

## Through the rearview mirror: Economists assess how India fared in 2021

### Synopsis

The Indian economy maneuvered 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. Economists weigh in to assess how the Indian economy fared in 2021.



The Indian [economy](#) maneuvered 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. “The calibrated reopening of the regional economies since July coupled with the higher vaccination rates and decline in Covid-19 cases led to a faster than expected pick-up in the domestic economy in the second half of the year,” Kavita Chacko, Senior Economist, CareEdge told us.

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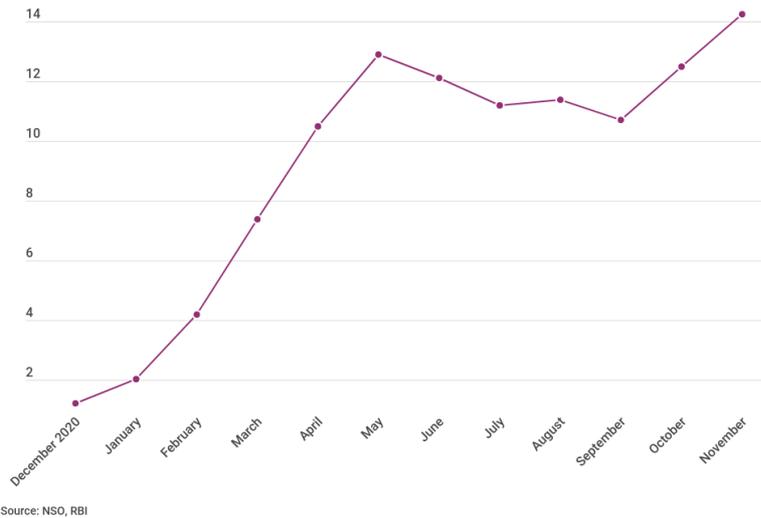
### Manufacturing and services sentiment



Source: IHS Markit

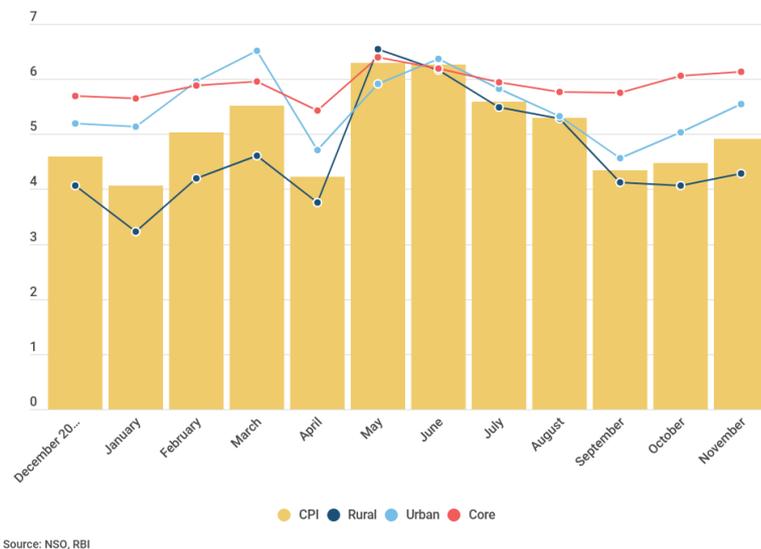
The Reserve Bank of India maintained its accommodative stance throughout the year along with record-low interest rates in a bid to support the nascent recovery. The resultant high liquidity coupled with supply chain issues & a chip crunch led to soaring input costs and pinching inflation.

### Trends in wholesale inflation (YoY growth in % terms)



In April-May, the retail inflation breached the RBI’s tolerance target of 6%. While that has since stabilised, the core CPI is on the higher end. But more worryingly, the wholesale inflation rate has been witnessing a double-digit rise since April. The WPI inflation surged to a nearly 30-year high of 14.2% in November from 12.5% in October.

### Retail inflation (YoY in % terms)



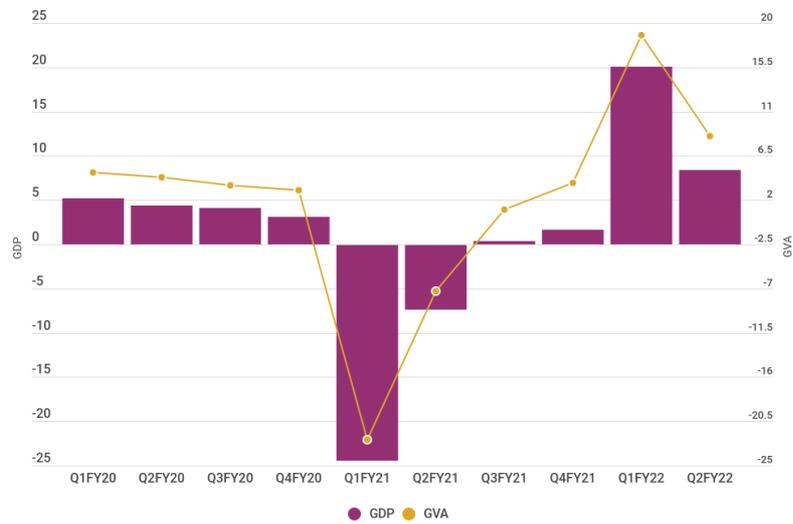
Experts argue that the recovery India witnessed was not broad-based and was largely uneven. “The uneven nature of the recovery has resulted in scarring effects, hurting the consumption of lower-income households, while a sustained capex upcycle is not yet in sight. Overall, we do not see the current growth cycle as durable,” Sonal Varma and Aurodeep Nandi of Nomura write.

“The pace of activity across segments has been uneven with some exhibiting

robust growth while some showing modest advances,” Chacko says. She further argues that the economy is yet to recoup the losses in a meaningful manner with many segments yet to attain pre-pandemic levels of output.

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### GDP & GVA growth rate (at constant 2011-12 prices)



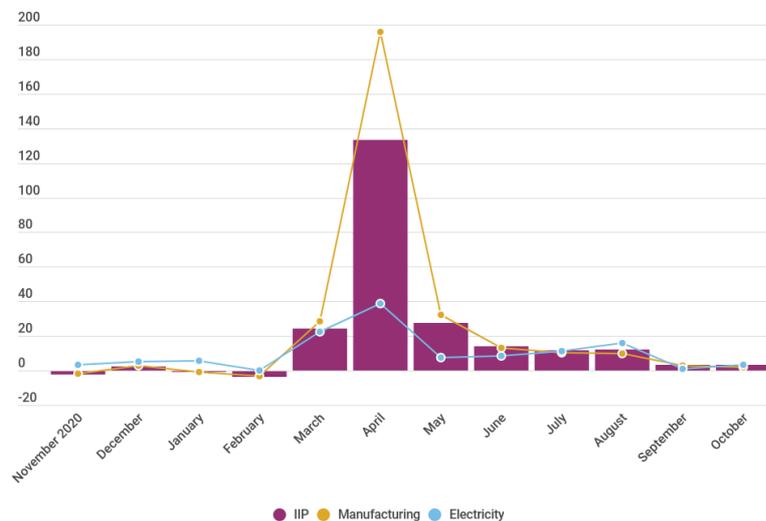
Source: NSO

Dr. Arun Singh, Global Chief Economist at Dun and Bradstreet, notes that the consumption expenditure and private investments have remained timid. “Many contact-intensive industries are yet to reach their pre-pandemic levels and the emergence of new variants of the virus poses an existential threat to the survival of many businesses,” adds Singh.

Sectors employing unorganised-sector workers bore the brunt of the contagious virus the most. The trade, hotels and transportation services sector constitutes around 12% of India's overall GDP. The sector, where the unorganised workers comprise 64% of the workforce, remains 9 percentage points below pre-Covid levels.

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### IIP India Growth Rate Data



Source: MoSPI

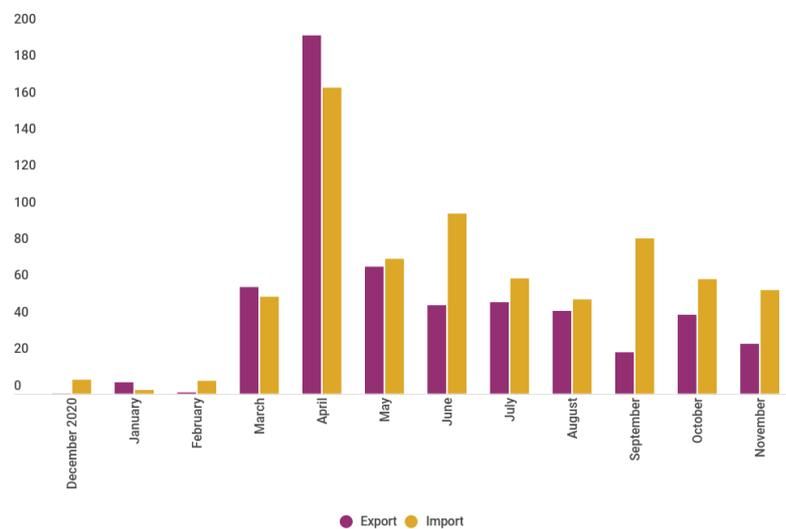


In this environment, the government took up a number of structural reforms which may set the tone for years to come. Take, for instance, the much-talked-about production-linked incentive (PLI) schemes targeting multiple sectors. Since April 2021, companies across 13 sectors have committed or made investments worth around Rs 12,960 crore to avail production-linked incentives, Som Prakash, minister of state for commerce & industry said in a reply to a query in the Lok Sabha. The Centre seems intent on boosting capex spending & meeting its divestment targets.

“In the case of the Centre, its expenditure management has been judicious. Attention has been paid to capital expenditure and revenue expenditure has been controlled. The PLI scheme and measures to boost manufacturing are expected to stimulate output and investments,” Chacko says.

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### Import-Export growth rate (YoY in % terms)



India's total foreign direct investments (FDIs) had reached a record high of around \$87 bn in 2020. This year, the country managed to reach 65% of that number in the first three quarters. “This growth on a high base signals the confidence of global investors in the Indian growth story,” Singh says. On the exports front, the Centre had set a target of \$400 bn for FY22, which was 21% higher than pre-pandemic levels. “We have already reached 66% of this target within the first eight months. These figures are noteworthy given that the global economy, and by extension global trade, are still facing headwinds from pandemic-induced disruptions,” Singh adds.

Tax revenues offer a rosy picture as well. Gross goods and service tax (GST) collections have been above Rs 1 lakh crore every month since July.

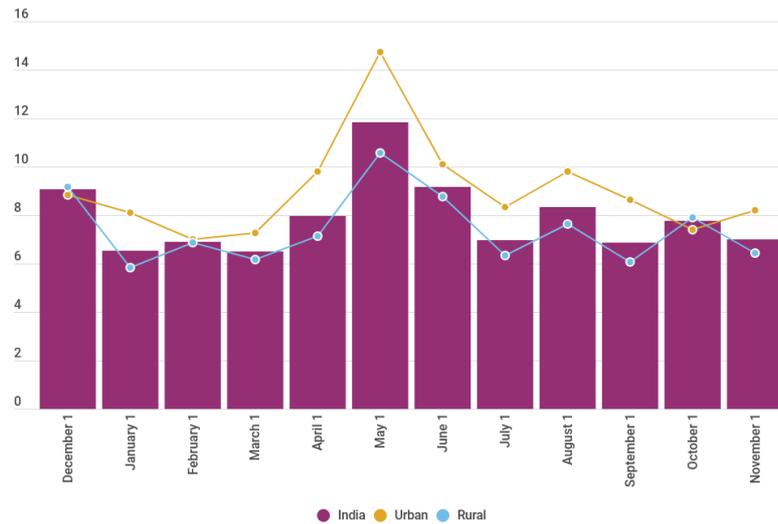
Let us not forget the widening gap between those at the top and the bottom of the pyramid, which is a matter of concern. As per the 'World Inequality Report 2022', India is among the most unequal countries in the world, with rising

poverty and an 'affluent elite'. As of 2021, the wealthiest 10% of the population own 65% of total household wealth in India.

Aditi Nayar of ICRA said in a note that the 'large' have gained at the cost of the 'small'. "We are maintaining our forecast of a 9.0% GDP expansion in FY22, with a clear K-shaped divergence amongst the formal and informal parts of the economy, and the large gaining at the cost of the small.

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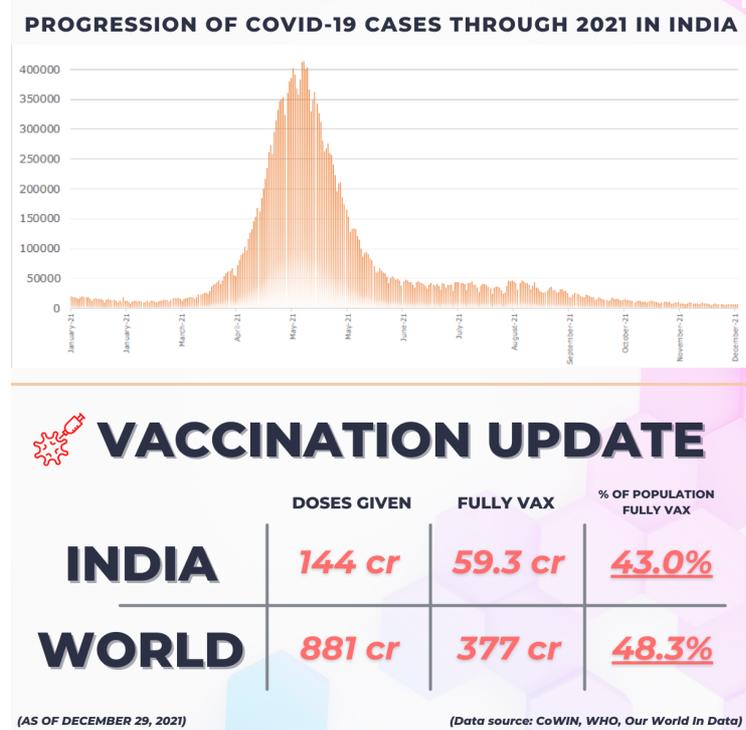
### Unemployment rate in India



Source: CMIE

Employment prospects too picked up along with the recovery. "Urban unemployment inched up in November, which may be on account of reverse migration during the festive season while rural unemployment dipped supported by a pick-up in Rabi sowing. The broader trend in our view remains that of a slowdown in rural growth," Teresa John, Economist at Nirmal Bang Institutional Equities said in a note.

Towards the end of 2021, [Omicron](#), a much more infectious 'variant of concern', emerged. That has forced several states to reimpose a number of restrictions.



Overall, the consensus among experts is that elevated price levels, persistent supply chain issues, rising commodity prices and the likely emergence of more variants remain the major roadblocks to a robust recovery for the Indian economy in the near to medium term.

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