ECONOMIC CHALLENGES OF INDIA'S RURAL ECONOMY DURING COIVID-19 PANDEMIC

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Abstract

This paper carries the evidence about economic challenges of rural economy in India. India is the country of villages, where the major population lives in rural areas. Agriculture and agriculture-related services are the major sources of livelihood of the peoples. In the past few decades, farm distress led to huge migration from rural to urban centres. The structural economic growth theories explain every economy in the transition phase moves from traditional (agriculture) to the modern sector (manufacturing/services). India is the fifth-largest economy in the world in terms of purchasing power parity (PPP) whereas the mass population in the country lives in abject poverty. During Covid- 19 pandemic rural economies faces infinite problems and consequences. But it had more response to produce and fulfil the basic necessities to entire population sans hesitation. Employment opportunities were abundant; fear about diseases ant its treatment that great influences affected the production in agriculture sector. Rural economy not utilised the services of Transportation and communication for exchange of agricultural commodities to common people across the country. Price rose in the economy and people faced inflation and paid higher prices.

Keywords: Rural Economy, Employment, Production, Inflation, Agriculture

INTRODUCTION

In India, the government imposed a nationwide lockdown from 24 March 2020, bringing a range of strict restrictions to control the spread of the virus. The lockdown was lifted in a series of unlock phases by 30 June 2020. The lockdown disrupted the lives of millions of households across the country, with its effects lingering months after the lockdown ended. In rural areas, many households slipped in and out of poverty, facing food insecurity and having no source of income. The return of migrant workers back to their rural homes worsened the scenario.

The COVID-19 pandemic had unleashed a massive devastation across the world. It caused widespread loss of lives and brought the economy to a standstill, affecting the livelihoods of the masses. As India battles a second Covid-19 wave accompanied by viral mutations in 2021, state governments in India have imposed new mobility restrictions while trying to maintain economic activity. The mix of state-wise lockdowns and micro-containment zones currently being implemented could lead to less-severe economic impacts than the enactment of a national lockdown. A closer look at lessons from the first wave indicate that district-specific characteristics like age, population density, and the share of the contact-intensive services sector, are also likely to determine the extent of the impact. Due to that household incomes declined more than consumption in 2020, points to the importance of maintaining livelihood while battling Covid-19.

Public programmes were targeted towards employment and income generation of low-skilled workers could potentially hedge against job losses and reductions in earnings. A debate in many developing countries is whether public funds should be used to pay for vaccinations and public health expenditures. The economic costs of containment measures to combat Covid-19, and so the costs of vaccinations and public health improvements should be weighed against those. Given the very high aggregate economic costs, most of the governments in developing countries like India would find that investments in vaccinations and public health pass the cost-benefit test in the context of the Covid-19 pandemic.

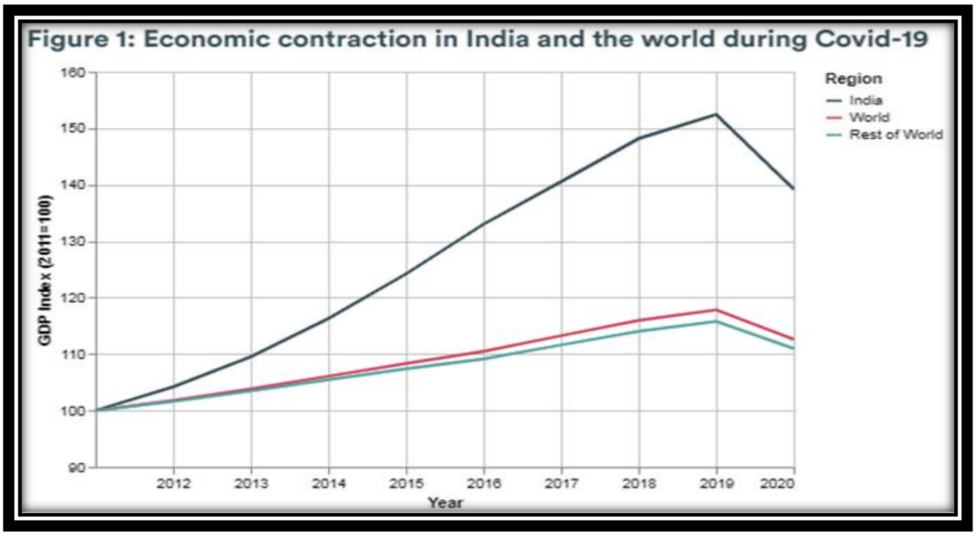
EFFECT OF COVID-19 LOCKDOWN ON INDIA'S ECONOMY

In 2020-21 the Indian economy registered its worst-ever contraction since Independence and also the first since 1979-80. The National Statistical Office has, in its Provisional Estimates released on May 31, pegged the growth in real gross value added at basic prices previously known as GDP at factor cost for 2020-21 at minus 6.2 per cent. But what's unusual this time is that the farm sector namely agriculture, forestry & fishing have grown by 3.6 per cent. As the chart below shows, there have been four instances of negative GDP growth earlier: 1979-

80, 1972-73, 1965-66 and 1957-58. All four were drought years, with agricultural de-growth surpassing that of overall GDP in each of them. 2020-21 has been different. There has been record economic contraction, yet no drought; the farm sector actually grew by 3.6 per cent **(Damodaran, Mekhala Krishnamurthy, 2021).**

The growth prospectus of India for the year 2020-21 was ranging from 0.8 to 4.0 per cent. This tentative and wide range of forecast is due to the extent of uncertainty. The International Monetary Fund (IMF) have predicted 2020-21 India's growth rate at 1.9 per cent, China's growth rate at 1.2 per cent and 3 per cent decline in global growth. The actual growth outcomes of India depends on various factors such as the speed at which the economy is opened, how fast the novel virus is contained and government plans to boost the economy. The government has recently announced Rs. 20 lakh crores package to revive the economy, but the actual effect of the plan lies in the effective implementation of the plan. To better understand the economic scenario of the country, the Gross Value Added (GVA) or total output is assessed for 12 major sectors of the economy for the year 2017-18. It shows the contribution of agriculture and allied activates (12.003) in the total GVA. The contribution of the manufacturing (35.196) is highest as a single sector in the economy but services combined contribute is more than 50 per cent of total GVA **(Damodaran, Mekhala Krishnamurthy, 2021).**

Figure 1: Economic contraction in India and the world during Covid-19



Source: World Economic Outlook, International Monetary Fund, April 2021.

From April to June 2020, India's GDP dropped by a massive 24.4 per cent. According to the latest national income estimates, in the second quarter of the 2020/21 financial year, July to September 2020, the economy contracted by a further 7.4 per cent. The recovery in the third and fourth quarters, October 2020 to March 2021 was still weak, with GDP rising 0.5 per cent and 1.6 per cent, respectively. This means that the overall rate of contraction in India was (in real terms) 7.3 per cent for the whole 2020/21 financial year. In the post-independence period, India's national income has declined only four times before 2020 in 1958, 1966, 1973 and 1980 with the largest drop being in 1980 that was 5.2 per cent. This means that 2020-21 is the worst year in terms of economic contraction in the country's history, and much worse than the overall contraction in the world. The decline is solely responsible for reversing the trend in global inequality, which had been falling but has now started to rise again after three decades **(Deaton, 2021).**

MACROECONOMIC INDICATORS DURING THE PANDEMIC

During the 2020-21 financial years, the rates of decline in GDP for the world were 3.3 per cent and 2.2 per cent for emerging market and developing economies. Following Table summarises macroeconomic indicators for India, along with a reference group of comparable countries and the world. The fact that India's growth rate in 2019 was among the highest made the drop due to Covid-19 even more noticeable.

Table 1: Summary of key macroeconomic indicators

Macro-Economic Indicators	India	Reference group	World
GDP at constant prices 2019 (% change)	4.0 %	3.6 %	2.8 %
GDP at constant prices 2020 (% change)	-7.3 %	-2.2 %	-3.3 %
Unemployment rate 2019 (% of total labour force)	5.3 %	5.5 %	5.4 %
Unemployment rate 2020 (% of total labour force)	7.1 %	6.4%	6.5 %
Above-the-line additional health sector fiscal measures in response to Covid-19 (% of GDP)	0.4 %	0.9 %	1.2 %
Above-the-line additional non-health sector fiscal measures in response to Covid-19 (% of GDP)	3.0 %	2.8 %	7.8 %

Source: Data on gross domestic product, constant prices (percentage change) is obtained from the World Economic Outlook Database April 2021, IMF.

Comparing national unemployment rates in 2020, India's rate of 7.1 per cent indicates that it has performed relatively poorly both in terms of the world average and compared with a set of reference group economies with similar per capita incomes. Unemployment rates were more muted within the reference group economies and were also kept low by generous labour market policies to keep people in work. Despite the scale of the pandemic, additional budgetary allocation to various social safety measures has been relatively low in India compared with other countries. Although the country might look comparable to the reference group in non-health sector measures, the additional health sector fiscal measures are less than half those in the reference group. More worryingly, the Indian governments announced allocation in the 2021 budget for such measures does not show an increase, once inflation is taken into account.

EFFECT OF COVID-19 ON INCOME, CONSUMPTION AND UNEMPLOYMENT

While the macroeconomic statistics provide a snapshot of India's economic position, they hide the large and unequal effects on households and workers within the country. Both wealth and income inequality has been on the rise in India **(Ghatak, 2021).**

Table 2: Percentage of individuals by monthly consumption expenditure

Consumption Expenditure in Years	**All-India**		**Urban**		**Rural**	
	Aug 19	**Aug 20**	**Aug 19**	**Aug 20**	**Aug 19**	**Aug 20**
Rs 1,000 or below	5.0	10.0	2.3	5.5	6.4	12.5
Rs 1,600 or below	21.0	33.6	12.0	22.5	**25.5**	**39.5**
Rs 2,000 or below	34.9	50.3	21.9	37.1	41.3	57.5
Rs 2,400 or below	48.2	64.4	**33.4**	**51.3**	55.5	71.5
Sample size	**570592**	**477237**	**362417**	**321100**	**208175**	**156137**
Consumption Expenditure in Years	**All-India**		**Urban**		**Rural**	
	Dec 19	**Dec 20**	**Dec 19**	**Dec 20**	**Dec 19**	**Dec 20**
Rs 1,000 or below	6.0	9.0	3.0	5.4	7.5	10.9
Rs 1,600 or below	23.5	31.6	14.5	21.7	**27.9**	**37.0**
Rs 2,000 or below	38.3	48.3	25.7	35.7	44.4	55.2
Rs 2,400 or below	52.1	62.6	**37.9**	**49.5**	59.0	69.7
Sample size	**433,021**	**499,879**	**278,759**	**331,809**	**154,262**	**168,070**

Source: Consumer Pyramids Household Survey (CPHS) for December 2019 and December 2020, and for August 2019 and August 2020.

Estimates suggest that in 2020, the top 1per cent of the population held 42.5 per cent of the total wealth, while the bottom 50 per cent had only 2.5 per cent of the total wealth. Post-pandemic, the number of poor in India is projected to have more than doubled and the number of people in the middle class to have fallen by a third **(Kochhar, 2021).**

During India’s first stringent national lockdown between April and May 2020, individual income dropped by approximately 40 per cent. The bottom docile of households lost three months’ worth of income **(Beyer et al, 2021).**

Micro data from the largest private survey in India, CMIE’s ‘Consumer Pyramids Household Survey’ (CPHS), show that per capita consumption spending dropped by more than GDP, and did not return to pre-lockdown levels during periods of reduced social distancing. Average per capita consumption spending continued to be over 20 per cent lower after the first lockdown in August 2020 compared with August 2019, and remained 15 per cent lower year-on-year by the end of 2020. Official poverty data are unavailable, and the CPHS data come with a caveat of ‘top’ and ‘bottom exclusions’. For example, official statistics show a rural headcount ratio of 35 per cent in 2017-18 **(Subramanian, 2019).** But the CPHS data estimate it at 25 per cent, which suggests exclusions at the lower end of the consumption distribution **(Dreze and Somanchi, 2021).**

Despite these statistical concerns, the CPHS does provide consumption numbers for a large sample of individuals, which can provide insights into changes in consumption levels arising from the pandemic. Table 2 reports the percentage of people who have monthly consumption expenditure below different cut-off values. The different cut-offs encompass the official poverty lines. The current rural poverty line is set at 1,600 rupees (£15.50) per month or over, and the urban poverty line is 2,400 rupees per month (£23.37) or over. Based on the latest CPHS data, rural poverty increased by 9.3 percentage points and urban poverty by over 11.7 percentage year-on-year from December 2019 to December 2020. Earlier months of the CPHS show that rural poverty increased by 14.2 percentage points and urban poverty by 18.1 percentage points. Yet the actual increase in poverty due to Covid-19 is likely to be higher than what the CPHS data suggest, as indicated by other surveys.

INDIVIDUAL CONSUMPTION EXPENDITURE

Taking into account the general trend of reduction in poverty, an estimated 230 million people in India have fallen into poverty as a result of the first wave of the pandemic. Households in the middle of the pre-Covid-19 CPHS consumption distribution saw large drops in spending after the first wave of the pandemic, helping to create a new set of people entering poverty. The percentage of poor people in the second lowest quintile of pre-Covid-19 consumption jumped from 32 per cent to 60 per cent within a year. This was driven largely by rural areas, where the headcount ratio for the second quintile almost doubled.

In urban areas, the poverty line is set higher due to greater living costs and 72 per cent of people in the second quintile of the urban income distribution were below this poverty line before the pandemic. Within a year, they were joined in urban poverty by many who had higher incomes before. Half of people in the third quintile and 29 per cent of people in the fourth quintile fell below the poverty line after the pandemic. The pandemic has brought severe economic hardship, especially to young individuals who are over-represented in informal work. India has a large share of young people in its workforce and the pandemic has put them at heightened risk of long-term unemployment. This has negative impacts on lifelong earnings and employment prospects **(Machin and Manning, 1999).**

A study by the Centre for Economic Performance (CEP at the London School of Economics) analyses the depth of continuing joblessness among younger workers in the low-income states of Bihar, Jharkhand and Uttar Pradesh (**Dhingra and Kondirolli, 2021).** The first round of the survey randomly sampled urban workers aged 18-40 during the first lockdown quarter, finding that a majority of them who had work before the pandemic were left with no work or no pay. After the first lockdown in April to June 2020, 20 per cent of those sampled were out of work, another 9 per cent were employed but had zero hours of work and 81 per cent had no work or pay at all. Ten months on from the first lockdown quarter, 8 per cent of the sample continued to be out of work, another 8 per cent were working zero hours, and 40 per cent had no work or no pay. The rate of no work or no pay was higher (at 47 per cent) among the youngest low-income individuals aged 18-25 had below median pre-Covid-19 earnings.

Table 4: Crisis labour force status of individuals who were employed pre-Covid-19

Duration/ Working hours	**April to June 2020**	**January to March 2021**	**January to March 2021**
	All	**All**	**Below Median pre-Covid-19 earnings and 18 - 25 years**
Out of work last week	0.20	0.08	0.11
Zero hours last week	0.09	0.08	0.11
Not paid	0.70	0.29	0.32
No work/Zero hours/Not paid	0.81	0.40	0.47
Sample Size	**3201**	**3201**	**542**

Source: CEP-LSE Survey 2020 and 2021.

The recovery after the first wave was too muted to get many young Indian workers back into employment. For example, rural migrants continued to be reluctant to return to work in urban areas even before the second wave hit **(Imbert, 2021).** And the second wave, which started in mid-February and appears to be flattening out in June 2021, heightened these risks of long-term unemployment by increasing the spells of economic inactivity.

ECONOMIC CONSEQUENCES OF COVID-19 LOCKDOWNS

India is battled a second wave of the Covid-19 pandemic, that has affected an estimated 26.5 million people as of 23 May 2021, with reporting 0.3 million deaths cumulatively. In this situation, one widely adopted approach to combating Covid-19 infections is restricting mobility. During the first wave of infections in India during March-May 2020, the Government of India implemented the "world's strictest lockdown" **(Hale *et al.* 2020).** This lockdown severely disrupted business activity and mobility, with millions of migrants traveling back to their villages as opportunities for work in the cities dried up.

In addition, lockdowns may allow for quicker resumption of normal economic activity over time. However, the trade-off from lockdowns are short-run reductions in economic activity. A lockdown potentially affects developing countries more as the practice of remote working is less prevalent and extent of digitisation is lower as compared to advanced economies. A larger share of households depended on daily incomes, and the social protection architecture is weaker. The economic implications of a graded 'unlock' in May and June 2020 when the central government decided to vary containment rules across districts in the country **(Beyer, Jain and Sinha 2020)**.

To facilitate a gradual resumption of economic activity, the government announced a differentiated unlock of districts with three zone categories (130 districts as Red zone districts, 284 as Orange zone districts, and 319 as Green zone districts. Starting 4 May 2020, districts were categorised based on multiple criteria including the incidence of cases, the extent of testing, and vulnerability to the pandemic. Finally, varying degrees of MNREGA (Mahatma Gandhi National Rural Employment Guarantee Act) operations, a large public-works programme deployed as a counter-cyclical measure, as well as inter-district migrant shares that proxy for reverse migration after the lockdown) have had no impact on these dynamics.

ECONOMIC CHALLENGES OF INDIA'S RURAL ECONOMY IN LOCK DOWN

India is the country of villages, where the major population lives in rural areas. Agriculture and agriculture-related services are the major sources of livelihood of the peoples. In the past few decades, farm distress led to huge migration from rural to urban centres. The structural economic growth theories explain every economy in the transition phase moves from agriculture to the manufacturing and services sector. India is the fifth-largest economy in the world in terms of purchasing power parity (PPP) whereas the mass population in the country lives in abject poverty. Since Independence, there is a substantial decline in the contribution of agriculture and allied activities in the total GVA. There is a large number of studies confirms the agrarian crisis in the Indian economy **(Mishra 2007).** The GFCF in agriculture was declining year after year **(FAO 2020).** Even as India has reached a new level in Covid-19 with over one lakh positive cases, there was no clear idea yet on the incidence of the disease in the rural areas. Irrespective of any such incidence, rural areas have also come to bear a major brunt of the lockdown imposed since March 25.

With hordes of migrants returning to rural areas, there could be the double-whammy of the spread of Covid-19 and the worsening of the socio-economic situation. The large-scale reverse migration that has been witnessed under the duress of lockdown is an unprecedented tragedy which needs to be understood well. Migrant's workers are the engine of growth from centuries which have been working day and night for the economic success of any region across the globe. On the other side, they are the most vulnerable and have no access to any kind of social security. The forced reverse migration from urban to rural areas will have a significant impact on the demography, society and economy of rural India. Most of the migrant workers were marginal farmers in the past which left agriculture and moved to urban areas for better economic opportunities. The forced reverse migration amid agrarian crisis poses a big threat on people to fall into abject poverty **(Yasotha Margaret, 2020).**

EFFECT ON INDIAN AGRICULTURE

The central and states government in India under the special economic package, Pradhan Mantri Garib Kalyan Yojna (PMGKY) scheme etc. tried to take care of the economy and the poorest among the poor but effective implementation of this scheme poses a big challenge **(Jha 2020).** The agriculture sector has shown resilience despite the many challenges of the pandemic, including supply chain disruptions and mobility restrictions that impacted labour and input availability. With schemes like PM KISAN poised to spur growth in investment and expenditure in agriculture, the government has the opportunity and platform to introduce similar policy instruments to effectively target relief and accelerate growth in rural communities. There is also need for interventions that support climate-resilient and resource-efficient food systems.

EFFECT ON INDIA'S HEALTH SECTOR

COVID-19 was first declared a public health emergency and later a pandemic by the World Health Organization (WHO). Currently, the spread of the novel virus is in more than 190countries. There are a national emergency and lockdown in most of countries. Till date, more than 4 million people across the globe are affected by COVID-19 virus and around 300 thousand people lost their life. In light of this, it is pertinent to take stock of our rural areas. The risk of spread in rural areas is heightened. This is due to a number of factors, including lack of awareness, a limited supply of clean water, low levels of nutrition, and most importantly, ill-equipped and insufficient public health centers and district hospitals. The informal industry in cities being badly affected has resulted in loss of rural income.

EFFECT ON INCOME OF THE RURAL PEOPLE

Slowed down economic activity in urban areas has an effect on rural areas as well. The informal industry in cities being badly affected has resulted in loss of rural income. Massive layoffs and lack of relief measures were pushing migrants to return to their villages that would increase the risk of the spread of the virus.

EFFECT ON CONSUMPTION AND EMPLOYMENT

Economy faced inflationary situation during covid-19 pandemic. The prices of all the commodities rose slightly. The analysis of the survey data reveals how widespread and severe some of these impacts were in the six states of Jharkhand, Andhra Pradesh (AP), Rajasthan, Bihar, Uttar Pradesh (UP), and Madhya Pra-desh (MP) **(World Bank 2020a)**. The survey covered nearly 5,000 rural households across each of the three rounds of which 1,068 households were surveyed across all rounds. Overall, we find that consumption and employment were severely affected with a slight recovery by September 2020. A large share of the migrants was still back at their rural homes, three months after the lockdown restrictions were removed. As for access to relief to programmes by the households, self-help groups (SHGs) being involved in some relief activities as well as good coverage by the public distribution system (PDS) in providing relief support in the form of free food items supplied from ration shops **(Pratap C Mohanty and Jipson John Jaimon, 2021)**.

CONCLUSION

In rural economy hits severely, inflationary condition, high prices for agricultural goods, loss of jobs, high expenses on medical, shortage of foods and essential commodities, lack of transportation and communication facilities were reasons economy has challenged and could not contributed thoroughly during pandemic. In rural area people severely affected for getting food, job, medical and transport facilities to satisfy their basic needs, unfortunately nothing happened. This is picture that shows the entire visual about economic challenges of rural people hoe they faced and overcame the problems during pandemic.

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