

An insight from economic survey on state of the economy

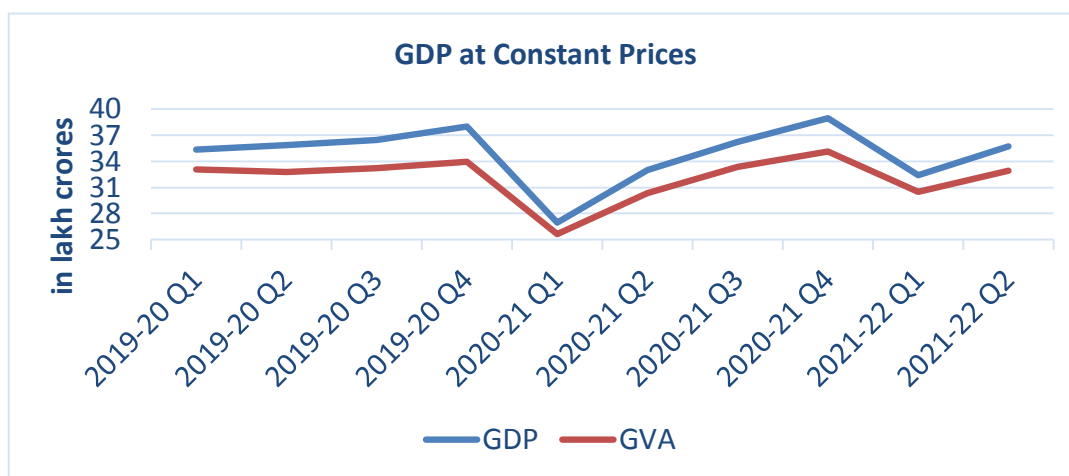
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This year's economic survey came in the midst of several crisis including economic and social crisis. The main focus of this year's economic survey was to trace the recovery path of the country in the past year. In doing so, the survey compared the pre-covid level output with the current levels. The survey discussed both demand side and supply side stressing on its various sectors. Vaccination was discussed separately in the survey as it was an important strategy of the Government and is considered a macroeconomic indicator, critical for opening up the economy and the nation was successful in covering majority of population through its wide vaccination drive. It also analysed the impact of COVID-19 macroeconomic stability as the country, at the time of survey, was again going through another wave of the pandemic and other issues like inflation, liquidity withdrawal etc.

The focus of this paper is on the demand side, supply side and the impact of COVID on macroeconomic stability discussed in the state of the economy of the economic survey 2021-22.

According to the economic survey 2021-22, the economy has shown a sustained recovery since the second half of 2020-21. The advance estimates also suggest a growth of 9.2 per cent in 2021-22 with respect to 2020-21 Provisional Estimate (PE). Economic output in 2021-22 Advanced Estimate (AE) is expected to surpass the pre-covid level output of 2019-20 and this is a 1.6 per cent growth from the 2019-20 numbers. The GDP is expected to grow by 8.0-8.5 percent in 2022-23 which is similar with the OECD's projection of 8.1 percent. It is more than FICCI's projection of 7.4 percent and less than the IMF's projection of 9 percent.

Figure 1: GDP at Constant Prices

Source: Calculated based on data from MOSPI

Sectoral trends

As per the survey, agriculture has been least affected by the pandemic. But still it has not recovered to its pre pandemic levels. The industrial sector on the other hand went through a big swing by first contracting by 7 per cent in 2020-21 and then expanding by 11.8 percent in this financial year. All the sectors within the Industrial sector has grown past the pre-pandemic level. Service sector, which has the highest share in GVA (54%), was the most impacted by the pandemic. Financial, real estate and professional services recovered from its negative pandemic level growth of -1.5 percent but did not bounce to its pre-pandemic level of 7.3 percent. To summarise the trend of growth we see a V-shaped recovery in almost all the sectors as mentioned before (see fig. 1).

Table1: Sector-wise growth rate

Sector-wise Growth rate			
Sectors	2019-20	2020-21	2021-22
Agriculture, Forestry & Fishing	4.3	3.6	3.9
Industry	-1.2	-7.0	11.8
Mining & Quarrying	-2.5	-8.5	14.3
Manufacturing	-2.4	-7.2	12.5
Electricity, Gas, Water Supply & Other Utility	2.1	1.9	8.5
Services			
Construction	1.0	-8.6	10.7

Services	7.2	-8.4	8.2
Trade, Hotels, Transport, Communication & Services related to Broadcasting	6.4	-18.2	11.9
Financial, Real Estate & Professional Services	7.3	-1.5	4.0
Public Administration, Defence & Other Services*	8.3	-4.6	10.7
GVA at Basic Prices	4.1	-6.2	8.6

Source: Calculated based on data from MOSPI

Demand side

On the demand side, advance estimates suggested recovery of all components other than private consumption. Private consumption has recovered well, but not compared with the other components and its past levels. Government consumption and gross fixed capital formation have shown significant recovery and it is evident that private final consumption is showing a declining trend. Exports have recovered well but net exports still show negative growth and have not recovered to the pre-pandemic level

Table 2: Expenditure Components

Expenditure Components	2019-20	2020-21	2021-22
Total consumption	67.7	67.7	66.3
Private Final Consumption Expenditure (PFCE)	57.1	56.0	54.8
Government Final Consumption Expenditure (GFCE)	10.6	11.7	11.6
Gross Fixed Capital Formation (GFCF)	32.5	31.2	32.9
Net exports	-3.4	-1.3	-3.8
Exports	19.4	19.9	21.3
Imports	22.8	21.2	25.1
GDP	100.0	100.0	100.0

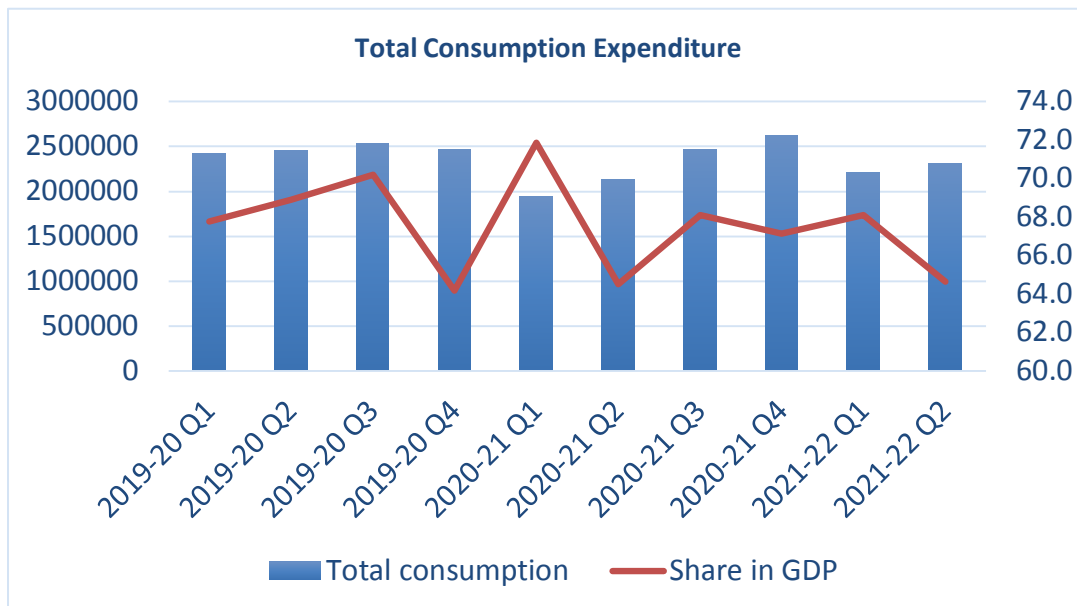
Source: Calculated based on data from MOSPI

Consumption

Total consumption consisting of both private consumption and government consumption showed a declining trend. Significant improvement in private consumption was supported by the HFIs. The share of total consumption in GDP shows a decline. Both Q1 and Q2 are far

below the pre-pandemic level but the absolute numbers show an improvement compared to 2021 Q1 and Q2.

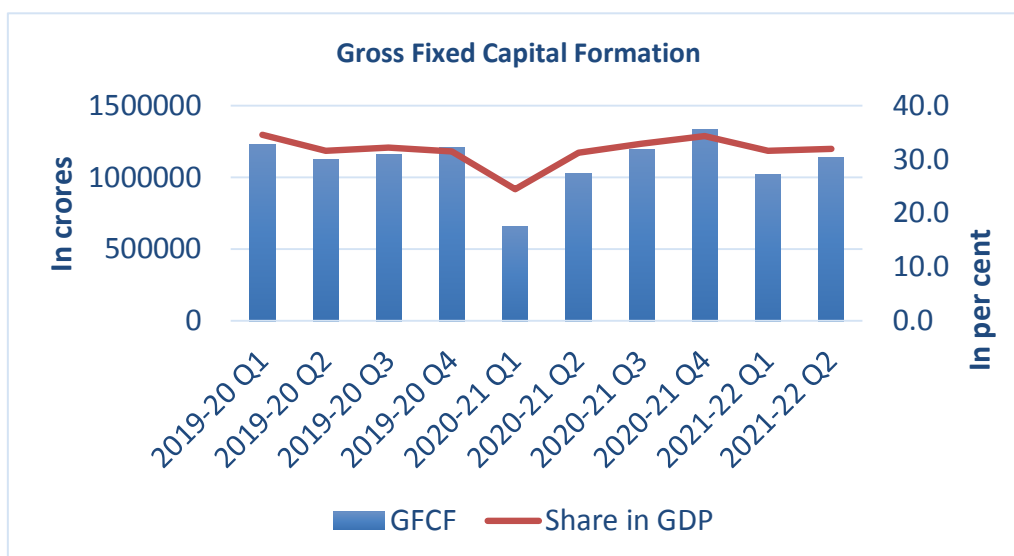
Figure 2: Total Consumption Expenditure



Source: Calculated based on data from MOSPI

Investment

As per the survey, investment, as measured by gross fixed capital formation is expected to have a strong growth and this growth is of 15 percent in 2021-22 vis-à-vis 2020-21 (PE). Investment to GDP ratio has increased to 31.6 percent in Q1: 2021-22, which is equal to the pre-pandemic level, as compared to 24.4 percent during Q1: 2021-22. Considering the second quarter, ratio has increased to 32 percent in 2021-22 Q2 from 31.2 percent 2020-21 Q2 and it is far below the pre-pandemic level ratio of 34.6 percent.

Figure 3: Gross Fixed Capital formation

Source: Calculated based on data from MOSPI

Exports and imports

India's total exports were expected to grow by 16.5 percent and imports by 29.4 percent in 2021-22. According to the survey, the resultant current account deficit would then be 0.2 percent of GDP in 2021-22. The corresponding capital inflows are viewed enough to finance the deficit. Also, the increasing global commodity prices is supposed to widen the current account deficit in the second half of the year.

Supply side

As mentioned in the beginning, the survey also discusses the supply side reforms. This includes factor market reforms and process reforms. There are two common themes in India's supply side strategy. Firstly, the reforms that can improve flexibility and innovation to deal with the long-term unpredictability of the post-COVID world. These policies include climate/environment related policies, support of key industries under Atma Nirbhar Bharat. And secondly, the reforms that are aimed at improving the resilience of the Indian economy which consist of industry, BPO, telecom, financial sector, MSME etc.

Macroeconomic stability

The fiscal support and the health response during COVID-19 has raised the fiscal deficit and government debt in 2020-21 but there is a strong rebound in government revenue. Inflation

has also appeared to be a global issue challenging the macroeconomic stability both in advanced and emerging economies.

India has adopted several supply side reforms rather than relying on demand management including deregulation of various sectors, simplification of processes, privatisation, production-linked incentives etc.

The report suggests that the country has gone for what is called a 'Barbell Strategy' combining programmes to guard the worsening impacts on both society and business that happened during the past two pandemic years. There are various criticisms to this year's economic survey pointing out that the V-shaped recovery is still not complete and would further take two more years to move to the high growth. Also, supply side has been given more importance than the demand side which has impacted the consumption.

As per the survey, growth in 2022-23 will be supported by a lot of reforms and policies as mentioned earlier with India's GDP projected to grow in real terms by 8.0-8.5 percent in 2022-23. The survey report shows that the economy has gone through a V-shaped recovery with almost all sectors reviving to the pre-pandemic level. Looking at the numbers it is clear that the agricultural sector and financial, real estate and professional services have recovered from the impact of pandemic, but not to their pre-pandemic levels. Consumption and investment have also shown growth in 2021-22 but have not revived to their pre-pandemic numbers.

Reference

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