IMPACT OF COVID-19 IN THE GROWTH OF INDIAN ECONOMY IN THE FINANCIAL YEAR 2021-2022

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ABSTRACT

The global economy remains hostage to heightened uncertainty, with Omicron sparking fresh containment measures. The Indian economy bounced back strongly in 2021-22, with GDP surpassing its pre-pandemic levels, and inflation broadly aligning with the target. A host of incoming high frequency indicators are looking upbeat and consumer confidence is gradually returning. Aggregate demand conditions point to sustained recovery, albeit, with some signs of sequential moderation. On the supply front, farm sector situation remains strong with impressive progress of Rabi sowing, while the manufacturing and services record strong improvement on strengthening demand conditions and surge in new business.The Indian economy manoeuvred choppy waters amid the Covid-19 pandemic, its nascent recovery hampered by a demand-supply mismatch while being among the fastest-growing economies in 2021.India began 2021 with high hopes buoyed by vaccine optimism only to be bogged down by the disastrous Delta variant-led second wave. But recovery ensued as things stabilised. Right when the global economy seemed to be at the cusp of witnessing green shoots of recovery after leaving the worst of the COVID-19 pandemic behind (despite uncertainties associated with subsequent waves of infection and rising global inflationary pressures), the Russia-Ukraine crisis escalated. Consequently, prices of crude oil and gas, food grains such as wheat and corn, and several other commodities have shot up. But since then, the gross domestic product (GDP) has been clawing its way back. Repeated waves of infection, supply-chain disruptions and, more recently, inflation have created particularly challenging times for policy-making. Faced with these challenges, the Government of India’s immediate response was a bouquet of safety-nets to cushion the impact on vulnerable sections of society and the business sector. It next pushed through a significant increase in capital expenditure on infrastructure to build back medium-term demand as well as aggressively implemented supply-side measures to prepare the economy for a sustained long-term expansion. But a second Covid wave upset all calculations. This article mainly focuses on some of the inevitable factors that determine the shape of the Indian Economy in 2021-22 viz., Demand of the consumers, Fiscal policies, Inflation, Investments and exports & imports.

Keywords

Indian Economy, GDP, Financial Rxecital, Consumers, Annual Growth, Covid-19.

INTRODUCTION

Two years into the COVID-19 pandemic, the global economy continues to be plagued by uncertainty, with resurgent waves of mutant variants, supply-chain disruptions, and a return of inflation in both advanced and emerging economies. Moreover, the likely withdrawal of liquidity by major central banks over the next year may also make global capital flows more volatile. In this context, it is important to evaluate both the pace of growth revival in India as well as the strength of macro-economic stability indicators. It is also essential to look at progress in vaccination as this is not just a health response but also a buffer against economic disruptions caused by repeated waves of the pandemic.Advance estimates suggest that the Indian economy is expected to witness real GDP expansion of 9.2 per cent in 2021-22 after contracting in 2020-21. This implies that overall economic activity has recovered past the pre-pandemic levels. Almost all indicators show that the economic impact of the "second wave" in Q1 was much smaller than that experienced during the full lockdown phase in 2020-21 even though the health impact was more severe.

Agriculture and allied sectors have been the least impacted by the pandemic and the sector is expected to grow by 3.9 per cent in 2021-22 after growing 3.6 per cent in the previous year. Advance estimates suggest that the GVA of Industry (including mining and construction) will rise by 11.8 per cent in 2021-22 after contracting by 7 per cent in 2020- 21. The Services sector has been the hardest hit by the pandemic, especially segments that involve human contact. This sector is estimated to grow by 8.2 per cent this financial year following last year's 8.4 per cent contraction. Total Consumption is estimated to have grown by 7.0 per cent in 2021-22 with significant contributions from government spending. Similarly, Gross Fixed Capital Formation exceeded pre-pandemic levels on the back of ramped up public expenditure on infrastructure. Exports of both goods and services have been exceptionally strong so far in 2021-22, but imports also recovered strongly with recovery in domestic demand as well as higher international commodity prices.

INDIAN ECONOMY 2021-22

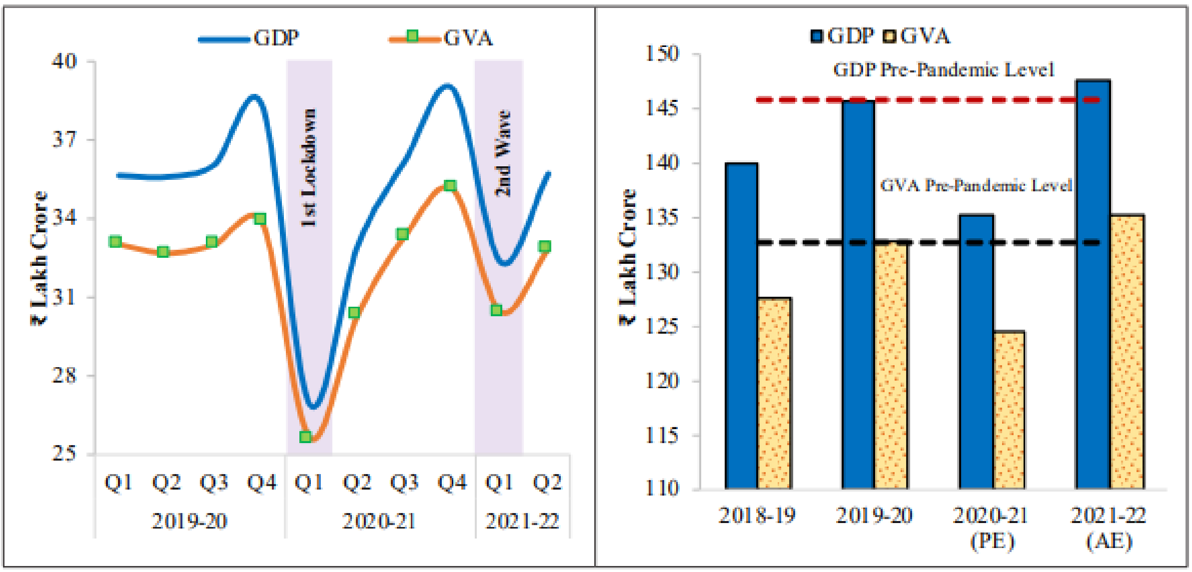
With the vaccination programme having covered the bulk of the population, economic momentum building back and the likely long-term benefits of supply-side reforms in the pipeline, the Indian economy is in a good position to witness GDP growth of 8.0-8.5 per cent in 2022-23. Nonetheless, the global environment still remains uncertain. At the time of writing, a new wave in the form of the Omicron variant was sweeping across the world, inflation had jumped up in most countries, and the cycle of liquidity withdrawal was being initiated by major central banks. This is why it is especially important to look at India's macroeconomic stability indicators and their ability to provide a buffer against the above stresses. Despite all the disruptions caused by the global pandemic, India's balance of payments remained in surplus throughout the last two years. This allowed the Reserve Bank of India to keep accumulating foreign exchange reserves (they stood at US$ 634 billion on 31st December 2021). This is equivalent to 13.2 months of merchandise imports and is higher than the country's external debt. The combination of high foreign exchange reserves, sustained foreign direct investment, and rising export earnings will provide an adequate buffer against possible global liquidity tapering in 2022-23.

The fiscal support given to the economy as well as to the health response caused the fiscal deficit and government debt to rise in 2020-21. However, a strong rebound in government revenues in 2021-22 has meant that the Government will comfortably meet its targets for the year while maintaining the support, and ramping up capital expenditure. The strong revival in revenues (revenue receipts were up over 67 per cent YoY in April-November 2021) means that the Government has fiscal space to provide additional support if necessary. The financial system is always a possible area of stress during turbulent times. However, India's capital markets, like many global markets, have done exceptionally well and have allowed record mobilization of risk capital for Indian companies. More significantly, the banking system is well capitalized and the overhang of Non-Performing Assets seem to have structurally declined even allowing for some lagged impact of the pandemic. Vaccination is not merely a health response but is critical for opening up the economy, particularly contact-intensive services. Therefore, it should be treated for now as a macro-economic indicator. Over the course of a year, India delivered 157 crore doses that covered 91 crore people with at least one dose and 66 crore with both doses. The vaccination process for boosters and for the 15-18 year age group was also gathering pace at the time of writing. Inflation has reappeared as a global issue in both advanced and emerging economies.

India's Consumer Price Index inflation stood at 5.6 per cent YoY in December 2021 which is within the targeted tolerance band. Wholesale price inflation, however, has been running in double-digits. Although this is partly due to base effects that will even out, State of the Economy 3 India does need to be wary of imported inflation, especially from elevated global energy prices. Overall, macro-economic stability indicators suggest that the Indian economy is well placed to take on the challenges of 2022-23. One of the reasons that the Indian economy is in a good position is its unique response strategy. Rather than pre-commit to a rigid response, Government of India opted to use safety-nets for vulnerable sections on one hand while responding iteratively based on Bayesian-updating of information. This "barbell strategy" was discussed in last year's Economic Survey.

A key enabler of this flexible, iterative "Agile" approach is the use of eighty High Frequency Indicators (HFIs) in an environment of extreme uncertainty. Another distinguishing feature of India's response has been an emphasis on supply-side reforms rather than a total reliance on demand management. These supply-side reforms include deregulation of numerous sectors, simplification of processes, removal of legacy issues like 'retrospective tax', privatisation, production-linked incentives and so on. These have been discussed in detail in the respective chapters. Even the sharp increase in capital spending by the Government can be seen both as demand and supply enhancing response as it creates infrastructure capacity for future growth.

Figure 1: Gross Domestic Output (GDP) of India



Source: National Accounts Statistics (NSO), MoSPI

he Indian economy, as seen in quarterly estimates of GDP, has been staging a sustained recovery since the second half of 2020-21. Although the second wave of the pandemic in AprilJune 2021 was more severe from a health perspective, the economic impact was muted compared to the national lockdown of the previous year (see Figure 1). Advance estimates suggest that GDP will record an expansion of 9.2 per cent in 2021-22. This implies that the level of real economic output will surpass the pre-COVID level of 2019-20.

CONSUMER DEMAND

Latest advance estimates suggest full recovery of all components on the demand side in 2021-22 except for private consumption. When compared to pre-pandemic levels, recovery is most significant in exports followed by government consumption and gross fixed capital formation. However, an equally strong recovery was seen in imports.

Table 1: Annual Real Growth in Demand Side of GDP and its components (%)

Components	2019-20 (1st RE)	2020-21 (PE)	2021-22 (1st AE)	Recovery over 2019-20
Total Consumption	5.9	-7.3	7.0	99.2
Government Consumption	7.9	2.9	7.6	110.7
Private Consumption	5.5	-9.1	6.9	97.1
Gross Fixed Capital Formation	5.4	-10.8	15.0	102.6
Exports	-3.3	-4.7	16.5	111.1
Imports	-0.8	-13.6	29.4	111.8
GDP	**4.0**	**-7.3**	**9.2**	**101.3**

Source: National Accounts Statistics (NSO)

Table 2: Share of Sectors in Nominal GDP (%)

Sectors	2019-20 (1st RE)	2020-21 (PE)	2021-22 (1st AE)
Total Consumption	71.7	71.1	69.7
Government Consumption	11.2	12.5	12.2
Private Consumption	60.5	58.6	57.5
Gross Fixed Capital Formation	28.8	27.1	29.6
Net Export	-2.5	-0.5	-3.0
Exports	18.4	18.7	20.1
Imports	21.0	19.2	23.1
GDP	**100.0**	**100.0**	**100.0**

Source: National Accounts Statistics (NSO)

FISCAL DEFICIT

The fiscal support given to the economy as well as the health response caused the fiscal deficit and government debt to rise in 2020-21. However, there has been a strong rebound in government revenues in 2021-22 so far. The revenue receipts of the central government during April- November 2021 have gone up by 67.2 per cent (YoY), as against an estimated growth of 9.6 per cent in the 2021-22 Budget Estimates.

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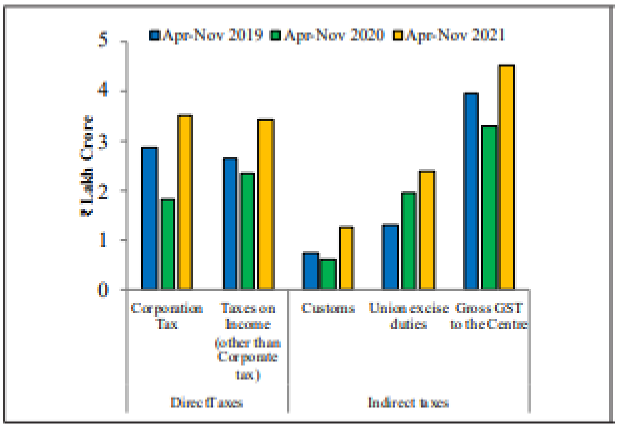
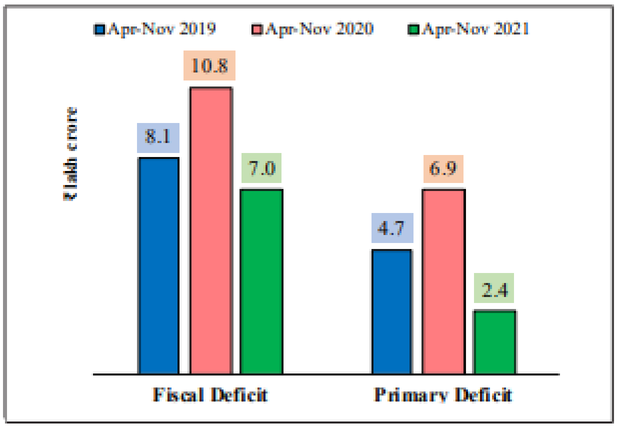
The tax collections have been buoyant for both direct and indirect taxes (Figure 2). The gross monthly GST collections have crossed ` 1 lakh crore consistently since July 2021.

Figures 2 & 3: Direct and Indirect Tax Revenue, Fiscal and Primary Deficit





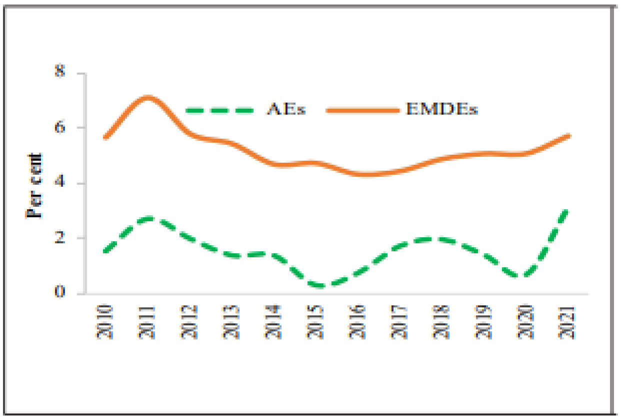
Source: CGA Office

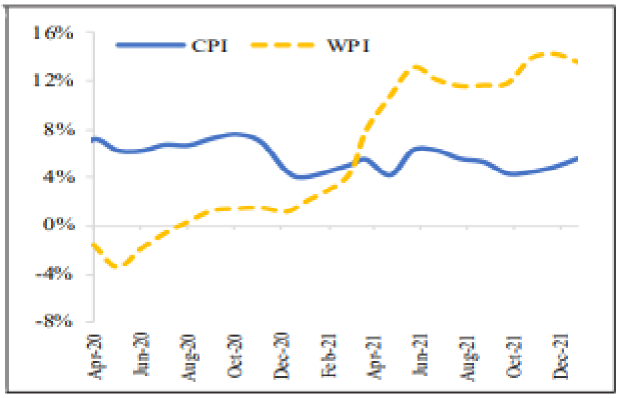
The fiscal deficit for April-November 2021 has been contained at 46.2 per cent of Budget Estimates (BE) which is nearly one third of the proportion reached during the same period of the previous two years (135.1% of BE in April-November 2020 and 114.8% of BE in April-November 2019). The primary deficit during the period April to November 2021 turned up at nearly half of the level it had reached during April to November 2019 (Figure 3) This implies that the Government has the fiscal capacity to maintain the support, and ramp up capital expenditure when required. The strong revival in revenues also provides Government with fiscal space to provide additional support as well, if necessary.

INFLATION

Inflation has reappeared as a global issue in both advanced and emerging economies (Figure 4). The surge in energy prices, non-food commodities, input prices, disruption of global supply chains, and rising freight costs stoked global inflation during the year. In India, Consumer Price Index (CPI) inflation moderated to 5.2 per cent in 2021-22 (April-December) from 6.6 per cent in the corresponding period of 2020-21. It was 5.6 per cent (YoY) in December 2021, which is within the targeted tolerance band (Figure 5). Wholesale Price Inflation (WPI), however, has been running in double-digits. The inflation in 'fuel and power' group of WPI was above 20 per cent reflecting higher international petroleum prices. Although the high WPI inflation is partly due to base effects that will even out, India does need to be wary of imported inflation, especially from elevated global energy prices.

Figures 4 & 5: Consumer Price Inflation rates and CPI, WPI Inflation



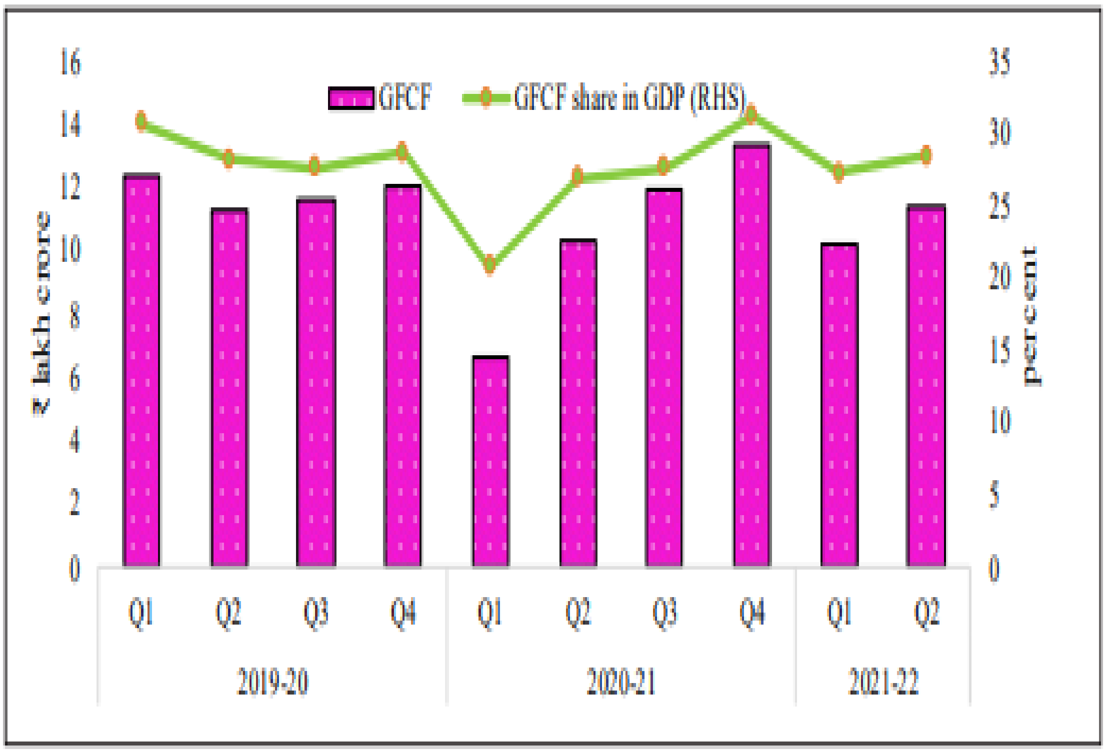


Sources: World Economic Outlook 2022 and MoSPI, DPIIT

INVESTMENT

Investment, as measured by Gross Fixed Capital Formation (GFCF) is expected to see strong growth of 15 per cent in 2021-22 and achieve full recovery of pre-pandemic level. Government's policy thrust on quickening virtuous cycle of growth via capex and infrastructure spending has increased capital formation in the economy lifting the investment to GDP ratio to about 29.6 per cent in 2021-22, the highest in seven years.

Figure 6: Gross Fixed Capital Formation (GFCF)



Source: NSO, MoSPI

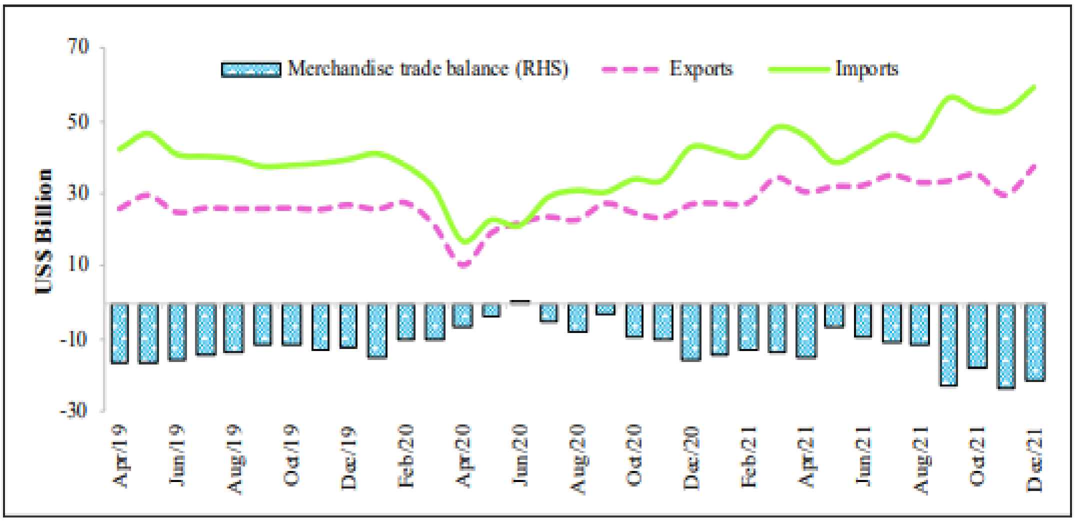
While private investment recovery is still at a nascent stage, there are many signals which indicate that India is poised for stronger investment. The number of private investment projects under implementation in manufacturing sector has been rising over the years. Companies hitting record profits in recent quarters and mobilization of risk capital bode well for acceleration in private investment. A sturdy and cleaned-up banking sector stands ready to support private investment adequately. Expected increase in private consumption levels will propel capacity utilisation, thereby fuelling private investment activity. RBI's latest Industrial Outlook Survey results indicate rising optimism of investors and expansion in production in the upcoming quarters.

EXPORTS AND IMPORTS

India's exports of both goods and services have been exceptionally strong so far in 2021-22. Merchandise exports have been above US$ 30 billion for eight consecutive months in 2021-22, despite a rise in trade costs arising from global supply constraints such as fewer operational shipping vessels, exogenous events such as blockage of Suez Canal and COVID-19 outbreak in port city of China etc. Concurrently, net services exports have also risen sharply, driven by professional and management consulting services, audio visual and related services, freight transport services, telecommunications, computer and information services. From a demand perspective, India's total exports are expected to grow by 16.5 per cent in 2021-22 surpassing pre-pandemic levels. Imports also recovered strongly with revival of domestic demand and continuous rise in price of imported crude and metals. Imports are expected to grow by 29.4 per cent in 2021-22 surpassing corresponding pre-pandemic levels.

Resultantly, India's net exports have turned negative in the first half of 2021-22, compared to a surplus in the corresponding period of 2020-21 with current account recording a modest deficit of 0.2 per cent of GDP in the first half. However, robust capital flows in the form of continued inflow of foreign investment were sufficient to finance the modest current account deficit. Elevated global commodity prices, revival in real economic activity driving higher domestic demand and growing uncertainty surrounding capital inflows may widen current account deficit further during the second half of the year. However, it is expected to be within manageable limits.

Figure 7: Merchandise Trade



Source: Ministry of Commerce and Industry

CONCLUSION

The Indian economy, as seen in quarterly estimates of GDP, has been staging a sustained recovery since the second half of 2020-21. Although the second wave of the pandemic in April-June 2021 was more severe from a health perspective, the economic impact was muted compared to the national lockdown of the previous year. Advance estimates suggest that GDP will record an expansion of 9.2 per cent in 2021-22. This implies that the level of real economic output will surpass the pre-COVID level of 2019-20.The year ahead is also well poised for a pick-up in private sector investment with the financial system in a good position to provide support to the revival of the economy. Thus, India's GDP is projected to grow in real terms by 8.0-8.5 per cent in 2022-23. This projection is based on the assumption that there will be no further debilitating pandemic related economic disruption, monsoon will be normal, withdrawal of global liquidity by major central banks will be broadly orderly, oil prices will be in the range of US$70-$75/bbl, and global supply chain disruptions will steadily ease over the course of the year.As per the IMF's latest World Economic Outlook (WEO) growth projections released on 25th January, 2022, India's real GDP is projected to grow at 9 per cent in both 2021-22 and 2022-23 and at 7.1 per cent in 2023-24. This projects India as the fastest growing major economy in the world in all these three years

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