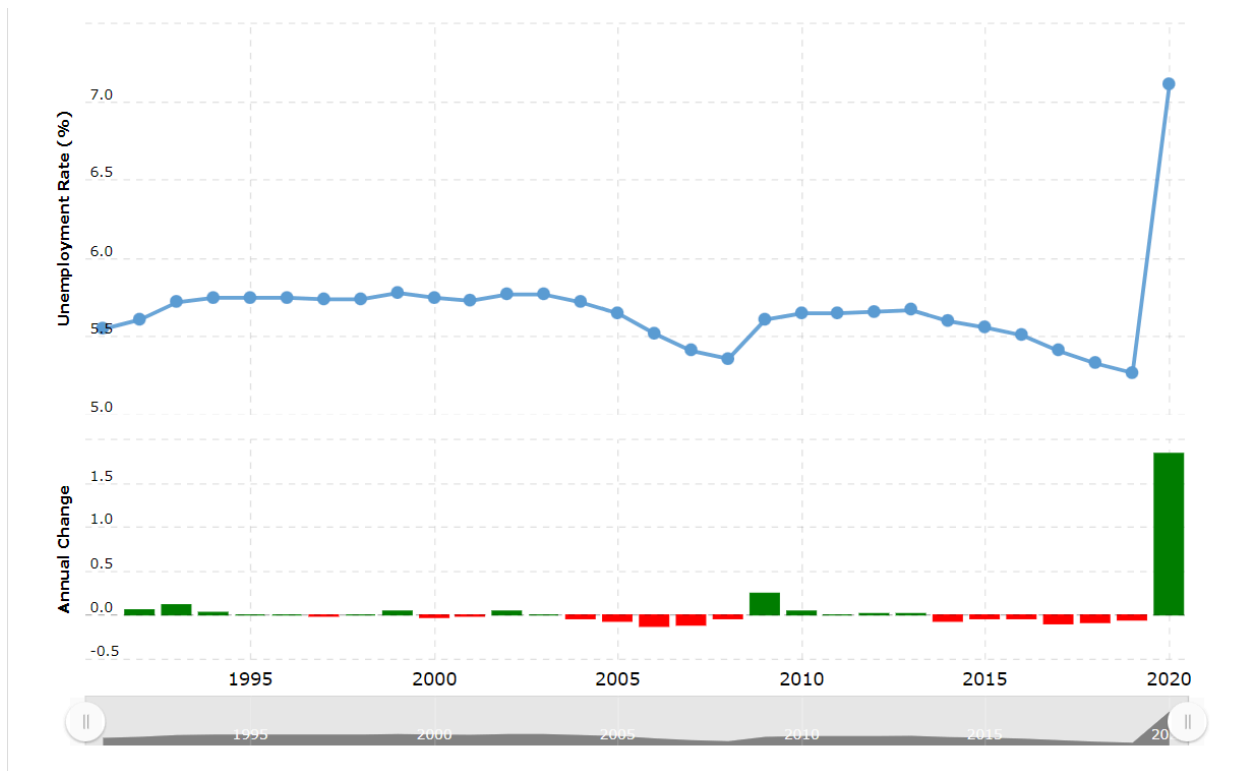


Centre for Monitoring Indian Economy Pvt. Ltd.

Source: Center for Monitoring Indian Economy (CMIE)

According to a Macrotrends report, overall-

- India's unemployment rate for 2020 was 7.11%, a 1.84% increase from 2019.
- India's unemployment rate for 2019 was 5.27%, a 0.06% decline from 2018.
- India's unemployment rate for 2018 was 5.33%, a 0.08% decline from 2017.
- India's unemployment rate for 2017 was 5.41%, a 0.1% decline from 2016.



Source: macrotrends, world bank

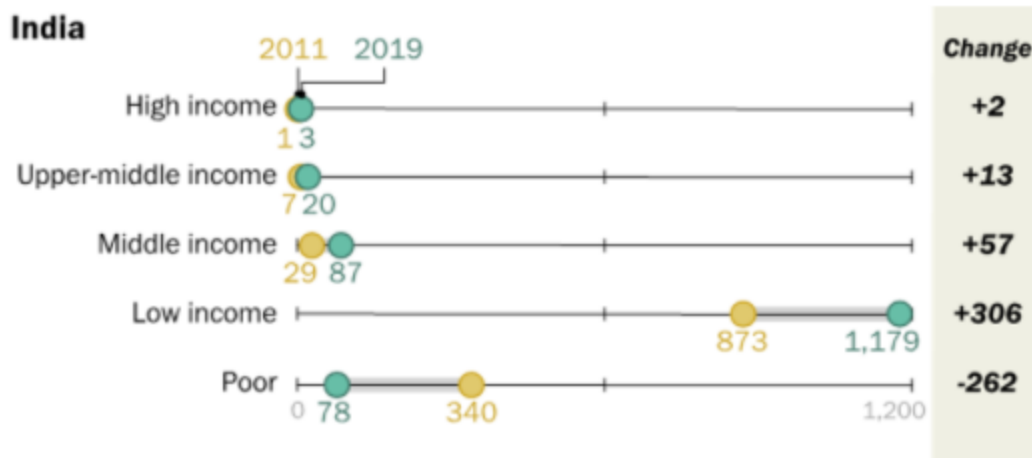
3.2)Poverty

In the year 2020, India entered a terrible recession. According to World Bank economic predictions released in January 2020, India's real gross domestic product (GDP) will expand by 5.8% in 2020. The World Bank amended its growth prediction downward to -9.6% for India in January 2021, over a year after the pandemic began.

Pew Research classified India's income levels as follows: \$2 or less per day (poor), \$2.01 to \$10 per day (low income), \$10.01 to \$20 per day (middle income), \$20.01 to \$50 per day (upper middle income), and \$50 or more per day (high income) (high income). According to the report, the number of impoverished individuals in the country climbed from 6 crores to 13.4 crores, with daily incomes of less than \$2 (Rs 150). As a result, India's poor population expanded by nearly 7.5 crores last year.

India cut poverty sharply from 2011 to 2019, and China greatly boosted its middle- and upper-middle income populations

Number of people in each income tier, in millions



Source: Pew Research Center

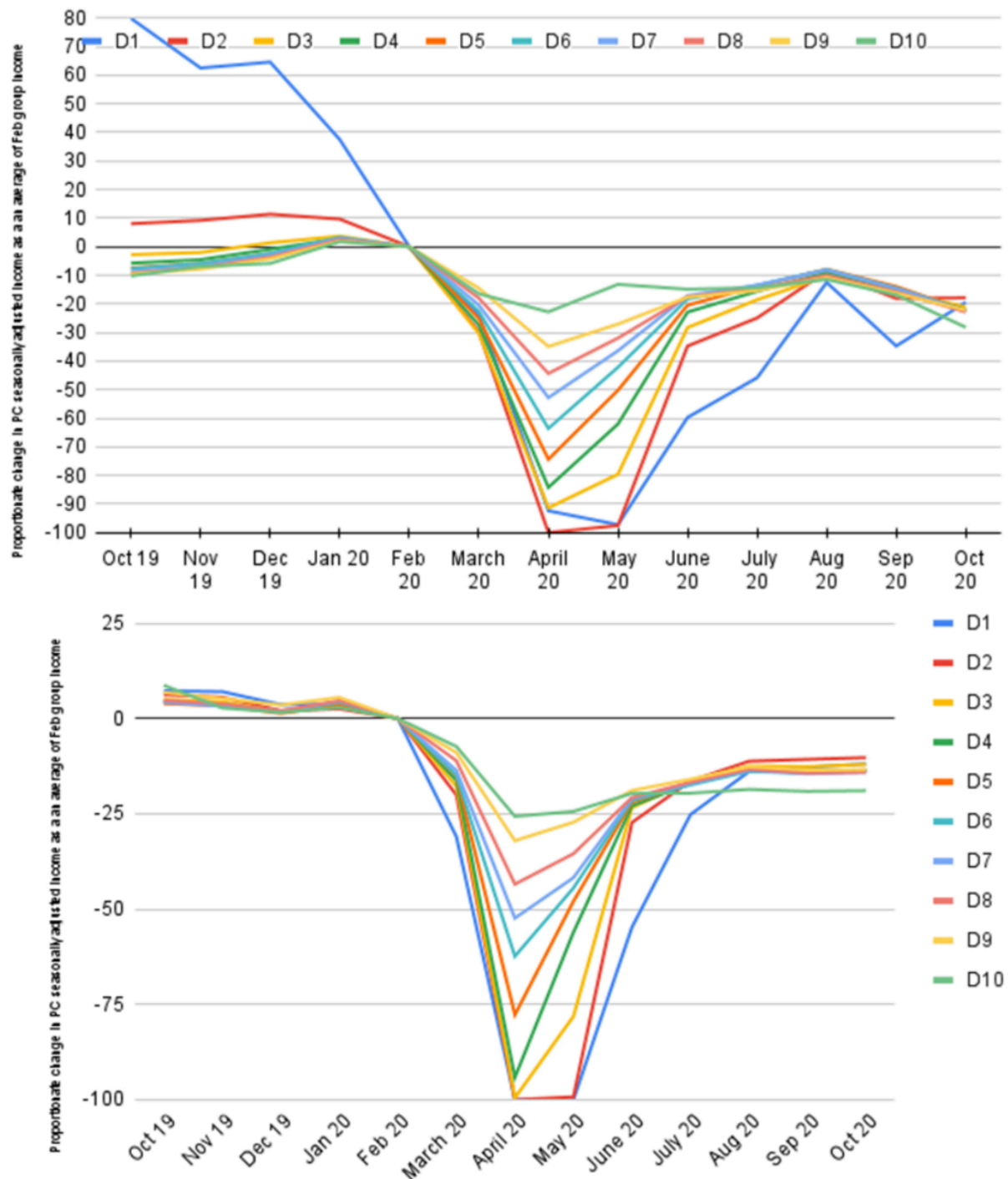
According to Pew Research, the number of impoverished people in India decreased from 340 million to 78 million between 2011 and 2019. Without the pandemic, that figure would have dropped to 59 million last year, but it is now expected to grow to 134 million, according to the analysis.

3.3) Income Inequality

The Covid-19 pandemic has had a significant impact on India's economic growth and income distribution. Between 1990 and 2019, India's income inequality grew, while worldwide inequality declined. The World Inequality Database (WID) chronicles this rise in inequality, with the top 1% of the population's share of national income rising from 11% in 1990 to 21% in 2019. (Yang 2020). Furthermore, pandemics exacerbate income inequality.

According to IGC research, due to the lockdown, the bottom 20% of rural households did not make any money on average in April 2020. (Figure 3). After seven months – in October 2020 – the poorest decile's average income was 15%-20% lower than the bottom decile's average income in February 2020. Each month's decile groups are determined based on the incomes earned during that month.

Figure 3 Impact of Covid-19 on monthly incomes in rural (top panel) and urban (bottom panel) areas, by income deciles



Source: Authors' calculations based on CMIE-CPHS.

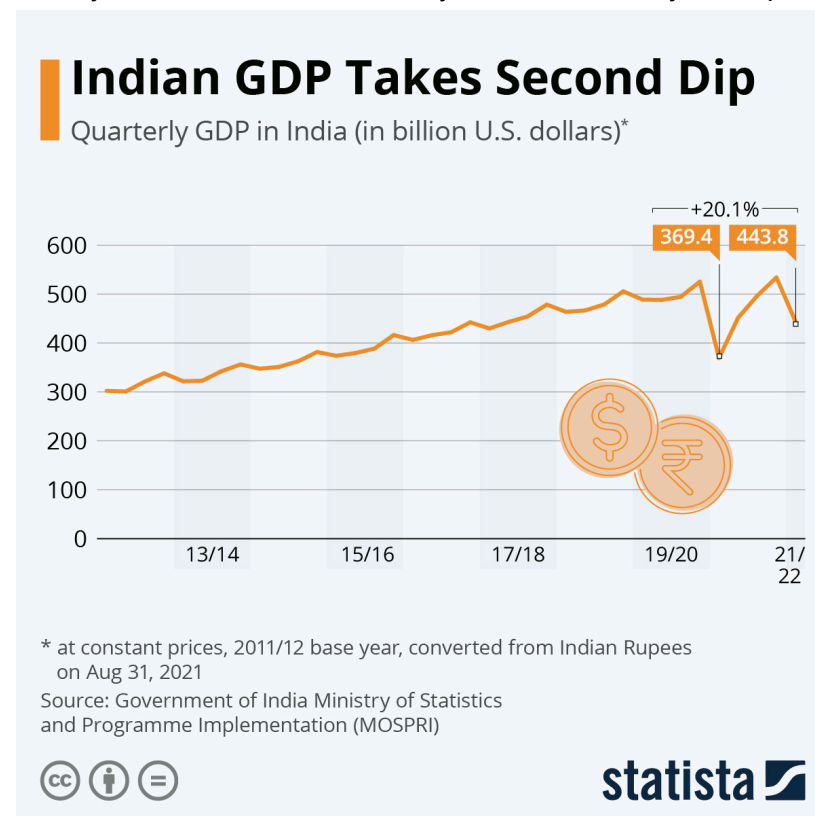
Notes: Change in monthly incomes is reported relative to incomes in February 2020.

Source: IGC report

The top decile's average income declined to a considerably lesser level at first, but the recovery was extremely slow. In both the rural and urban sectors, the top decile's average income in April 2020 was 20 percent -25 percent lower than the top decile's average income in February. However, even after seven months, the recovery was limited - the top decile's average income in October 2020 was about 20% lower than the top decile's average income in February 2020. According to research, the type of work could be one factor for the top decile's slower recovery. Individuals who work as permanent salaried workers are more likely to be found in homes in the top decile. If they lose their jobs, it can be difficult to find jobs that pay the same as before..

4) Impact on GDP

Many people lost their jobs to Covid-19 as a result of the rising unemployment rate. As a result, the wealth gap in India has widened, and poverty has increased. During the epidemic, this had a negative impact on India's GDP. In response to the center's no-notice lockdown, GDP growth plummeted by 23.9 percent. In 2020-21, India's GDP dropped by 7.3 percent. This was the worst year for the Indian economy since the country's independence.



Source: <https://bit.ly/3EAH6r1>

5) Conclusion

Since its independence, India has had a series of ups and downs on its way to becoming a global powerhouse in the last five years. India's economic narrative has been amazing - from a

struggling economy in the 1950s to a \$2 trillion-plus economy in 2020 - but it isn't enough to maintain its constantly growing population.

During the pandemic, the unemployment rate skyrocketed. The increase in the unemployment rate came in the wake of the Covid-19 outbreak, which halted business activity for a long time and resulted in job losses across the country.

During the pandemic, income inequality grew dramatically, and lower-income households are likely to have had a greater income drop. We can also see that prior to the Covid-19 shock, incomes were already on the decline, presumably owing to the 2019 recession.

The effects of the pandemic are expected to last in the long run as the pandemic continues to spread with each new wave. As a result, India has one of the world's largest wealth disparities among all major economies. Even after all these years, the trend of the rich getting richer and the poor getting poorer has not changed. For India's middle and low-income households, the Covid-19 problem has simply made things worse. According to experts, if vaccinations are not increased, it will have a significant influence on economic activity, resulting in a tremendous loss of employment and income. More Indians may fall into poverty as a result of this.

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