

Quickonomics

June 22, 2021

Moving the needle

Only rapid vaccination can fast-forward and broad-base economic recovery

India's second Covid-19 wave is finally ebbing, with weekly average cases declining to ~60,000. That's still high, but a huge relief nevertheless, when considering that cases had risen to 4.14 lakh just a month back.

With this, states have started relaxing lockdowns – with caution. Also, unlike in 2020, when restrictions were swiftly lifted as cases started to decline, curbs have been prolonged this year with state governments wary.

The Indian Council of Medical Research (ICMR) recently¹ recommended three conditions before opening up the districts: below 5% positivity rate, 70% of vaccination coverage, and mandatory social distancing.

Given the healthcare challenges posed by the fierce second wave of Covid-19 infections and warnings about an impending third wave, restrictions in some form are expected to continue at least till a larger proportion of the population is vaccinated. Overall, economic activity will be sluggish till then as contact-based services will only partially recover.

The vaccination rate in India has been worryingly slow due to lack of supplies. From a peak of 3.5 million doses average per day in mid-April, India's vaccination rate fell to 1.3 million per day in the third week of May, and rebounded to 3.2 million per day in the week ended June 20. With the new vaccination policy² kicking in, June 21 saw a record 8.6 million jabs. It is important that this run-rate continues for the rest of 2021.

So far, just 3.8% of the total population has been fully vaccinated and 17.2% has received one jab. The government aims to fully vaccinate 100% of the adult population by December (against 5.5% of the adult population fully vaccinated so far). That's tantamount to the required run-rate of ~8 million doses per day between now and end-December, or 3x the pace seen so far.

Scaling up vaccinations quickly can help jump-start the economy

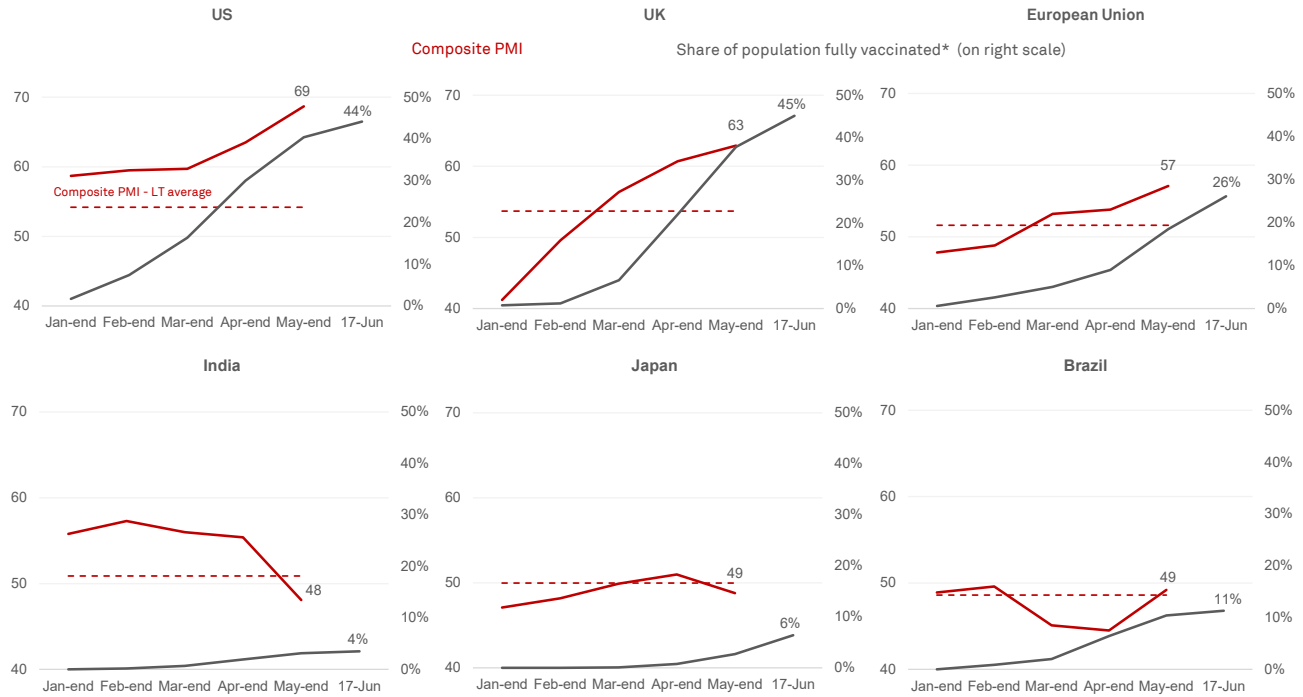
Evidence bears this out. Countries leading on the vaccination front, mainly the United States (US) and United Kingdom (UK), display two traits:

- Higher vaccination coverage. Countries that fully vaccinated more than 40% of their population have seen faster opening up of economies and stronger recovery as the fear factor dips. Large fiscal stimuli, too, have helped bolster recovery, while wider vaccine coverage has lowered the risks from relaxation of curbs and social distancing. The latter assuages infection fears, and affords rapid resumption of economic activity. This is clearly reflected in the purchasing manager indices (PMI), which have not only been steadily rising and significantly above the 'expansion' mark in these countries, but also much above their long-term PMI averages. Those with vaccination coverage of less than 20% have seen either sluggish economic activity or a fragile pick-up, if any (figure 1).
- Rapid vaccination. This is helping laggard sectors, mainly services, catch up faster. Typically, such an outcome is delivered via policy support. For instance, in the US, households are reorienting their consumption toward services, thanks to the improving healthcare situation effectively supported by rapid vaccination. The latter has also helped in reducing restrictions. Most forecasters believe a sizeable pick-up in services demand will be a lead driver of consumer spending in the second half of 2021.

¹<https://www.onmanorama.com/news/india/2021/06/02/coronavirus-wave-india-lockdown-curbs.html>

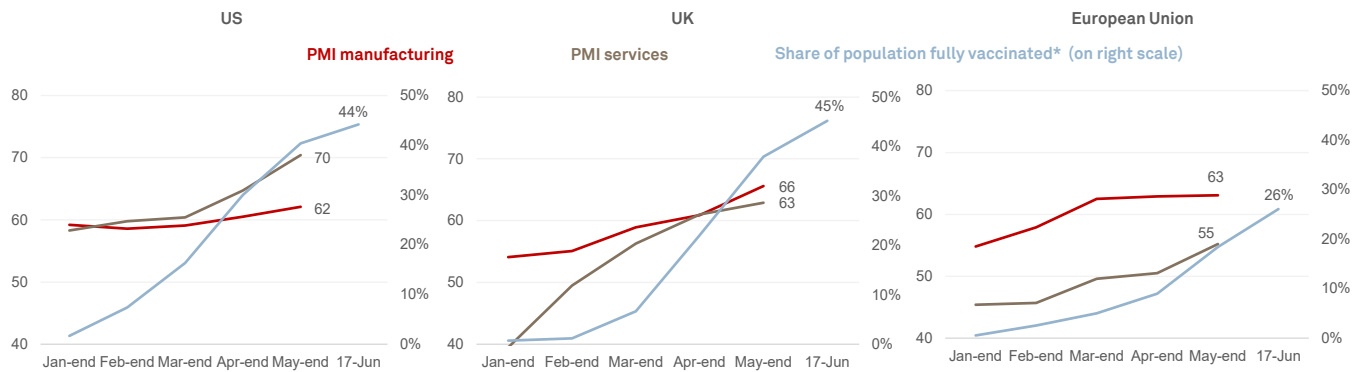
²As per the new vaccination policy that came into effect on June 21, the Centre will procure 75% of the vaccine stock from the open market and distribute it to states. States can then administer it free of charge to all those who are 18+ years of age. The balance 25% is to be distributed to private hospitals and vaccination centres, which can administer the jabs for a fee.

Figure 1: Economic activity catching up faster in countries where >40% population is fully vaccinated



Note: Share of total population that have received all doses prescribed by the vaccination protocol. *On average, between 2012 and 2021
Source: OurWorldinData.org, CEIC, CRISIL

Shot in the arm for laggard sectors



Source: OurWorldinData.org, CEIC, CRISIL

But China’s story is somewhat different. Here, recovery is not so much because of rapid vaccination, but early containment of the virus and substantial stimulus. As per an International Monetary Fund report³, China is on track to vaccinate its adult population by end-2021 given its huge production capacity.

Higher vaccination coverage could lessen the impact of the Covid-19 third wave. A month ago, the Indian Council of Medical Research (ICMR) had predicted the third wave will hit India by September. More updated information should be available once their ongoing sero surveys are completed.

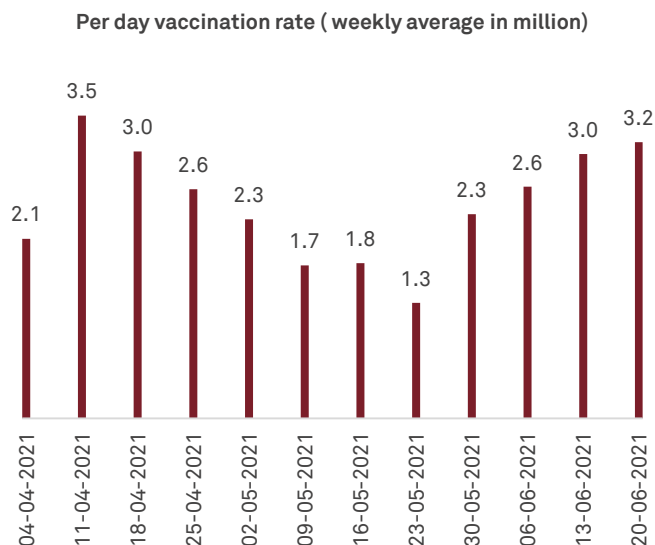
Hurdles along the way

For India, where economic recovery has been slow, shaky and lopsided, ramping up the vaccination drive to cover a larger proportion of the population seems the only way to usher in speedier and broad-based recovery. The government’s target⁴ is to fully vaccinate the adult population – or 68% of the total population – by end-2021.

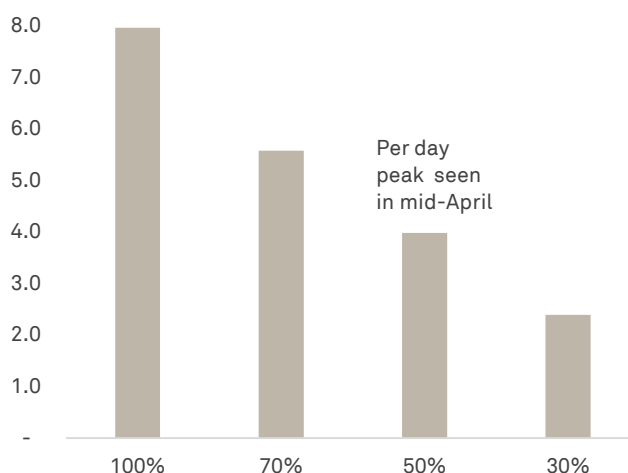
However, CRISIL Research estimates only ~70% of the adult population will be vaccinated. So, there is a lot of ground to cover. To be sure, the new vaccination policy kicked off on June 21 with a remarkable surge in jabs to 8.6 million. It is important that this run rate continues for the rest of this year.

For the government to achieve its target of fully vaccinating the adult population by end-2021, ~1.5 billion more doses will have to be administered. The vaccination rate will have to be speeded up to ~8 million doses per day on average between now and end-December, or thrice the rate seen until last week.

Vaccination: the need for speed



Vaccination doses per day required to meet specified target of adult population



Source: Ministry of Health and Family Welfare, OurWorldinData.org, United Nations, CEIC, CRISIL

³R. Agarwal & G. Gopinath, (May 2021). A Proposal to End the Covid-19 Pandemic. IMF Staff Discussion Note, SDN/2021/004
⁴<https://theprint.in/health/india-to-get-267-cr-covid-vaccines-can-inoculate-all-adults-by-year-end-harsh-varadhan/661508/>

But speeding up the vaccination rate is a tall order given the challenges. One, our population is huge. And two, vaccine supplies are running short. The supply issue is expected to be sorted by August, when domestic production lines are expected to go full tilt, and large-scale imports begin. But once vaccine supplies and government procurement start increasing, the next big hurdle is deploying them. At that stage, as a study by A.R. Forman et al⁵ suggests, some of the primary challenges that could arise include: (a) safe and secure transportation and delivery of vaccines; (b) fair vaccine allocation to priority groups; and (c) uptake of vaccines.

While the vaccination drive so far in India has fairly managed the first two, it is the third that the government will have to focus on, to cover maximum ground in minimum time. And in that, vaccine hesitancy could pose a barrier. Resistance to vaccines could rise as the caseloads fall. Or, there could be delays in acceptance of newer vaccines that enter the market, as the above-cited study suggests.

To tackle this, the government will have to engage in clear communication to create awareness about vaccine safety and side effects and develop trust in vaccines, and perhaps, also provide incentives. In the US, as resistance to vaccines rose, local governments announced a number of incentives including lotteries, college scholarships (for those in the 12-18 age group), savings bonds and cash payouts to encourage people to get inoculated.

Till then...

Vaccination remains the safest, and the best, bet. But until then, considerable policy support will be needed to minimise the impact of the ongoing second wave and the possible third wave, on lives as well as livelihoods.

Besides increasing healthcare infrastructure spend, it is crucial to extend income and employment support to smaller firms, the rural economy, the services sector and the urban poor – the four segments most likely affected by the re-imposition and extension of restrictions. Rising medical expenses alongside dwindling incomes also added to the pain.

If we are indeed on the road to the December vaccination target by a long shot, economic recovery should start in the third quarter, strengthening into the fourth quarter and the first quarter of the next fiscal.

⁵A R Forman, S Shah, P Jeurissen, M Jit and E Mossialos (2021). Covid-19 vaccine challenges: What have we learned so far and what remains to be done? Published by Elsevier BV

Analytical contacts

Dharmakirti Joshi
Chief Economist
dharmakirti.joshi@crisil.com

Dipti Deshpande
Principal Economist
dipti.deshpande@crisil.com

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