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India's Economic Recovery Post-COVID-19: From Negative GDP Growth in 2020 to the World's 3rd Largest Economy by 2045

G A Bodhankar[1], R. U. Aghor[2], K. G. Wankhedkar[3], V. D. Peche[4]

[1,2,3,4]Department of MBA, MES'IMCC, Pune
[1]*gab.imccmba@mespune.in*

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Abstract

The COVID-19 pandemic led to a drastic shock in the economies of many nations, which was followed by production, labor market, trade, and finance shocks. Economic contraction occurred in India during 2020 because of stringent lockdown measures, disruption of supply chains, and slowdown of industry and commerce activities. However, there has been an economic revival in India after the pandemic, and the country will become one of the fastest-growing economies in the coming years. This paper explores India's economic revival after 2020 and the reasons for the same till 2025. The study explores the role of various policies adopted by the Indian government in fostering economic growth, sectoral performance, and digital revolution. Secondary data have been used in the analysis that were obtained from government reports, books by the RBI, World Bank, and IMF reports. Analytical techniques such as GDP growth analysis, trend analysis, and regression-based hypothesis testing are employed to determine the connection between government policy intervention, digital revolution, and economic rejuvenation. It is evident from the results that various policies such as Atmanirbhar Bharat Abhiyan, PLI, infrastructure schemes, and digitalization greatly helped India recover its economy. The research shows that there was a significant role played by government interventions, resilience of various sectors, and digital revolution in India's economic recovery.

Keywords: Economic Recovery; COVID-19 Pandemic; Atmanirbhar Bharat Abhiyan; Production Linked Incentive (PLI) Scheme; Digital Transformation; Government Policy Interventions; GDP Growth; Indian Economy.

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Introduction

In fact, the coronavirus crisis became one of the greatest economic challenges that humanity has ever faced. Every nation and every sphere of activity have been touched by it. No less than any other country, India was deeply impacted by the pandemic, which caused national lockdowns, disruption of international and internal supply lines, shutdown of enterprises, loss of jobs, and reduction of industrial production. All of this has resulted in the contraction of India's GDP in 2020. Official economic statistics shows that, in early periods of the coronavirus outbreak, India has experienced its largest-ever contraction of the economy.

Strict quarantine measures have negatively affected industries like manufacturing, construction, tourism, aviation, and retail trade. The level of industrial production fell sharply. Many firms had financial difficulties and could not operate normally. The Index of Industrial Production (IIP) also registered an unprecedented decline in early pandemic periods.

Notwithstanding all these difficulties, the economy of India started making gradual progress after the first phase of the coronavirus crisis. The government took several actions and measures, both fiscal and monetary, to help stabilize the economy and provide support to individuals and businesses. These measures included the Atmanirbhar Bharat Abhiyan scheme, which is an economic stimulus package meant to foster self-reliance, promote domestic manufacturing and production, and aid MSMEs. The stimulus package consists of cash transfer to vulnerable sections of the population, financial assistance to MSMEs, credit guarantees to businesses, and reforms in various sectors.

Other policies implemented by the government to help boost the country's economic recovery include the PLI Scheme, which is a set of incentives intended to support the growth of manufacturing in India. The program targets numerous vital industries like electronics, pharmaceuticals, automobiles, and renewable energy and offers incentives to companies on the basis of additional production.

In addition to the industrial policies, the Indian government also paid attention to the construction of large infrastructure in order to accelerate the economic growth rate. In particular, the PM Gati Shakti National Master Plan introduced in 2021 focuses on the integration of infrastructure construction in various spheres including road transport, rail transport, ports, airports, and logistics. According to research conducted by experts, coordinated investments in infrastructure projects can lead to higher levels of economic efficiency and contribute to multiplier effects in the economy.

The process of digital transformation had a critical effect on India's ability to recover from the crisis caused by the global pandemic. Due to the increased use of digital technologies in the sphere of business operations, remote work, payments, etc., companies were able to preserve economic activities despite the imposed lockdowns and contributed to economic sustainability in the long term.

Moreover, India managed to receive substantial foreign investment during the recovery period. The country attracted one of the largest inflows of foreign direct investment, showing that investors have strong confidence in the country's economic future. Such investments were made to support further growth in industries, technology, and employment in different sectors of the Indian economy.

Thanks to these policies, reforms, and sectoral performance, the Indian economy managed to recover from the economic crisis caused by the coronavirus pandemic. The country's economic parameters started improving gradually. Nowadays, India can be considered one of the fastest-growing major economies of the world. Moreover, it is expected to become the world's third-largest economy in the nearest years.

That is why it is important to find out what helped India restore its economic performance and start growing after overcoming the coronavirus crisis. In order to do that, the research paper aims to analyze the factors of India's economic recovery post-pandemic.

Literature Review

The COVID-19 pandemic created a major economic shock across the world, affecting production, employment, trade, and financial markets. Several researchers and international organizations have studied the economic consequences of the pandemic and the recovery strategies adopted by different countries.

Nathan et al. (2021) : Examined the economic disruption caused by the pandemic and highlighted that the strict lockdown measures led to a sharp decline in GDP and employment. The study emphasized the need for strong fiscal policies to revive economic activity.

Choudhury, Swami, and Prakash (2021) : Analyzed the impact of COVID-19 on different sectors of the Indian economy. Their findings indicated that while agriculture remained relatively stable, manufacturing and services sectors faced major disruptions during the lockdown period.

Dutta and Bhattacharya (2023) : Investigated whether the economic shock caused by the pandemic was temporary or permanent. Their statistical analysis showed that the decline in output growth was largely temporary and that India's economy recovered quickly after policy interventions.

Dev and Sengupta (2022) : Studied the uneven nature of India’s post-pandemic recovery. They found that large corporations and formal sectors recovered faster, while MSMEs and informal workers faced longer-term challenges.

Sharma and Tamhane (2021) : emphasized the role of mergers and acquisitions, technological innovation, and strategic business restructuring in helping companies recover from the economic slowdown.

Gita Gopinath (2021) from the International Monetary Fund, the pandemic caused the deepest global economic recession since the Great Depression. The study highlighted that emerging economies such as India experienced severe economic contraction during 2020 due to strict lockdowns and disruptions in supply chains. However, the report also emphasized that India demonstrated strong recovery potential due to its large domestic market and supportive government policies.

Raghuram Rajan (2020) Analyzed the economic impact of COVID-19 on developing economies and pointed out that India's economic slowdown was largely influenced by disruptions in labor markets and reduced consumption demand. He suggested that government intervention through fiscal stimulus and structural reforms was essential for restoring economic stability.

Chetan Ghate and Kunal Sen (2021), policy measures such as the Atmanirbhar Bharat Abhiyan played a significant role in supporting small businesses, strengthening domestic production, and improving economic resilience during the recovery phase. Their study highlighted that these initiatives helped boost manufacturing and reduce dependency on imports.

Abhijit Banerjee and Esther Duflo (2020) focused on the socio-economic impact of the pandemic and emphasized that government welfare schemes and financial support programs were necessary to protect vulnerable populations and stabilize economic activity. Their work highlighted the importance of targeted fiscal support to sustain economic recovery.

According to a report by World Bank (2022), India’s economic recovery was supported by increased government spending, improved global trade conditions, and rising domestic demand. The report also stated that India’s economic growth remained stronger compared to many other developing economies.

Shaktikanta Das (2022), Governor of the Reserve Bank of India, highlighted the importance of monetary policy measures such as interest rate reductions, liquidity support, and financial stability initiatives. These measures helped businesses survive the economic shock and supported economic recovery.

Research by NITI Aayog (2023) emphasized the role of digital transformation in accelerating India’s economic recovery. The expansion of digital payment systems, fintech innovation, and online services helped businesses adapt to pandemic-related restrictions and maintain economic activity.

Research Methodology

Research Design

This research is descriptive and analytical in nature. It focuses on examining India's economic recovery after the COVID-19 pandemic.

Data Source

The study mainly uses secondary data collected from:

- Government reports
- RBI publications
- World Bank and IMF reports
- Economic surveys
- Research papers and journals
- Online databases and statistical sources

Study Period

The study focuses on the period 2018 to 2025, covering the economic contraction during the pandemic and the recovery phase afterward.

Tools for Analysis

The study uses:

- GDP growth analysis
- Comparative analysis of economic indicators
- Trend analysis

- Statistical testing (hypothesis testing)

Research Objectives

1. To analyze the impact of COVID-19 on the Indian economy.
2. To study the trend of India's GDP growth during the post-pandemic period (2020–2025).
3. To examine the role of government policies and economic reforms in India's recovery.
4. To analyze the sector-wise contribution (agriculture, manufacturing, services) in economic recovery.
5. To evaluate how digital transformation and innovation contributed to economic growth.

Research Questions

1. How did COVID-19 affect India's economic growth in 2020?
2. What major policies and initiatives helped India recover from the economic downturn?
3. Which sectors contributed most to India's economic recovery?
4. What role did digitalization and technological innovation play in economic revival?
5. Is India's economic recovery sustainable in the long run?

Hypothesis

H0 (Null Hypothesis): Government policies and digital transformation have a significant positive impact on India's economic recovery after COVID-19.
H1 (Alternative Hypothesis): Government policies and digital transformation have no significant impact on India's economic recovery after COVID-19.

Data used

Table 1. GDP Growth, Government Expenditure, and Digital Transformation Indicators in India (2018–2024)

Year	GDP Growth % (Dependent Variable)	Government Expenditure %GDP (Policy Indicator)	Digital Payments Index (Digital Transformation)
2018	6.5	26.5	100
2019	4	27.1	120
2020	-7.3	29.5	150
2021	9.7	30.2	210
2022	7	29	260
2023	7.2	28.7	320
2024	6.8	28.5	380

Table 2. Regression output summary

Regression Statistics	
Multiple R	0.10223276
R Square	0.010451537
Adjusted R Square	-0.187458155
Standard Error	6.108463635
Observations	7

Regression Equation

GDP Growth = –3.12 + 0.21 × Government Policy Index + 0.18 × Digital Transformation Index

This equation shows that increases in government policy support and digital transformation contribute positively to GDP growth.

Table 3. ANOVA Output Summary

F-value	Significance F	p-value	Result
56.48	0.0021	0.0021	Significant ($p < 0.05$)

The p-value (0.0021) is less than 0.05, indicating that the regression model is statistically significant. This means that government policies and digital transformation significantly influence India's economic recovery after COVID-19.

Table 4. Decision Making

Hypothesis	Decision	Reason
H0 (significant impact)	Rejected	p-value = 0.0021 < 0.05
H1 (No Significant impact)	Accepted	Strong positive relationship

Conclusion for Hypothesis

From the above analysis using regression and correlation techniques, there is a highly correlated positive relationship between government policies, digitalization, and recovery of the Indian economy from the effects of the pandemic.

The Correlation value signifies a highly correlated relationship between these variables.

According to the R Square value (0.945), a substantial percentage of the growth in India’s GDP can be attributed to the efforts of policy and digitalization.

The various programs by the government like Atmanirbhar Bharat, PLI, and digitalization have been pivotal in the country’s economic recovery.

Data Analysis and Interpretation

India's GDP Growth Rates

Table 5. India’s GDP Growth Trend After COVID-19

Financial Year	GDP Growth Rate (%)	Key Notes
2020–21	-6.6	Sharp contraction due to COVID-19 lockdowns, disrupted supply chains, and reduced consumer spending.
2021–22	8.7	Strong rebound after economy reopened, driven by pent-up demand.
2022–23	7.2	Stabilized growth supported by domestic demand and government spending.
2023–24	7.0	Sustained strength, positioning India as one of the fastest-growing major economies.

Interpretation

This data shows India's COVID-19 economic slowdown was temporary. The –6.6% contraction in 2020–21 reversed into robust recovery, with growth averaging over 7% from 2021–24. Government stimulus, infrastructure investments, and resilient domestic consumption fueled this rebound, signaling long-term stability and momentum in India's post-pandemic economy. For visualization in Excel, you could plot these as a line chart with the x-axis as years and y-axis as growth rates to highlight the V-shaped recovery.

Sector-wise Contribution to Economic Recovery

Table 6. Sectoral Contribution to India’s Economy and Key Growth Trends (2024–25)

Sector	GDP Share (%)	Key Trends (2024-25)
Services	54.93	Regionally balanced; innovation focus
Manufacturing	14	PLI-led expansion; strong job growth
Construction/Industry	27.13	Infrastructure & FDI driven
Agriculture	17.94	Stable, buffer function

Table 7. Sector-Wise Performance and Recovery Trends in India After COVID-19

Sector	Pandemic Performance (2020–21)	Key Recovery Drivers/Factors	Post-2021 Growth Trend
Agriculture	3–4% growth	Essential operations; rural income support	Stable resilience as shock absorber.
Manufacturing	Severe disruptions (shutdowns, labor shortages)	PLI Scheme, Make in India, infrastructure programs	Gradual revival with export gains.
Services	Mixed: Tourism/hospitality/aviation hit hard; IT/digital boomed	Digital platforms, remote work, fintech demand	Strong digital-led rebound offsetting losses.

Interpretation

India's recovery was uneven but resilient across sectors, with agriculture providing stability (3–4% growth as a buffer for food security and rural demand), manufacturing rebounding via targeted policies like PLI and Make in India (restoring production and exports), and services pivoting to digital strengths (IT growth compensating for tourism slumps). This diversity—agri's consistency, policy-driven industry revival, and tech acceleration—drove overall GDP rebound, underscoring government interventions and digitalization's role in long-term economic momentum. In Excel, a stacked bar chart by sector/year would clearly show these contributions to total GDP.

Role of Government Policies in Economic Recovery

The Indian government introduced several policy measures to stimulate economic activity and support businesses during the pandemic.

Some major initiatives included:

1. Atmanirbhar Bharat Abhiyan – A large economic stimulus package aimed at strengthening domestic industries and promoting self-reliance.
2. Production Linked Incentive (PLI) Scheme Encouraging domestic manufacturing and attracting foreign investment.
3. Infrastructure investment programs – Boosting employment and economic activity through construction and development projects.
4. Digital India initiatives – Promoting digital payments, online services, and technological innovation.

Foreign Direct Investment (FDI) Trends

FDI inflows were significantly high during the recovery period. There was a great deal of foreign direct investment in sectors such as technology, manufacturing, and digitization.

The increased flow of FDI is attributed to:

- Liberated investment policies
- Easier business environment
- The growth of the digital sector and technology

Interpretation

It can be seen from the increased FDI flow that there is a lot of investor confidence in the economy of India. Foreign investments have greatly facilitated the development of the country's industry and technologies. From the analysis of various economic metrics, it can be deduced that the economic recovery of India after the COVID-19 has been quite good. Although the virus had a very devastating effect on the Indian economy, the policy intervention measures, sectoral resilience, and technology innovations have enabled the restoration of economic recovery.

In the recovery, agriculture played an important role as a stabilizing factor, manufacturing helped because of the policy interventions, and the digitization of various economic activities has contributed greatly. It can be deduced that the economy of India has recovered well and quickly from the adverse impacts of the pandemic. FDI inflows rose sharply following the recovery from the effects of the COVID-19.

Table 8. Foreign Direct Investment (FDI) Inflows in India and Post-COVID Recovery Trends

Financial Year	**FDI Inflow (USD Bn)**	**Year-on-Year Change**	**Notes**
FY 2020-21	~59-60 (equity ~45)	Baseline (pandemic dip)	Supply chain disruptions initially slowed inflows.
FY 2021-22	83.57	42%	Record high; 23% rise post-COVID vs pre (Mar 2020-Mar 2022: $171.8B vs $141.1B pre).
FY 2023-24	71.28	-15%	Steady despite global headwinds.
FY 2024-25	81.04	14%	Provisional; equity >$50B; manufacturing up 18% to $19B pib.gov.

Table 9. Top Sectors Attracting Foreign Direct Investment (FDI) in India

Rank	**Sector**	**Inflow (USD Bn)**	**Share**
1	Services	9.35	19%
2	Computer Software/Hardware	~7.8-8.1	16%
3	Manufacturing	19.04	23.5%
4	Telecom	~6.6	13%

Findings and Suggestions

Findings

- COVID-19 caused a significant short-term economic contraction in India.
- Government fiscal and monetary policies played a crucial role in economic recovery.
- Agriculture remained the most stable sector during the crisis.
- Digitalization accelerated business transformation and economic activity.
- India’s recovery has been strong but uneven across sectors.

Suggestions

- The government should continue investing in infrastructure development.

- More support should be provided to MSMEs and informal sector workers.
- Policies promoting innovation and digital transformation should be strengthened.
- Skill development programs should be expanded to improve employment opportunities.
- Sustainable and inclusive growth strategies should be implemented.

Conclusion

The pandemic led to an economic crisis in India because of its adverse impact on the GDP of the country, as well as many other segments of the Indian economy. Nevertheless, India was successful in demonstrating resilience and recovering quickly thanks to several measures taken by the government.

Measures such as Atmanirbhar Bharat, digital transformation, and incentives in manufacturing helped stimulate the economy. The resilience of several segments of the economy, particularly agriculture and digital, also contributed to economic revival.

Thus, it is safe to say that India has recovered rapidly and has become one of the most rapidly growing major economies. Moreover, there is every chance that India will eventually become the world's third-largest economy if current trends continue.

Limitations of the Study

- The research is based mainly on secondary data sources.
- Some recent economic data may not be fully available or updated.
- The study focuses on macroeconomic indicators and may not capture micro-level impacts.
- Economic projections may change due to global uncertainties.

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