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The impacts of COVID-19 on India: risk factors, sustainable development and climate action

Auteur

Thomas Spencer
Associate Researcher

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On March 24, the Government of India ordered a 21-day, nation-wide lockdown in order to contain the spread of COVID-19. At that point, total case numbers in India were relatively low, with only 492 confirmed. However, total tests conducted at that point were so low, in the order of 20,000, that it was impossible to know what the true infection rate was, or how the disease was spreading. The decision to impose lockdown was therefore taken in the face of deep uncertainty, and required weighing up the consequences to livelihoods against the risk of an uncontained outbreak. What are the likely impacts of COVID-19 on India, both on its healthcare and economic systems, and on its sustainable development and climate change agenda?

An assessment of risk factors

To get a sense of the answer to this question, we can develop a set of risk factors, and see how India positions against them. These factors can be classified in three groups: exposure and healthcare robustness, macroeconomic position, and social security. The table below develops some indicators for each of these categories.

Category	Indicator	Value	Evaluation
Exposure and healthcare robustness	Population share over 65 (% total pop)	3.2%	Good
	Hospital beds per thousand (per 1000)	0.7	Poor
	Healthcare spending share in GDP (% GDP)	3.5%	Poor
Macroeconomic health	Fiscal deficit (% GDP)	7.4%	Poor
	Forex reserves (forex reserves to short-term foreign debt)	1.7	Good
	Commodity exports (% total merchandise exports)	18.2%	Moderate
	Tourism exports (% total exports)	5.4%	Good
Social security	Informal employment (% total exports)	80%	Poor
	Adequacy of social security coverage (welfare transfers as % total household welfare)	4.6%	Poor

'Source: author based on data from the World Bank and International Monetary Fund

We now briefly discuss these indicators.

- *Exposure and healthcare robustness.* India receives a good score in terms of the share of above 65 in total population. Given that COVID-19 disproportionately impacts older people, India's younger demographics may help to relieve pressure on the healthcare system. However, on both hospital beds per 1,000, and healthcare spending, India scores poorly.
- *Macroeconomic health:* India scores poorly on its fiscal deficit, indicating that it will be challenging to substantially increase public expenditure to cushion the COVID-19 impact. Unlike other emerging countries, India's foreign debt is small and it has ample foreign exchange reserves, resulting in a good score on the indicator of the ratio of forex reserves to foreign debt. India scores moderately on the indicators of commodity exports as a share of total exports, and is thus unlikely to be substantially hit by the fall in commodity prices from the global COVID-19 lockdown. Likewise, the share of tourism in India's total exports is relatively low, unlike some other developing or emerging countries like Thailand.
- *Social security:* India scores poorly in terms of the huge (80%) portion of the workforce in informal employment: targeting this huge population with adequate social support to protect livelihoods will be very challenging. Likewise, the adequacy of existing social security coverage is poor.

Overall, looking at these indicators, it appears unlikely that India—unlike other more exposed emerging markets—would experience a full-on macroeconomic meltdown, in the form, for example, of a balance of payments crisis, dramatic currency devaluation, and a default on foreign debt. However, the indicators suggest that India's vulnerable population is likely to suffer dearly from the economic fallout of COVID-19 lockdowns, due to the huge

share of the informal economy, the challenge of targeting vulnerable populations within this informal economy, and the government's scarce fiscal resources to do so.

The IMF is projecting a dramatic reduction in India's GDP growth rate to 1.9% in 2020, with a dramatic v-shaped recovery to 7.4% in 2021. This seems overly optimistic. With the government unable to protect incomes during the crisis, there will be a substantial amount of wealth destruction during the lockdown period. If the last few years have told us anything, it is that shocks to the informal economy, like demonetisation and the introduction of a Goods and Service Tax (GST), have been substantial, persistent and unpredictable in their impacts. This shock seems far superior in scale. GDP growth in the range of 1-2% in 2020, and 4-5% in 2021, appears more reasonable.

Implications for the agenda of sustainable development and climate change

Firstly, the government is likely to enter into the post-COVID period with a still worse fiscal position than was the case in 2019, when the consolidated fiscal deficit, including central government, state government, and off-balance sheet borrowings amounted to around 8.5% of GDP. This will constrain the capacity of the government to allocate additional resources to sustainability objectives, for example public transport. Fortunately, a number of decarbonisation options are negative cost in India, for example the transition to renewables in the power sector, where renewables are now cheaper than coal.

Secondly, we can expect substantial financial fragility and reduced risk-appetite in the corporate sector. This is already evident in the case of the electricity distribution companies, which were wallowing in debt before the COVID-19 crisis and are now facing a truly dire financial position. Indian and international investors are likely to be much more wary of allocating capital to risky new projects, which may slow down the transition in sectors where clean technologies are still being experimented with. On the other hand, investors are currently seeing first-hand how coal power has been the first to suffer in an economic crisis. Coal plant load factors were already abysmal as the economy slowed throughout 2019, well before the COVID-19 crisis; they have tanked as power demand has fallen about 25% as a result of the lockdown. It is hard to see how investors will front capital for new coal in India.

On the more positive side, some of the behavioural adjustments made by households and the formal sector may continue after the crisis. Commuting in India's congested cities was already brutal: enforced work from home has shown that time, money and energy can be saved through teleworking. India's famously poor air quality has dramatically improved, which can raise awareness of how poor it was in the first place—annually more Indians die of air pollution than were ever likely to die of even an uncontrolled COVID outbreak. Greater investment in social resilience and healthcare can potentially be wound into a narrative around the need for governments to protect their citizens, including from climate change and filthy air.

These are optimistic thoughts. For many Indians, however, the belly is currently speaking louder than the brain. Real, severe social hardship is being endured. How India emerges from this lockdown—socially and politically—remains to be seen.

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