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ExplainSpeaking | Inflation, GDP and unemployment: How India compares with Asian peers

Even when only about 40 out of every 100 Indians in the working-age group look for a job, our economy still is unable to create jobs for them

Written by **Udit Misra** , Edited by Explained Desk | New Delhi |

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A labourer takes a nap in Kolkata (Express Photo by Shashi Ghosh)

Dear Readers,

Over the past few weeks, Indians have become more and more worried about the inflation rate (or the rate at which prices are rising). Last month, retail inflation, which is measured by using the Consumer Price Index, for May **came in at 6.3%** — that is 30 basis points above the highest level of inflation that RBI targets. Later this week, we should have the data for June. These data points will be crucial in determining RBI’s monetary policy stance when it meets in August.

For the most part, public attention has been on the rising oil prices and their impact on the inflation rate.

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domestic requirement — and the other is the taxation of refined fuel within the country.

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Internationally, crude oil prices had plummeted below zero in **April 2020** — the first such instance in history. But as these prices have picked up, countries, such as India, which are big importers of crude oil, tend to suffer. The prices of the Indian basket of crude oil — that is, the price at which India buys its crude oil — have gone up from less than \$20 a barrel in April 2020 to around \$65 a barrel as of March-end.

The chart below (Source: CARE Ratings) shows how every 10% increase in oil prices adversely affects India — economic growth falls by 20 basis points (that is, 0.20 percentage points) and the inflation rate goes up by 40 basis points.

Fig. 2: Impact of every 10% rise in oil prices

	GDP growth (pp)	CPI inflation (pp)	Current account (% of GDP)
China	0.00	0.10	-0.40
Hong Kong	0.00	0.07	-0.07
India	-0.20	0.40	-0.30
Indonesia	0.05	0.10	-0.20
Malaysia	0.04	0.20	-0.03
Philippines	-0.07	0.40	-0.30
Singapore	-0.03	0.20	-0.70
Korea	-0.05	0.20	-0.15
Taiwan	-0.03	0.20	-0.10
Thailand	-0.08	0.30	-0.50

Source: Nomura Global Economics.

Impact of every 10% increase in oil prices

What has made matters worse for the Indian consumers is that — thanks to the way the government taxes petrol and petroleum products — retail prices have stayed up even when crude oil prices went down — see the table below.



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Retail prices have stayed up even when crude oil prices went down

Of course, when crude oil prices themselves rise, it becomes a double whammy (see the table below).

Table 2: The price build-up of petrol and diesel in Delhi as of 1st July 2021.

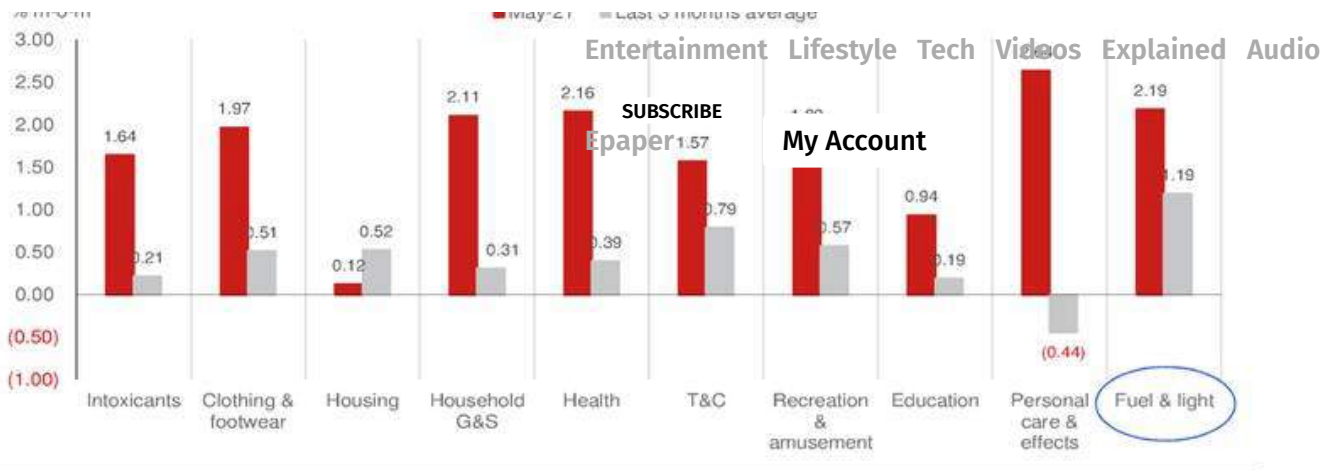
Per litre	Petrol	Diesel
Price to dealer	39.33	41.78
Excise	32.90	31.80
Dealer commission	3.82	2.60
VAT	22.82	13.05
Final price	98.87	89.23

Source: HPCL



The price build-up of petrol and diesel in Delhi as of 1st July 2021

But the fact is, as the charts below show, fuel is not the only commodity whose prices are going up fast. These charts look at the spike that was seen in the retail inflation rate in May. Both food and non-food goods have shot up. The red bars show the jump in May and the grey bars show the average jump in the past 3 months.

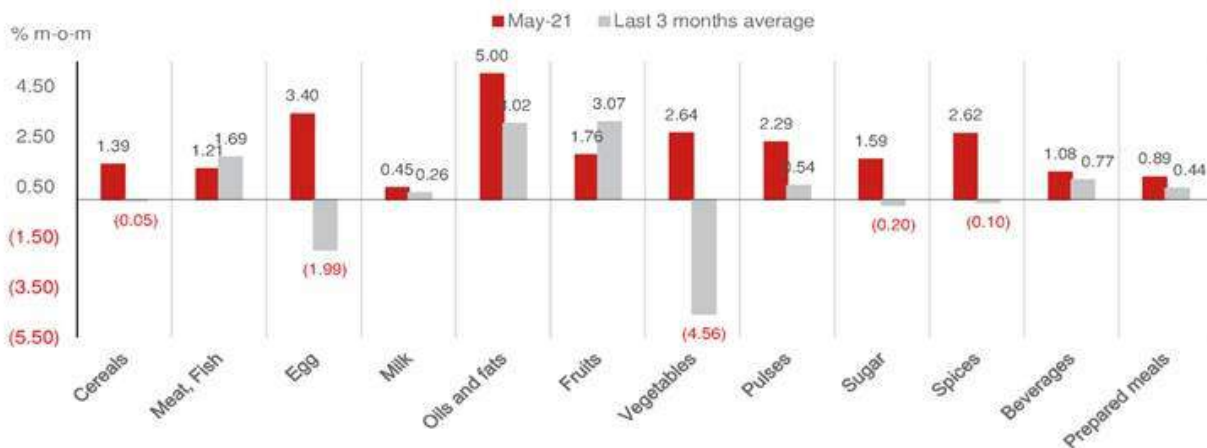


Note: Household G&S: Household goods and services, T&C: Transport and communication
 Source: CEIC and Nomura Global Economics

Spike in non-food goods

It is for these reasons that when analysts at Nomura put together the data — across different parameters — for India and other Asian countries to compare, the Indian situation appeared quite poor.

Fig. 33: Food basket - % m-o-m rise in May



Source: CEIC and Nomura Global Economics

Spike in food goods

Look at the table below. It maps India and other Asian economies on GDP growth and inflation rate. At the bottom of this table is the Asia average.

On retail inflation, it is quite clear that India is the outlier here. No other country has faced — or expects to face — the high levels of inflation that India is becoming used to. In 2022, consumer prices will grow at a rate that is around two-and-a-half times more than the rest of Asia’s average.



Japan	-4.7	3.1	4.5	0.0	0.1	0.8
Australia	-2.4	5.6 ↓ 5.4	3.6	0.8	2.2 ↑ 2.5	2.0 ↑ 2.1
China	2.3	8.9	5.3	2.5	1.5	2.1
Hong Kong	-6.1	8.8	3.2	2.0	2.0	1.8
India	-7.0	9.8	7.7	5.0 ↑ 5.6	5.3 ↑ 5.6	
Indonesia	-2.1	4.9 ↓ 3.5	5.3 ↑ 5.5	2.0	2.2 ↓ 1.6	2.6 ↓ 2.5
Malaysia	-5.6	4.4	7.7	-1.1	2.3	1.4
Philippines	-9.6	5.4	8.7	2.6	3.9 ↑ 4.2	3.3
Singapore	-5.4	7.5	4.6	-0.2	1.5 ↑ 2.0	0.8 ↑ 1.2
South Korea	-0.9	3.6	2.0	0.5	1.7	1.5
Taiwan	3.1	6.4	2.6	-0.2	1.6	1.6
Thailand	-6.1	2.1	5.7 ↓ 4.1	-0.8	1.3 ↑ 1.5	0.8 ↑ 1.0
Asia ex-Japan, Aus.	-0.9	8.1 ↓ 8.0	5.7 ↓ 5.6	2.9	2.4 ↑ 2.5	2.7 ↑ 2.8
Asia	-1.3	7.5 ↓ 7.4	5.5	2.5	2.1 ↑ 2.2	2.5 ↑ 2.6

The table maps India and other Asian economies on GDP growth and inflation rate

On GDP growth, in 2020, India was more badly hit than almost every other country in the region. It is a matter of relief, however, that if we do not have another wave of Covid cases, India’s economy should be able to grow at a faster clip than others.

Beyond inflation and GDP growth rate, lie the worries of unemployment in India. The table below puts together the data on three key variables that must be mapped.

Fig. 2: Asia's labour market performance at a glance EXPRESS explained.

	Unemployment rate (%)			Total employment (mn)			Participation rate (%)		
	Pre-Covid (Q4 19)	Latest	Gap (pp)	Pre-Covid (Q4 19)	Latest	Gap (%)	Pre-Covid (Q4 19)	Latest	Gap (%)
China	5.1	5.0	-0.1	-	-	-	75.9	-	-
Hong Kong	3.2	6.0	2.8	3.8	3.6	-5.1	60.1	59.6	-0.5
India	7.6	9.2	1.5	404.3	383.3	-5.2	42.6	39.6	-3.1
Indonesia	4.9	6.3	1.3	-	-	-	69.2	68.1	-1.1
Malaysia	3.2	4.6	1.4	15.3	15.4	0.4	68.8	68.6	-0.2
Philippines	5.1	7.7	2.6	42.5	44.7	5.1	61.6	63.2	1.6
Singapore	2.3	2.8	0.5	3.8	3.6	-4.4	77.4	-	-
South Korea	3.6	3.8	0.2	27.3	27.3	0.0	63.4	63.7	0.3
Taiwan	3.7	4.2	0.4	11.5	11.4	-1.1	59.2	58.8	-0.4
Thailand	1.0	1.5	0.5	37.4	37.7	0.8	67.0	69.3	2.3

Note: Gap refers to 'Latest' minus 'Pre-Covid' in all three cases. The shading from red to green sorts on the basis of worse to best performance of the labour market compared to other regional peers. Latest refers to May for all countries, except India (Jun), Indonesia (Feb), Malaysia (Apr) and Thailand (Dec). For total employment, latest data for Singapore and Thailand refer to March 2021, and we seasonally adjust Thailand's data for the analysis. For the unemployment rate, we use urban surveyed unemployed rate in China. Source: CEIC, CMIE, WIND and Nomura Global Economics.

Asia's labour market performance at a glance

The way to read this table is to look at the right-most column — the labour force participation rate — first. The participation rate essentially tells us what percentage of people who are within the working-age (15 to 59 years) group want to be part of the workforce. A low labour force participation rate undermines a country’s overall productivity and wellbeing because fewer people are making themselves available for economic activity.



age group were looking for work while in China and Indonesia this proportion was 76% and 69%, respectively. This meant India not using all its human resources, its demographic dividend.

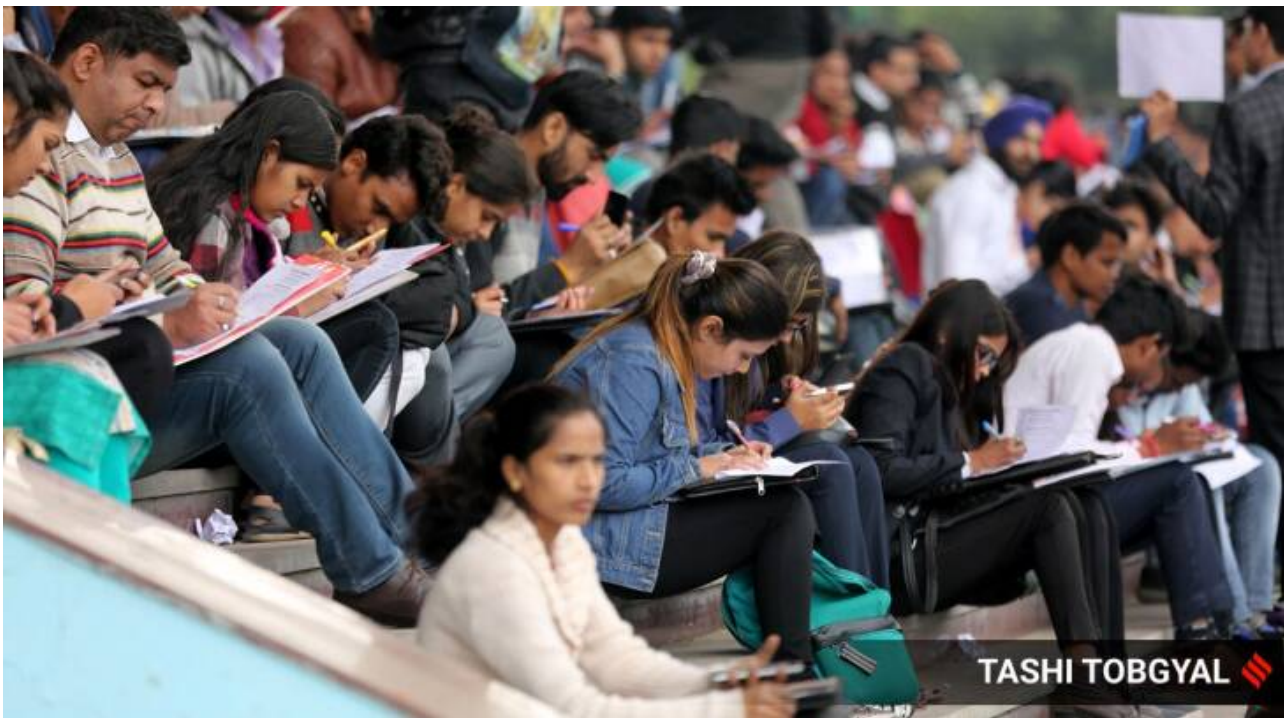
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Further, data also shows that after Covid, while other Asian countries have almost recovered their (much higher) participation rates, India has not been able to recover its (already lower) participation rate.

Now, look at the unemployment rate — the first column in this Table. This is the percentage of people who decided to participate in the workforce, looked for work, but did not get it.

Two things stand out about India's unemployment rate.



Job seekers at the Delhi Job Mela in 2019 (Express Photo by Tashi Tobgyal)

One, that India's unemployment rate is so much higher than other Asian countries. Two, that India's high unemployment rate is despite a low labour force participation rate. In other words, even when only about 40 out of every 100 Indians in the working-age group look for a job, our economy still is unable to create jobs for them. Indonesia has a lower unemployment rate despite having almost twice the labour force participation rate.



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The third variable in this table is the absolute number of people employed in the economy — see the middle column. Data shows that the total number of people employed in the Indian economy today is over 5% less than the number of people employed before the [pandemic](#). In other words, instead of creating jobs, the economy has extinguished close to 22 million jobs.

The salience of these employment and unemployment numbers is that mere GDP recovery doesn't always imply a recovery in jobs.

Lastly, why compare India to its Asian peers? Because India has more in common with these countries than it has with the developed economies.

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