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Indian economy is charging ahead to post growth in 2021

India takes decisive steps to spur economic growth post–pandemic

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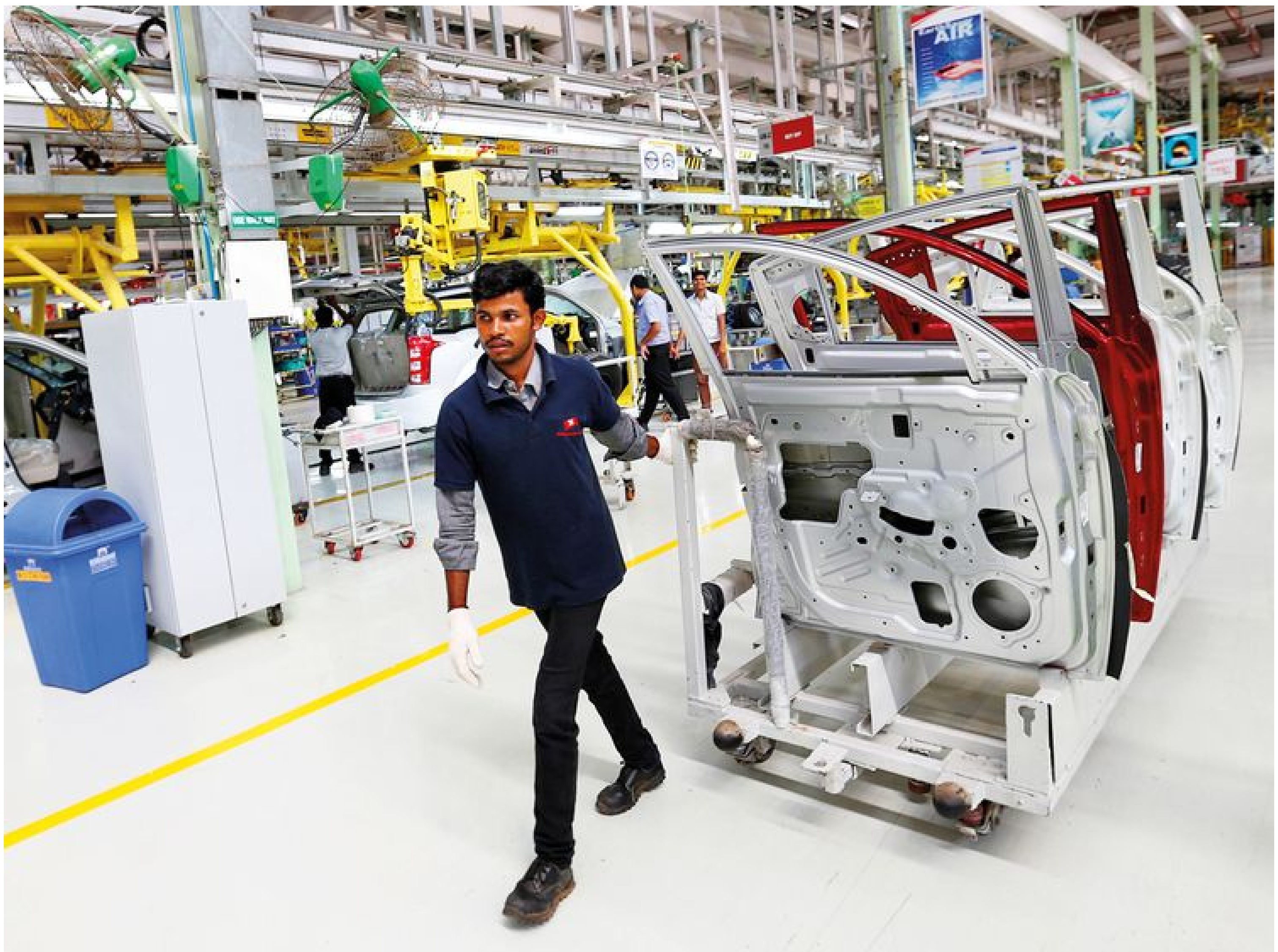

An employee works inside the Mahindra & Mahindra manufacturing plant in Chakan, Maharashtra. India's auto sector is looking for a rebound as consumer spending returns to growth this year.

Image Credit: Reuters

After witnessing the steepest economic contraction among the major economies at 23.9 per cent in the first quarter (April-June) of 2020-21 due to Covid-19- induced lockdown, India is likely to see an economic resurgence, clocking around 10 per cent GDP growth in the new financial year, if recent economic predictions of multiple agencies are to be believed.

The pace of India's GDP contraction in the second quarter of the current financial year (July-September 2020) was much weaker than Q1 figures, reflective of signs of economic revival, say economists at Frost & Sullivan.

"India's GDP growth is expected to see a 7.9 per cent contraction in 2020-21, with growth accelerating to around 12 per cent for 2021-22, in part because of the low GDP base effect," says Neha Anna Thomas, Senior Economist at Frost & Sullivan, based on the scenario prevailing in the first week of January, adding that India's recovery into the 2021-22 fiscal year is expected to be supported by factors such as the continued lifting of restrictions and vaccine administration.

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- Neha Anna Thomas, Senior Economist at Frost & Sullivan

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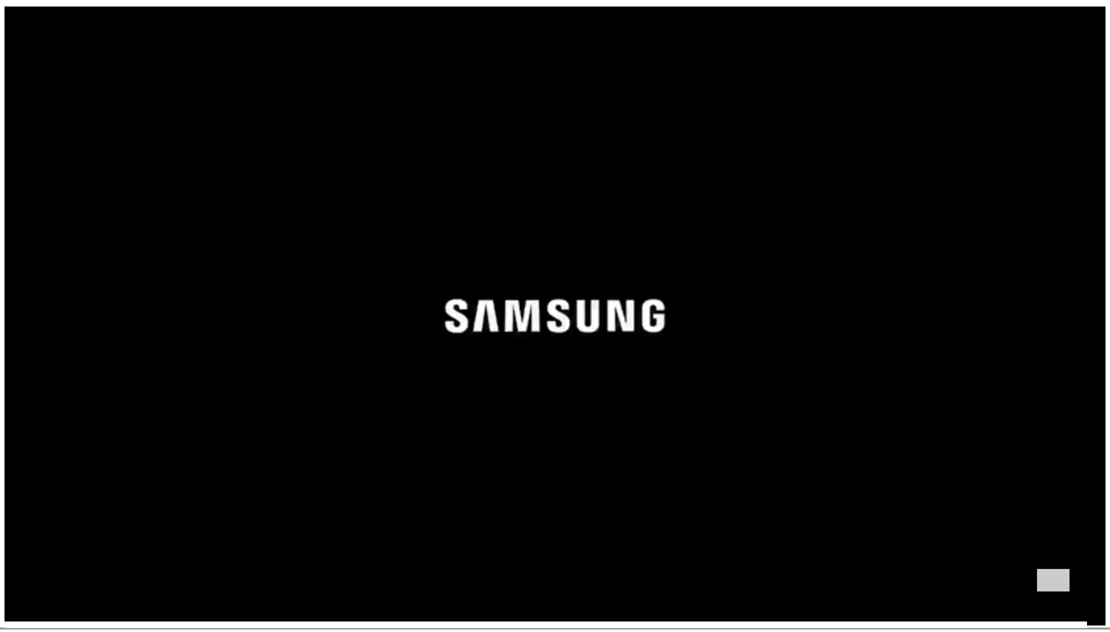

The views are endorsed by India's premier trade association and advocacy group, Confederation of Indian Industry (CII), which acknowledges that there have been welcome signs of a rebound in growth in recent months, including industrial production growth rate and many high-frequency indicators.

"Agricultural performance has supported demand, while the government's investment expenditures are robust. All these factors will lead to a bounceback in growth in the coming year," says Chandrajit Banerjee, Director General at CII.

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Unlocking has seen a faster than expected resumption in activity in certain segments which could see a further improvement with the roll-out of the vaccines, according to CARE Ratings. The rating agency's senior economist Kavita Chacko explains the various reform and stimulus measures announced by the government in recent months would also take effect soon and could further stimulate economic activity.

"As the country's policymakers – the Reserve Bank of India and government – are also expected to announce growth-supporting measures from time to time, all this has given credence to the view that the Indian economy would see improved performance in 2021," Chacko says.

Pent-up demand for more elastic discretionary goods, especially among the top 10 income percentile of the population that could not spend because of mobility restrictions, may spur private investment that has been contracting for five consecutive quarters now."

- Dr Rumki Majumdar, Associate Director and Economist with Deloitte India

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International audit and consulting firm Deloitte also expects double-digit growth in India's GDP in the financial year 2022 in the light of the best-case scenario. That's because, explains Dr Rumki Majumdar, Associate Director and Economist with Deloitte India, "pent-up demand for more elastic discretionary goods, especially among the top 10 income percentile of the population that could not spend because of mobility restrictions, may spur private investment that has been contracting for five consecutive quarters now".

The caveats

The biggest risk to recovery, according to CII, is potential spikes in Covid-19 cases. "Uneven vaccination programmes in different countries could also lead to continued travel restrictions and challenge various sectors, impeding full global recovery," says Banerjee.

While the fear of further outbreaks of the disease and the uneven vaccine availability and acceptance rates, which may result into restrictions on economic activities, still loom over India's economy, the government's recently announced economic packages and policy reforms coupled with the eagerly awaited annual budget on February 1 are expected to offer much-needed impetus to businesses and companies to sail through troubled waters.

Key growth sectors

The key industries that are expected to take the lead in driving India's recovery into 2021-22 include automotive and IT services, amongst other industries, according to Frost & Sullivan.

In regards to the automotive industry, for example, Thomas says the demand for entry-level cars, in particular, should see an uptick, supported by factors such as the shift away from public transport and stronger purchasing power capabilities.

Infrastructure development can be a driver given the multiplier effect it has across sectors, both industrial and service-related. "

- Kavita Chacko, Senior Economist, CARE Ratings

CARE Ratings, which projected the domestic economy to register positive growth of around 10 per cent in FY22, expects agriculture, energy, manufacturing, FMCG, pharmaceuticals, and infrastructure-related sectors such as steel and cement, to drive India's economic recovery, although the pace of activity in each of these sectors will be uneven.

"Infrastructure development can be a driver given the multiplier effect it has across sectors, both industrial and service-related," says Chacko.

CII agrees that the Indian government's proposed public spending in infrastructure and support to vulnerable sections of society will spur demand in the real estate sector, triggering sectors such as cement and steel, capital goods and consumer durables, including automobiles.

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"A rebound in service sector activity such as real estate and construction, digital services, will likely be a key growth driver as well," says Banerjee.

India's real estate sector which contributed nearly 6 per cent of the GDP in 2017 is expected to increase its contribution to 13 per cent in 2025 as it is the largest employment generator in the country after agriculture.

Leading property consultant ANAROCK says 2021 looks to be a promising year for the traditional real estate asset classes including commercial office and residential and also the new-age ones such as warehousing and data centres.

> **The real estate sector has already benefitted from the multiple reforms introduced in the past. Rising employment in the future is expected to further the demand for real estate across all asset classes."**
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> - Anuj Puri, Chairman, ANAROCK

"The real estate sector has already benefitted from the multiple reforms introduced in the past. Rising employment in the future is expected to further the demand for real estate across all asset classes," says Anuj Puri, Chairman, ANAROCK.

While the Covid-19 pandemic has dampened the sector's growth, he says the real estate sector has proved its resilience. "The record-low interest rates and rising per capita income has provided the best affordability ratio of 26 per cent which is the lowest in the last two decades."

India's shining information technology (IT) industry that contributes around 8 per cent to the country's GDP, employing 4.5 million people, too had to bear the brunt due to the Covid-19 outbreak.

"However, IT companies quickly adopted the new normal and became the source for shifting other industries such as healthcare, education, retail, media, and banking to the digital platform," says Aslam Khan, CEO of Octaware Technologies, a Mumbai-headquartered offshore outsourcing company with offices in the US, Singapore, the UAE, Qatar and Saudi Arabia.

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- Aslam Khan, CEO of Octaware Technologies

In the post-pandemic era, he expects most businesses to adopt remote working and digital transformation, enabling technology outsourcing budget to increase for business digitisation.

FDI growth

Industry bodies hail India's liberal investment climate that has helped the country emerge as the leading destination for foreign investments, be it from the Gulf, the EU, the US or Australia.

As India has crossed the milestone of attracting $500 billion in cumulative foreign direct investment (FDI) between April 2000 and September 2020, CII notes that the Gulf countries are also set to strengthen their participation in India's economy.

"Already, the GCC countries are India's major trade partner and the strength of the Indian diaspora in the region is a strong bridge for economic partnerships," Banerjee says, adding that companies and institutions based in the Gulf are stepping up investments in key sectors in India such as infrastructure, the financial sector, food processing and the digital economy.

A self-reliant, $5-trilion economy?

While the pandemic may have slowed growth for the moment, industry experts say India is one of the more promising emerging economies because of its strengthening position in a rapidly evolving post-pandemic global supply chain. Frost & Sullivan's Thomas points out that sustained investor-related reforms are critical to capturing higher FDI and boosting manufacturing, especially at a time when factors such as higher labour costs and trade wars concern global economic activities.

Building on its strong fundamentals, India looks to become a self-reliant nation as the government has coined the term 'Atmanirbhar Bharat', while also setting a target to become a $5-trillion economy by 2024.

Terming 'Atmanirbhar Bharat' is an affirmative statement by the government, explains Dr Majumdar from Deloitte India.

"The intention is right and shows the determination that India is willing to build on its strengths such as competitive and comparative advantages in power, technology, skilled labour, and its deepening ecosystem of industrial clusters."

However, she points out that this needs to be followed up with effective reforms in land and labour, taxes, resolution of commercial conflicts, and more importantly, reducing logistics costs through increased infrastructure spending.

The industry body CII explains that the blueprint or a strategy which would enable India to emerge as a $5-trillion economy by 2024 is provided by the Atmanirbhar Bharat package recently announced by the government.

"This package envisages promoting a 'Make in India – Make for World' approach by strengthening our position in global supply chains. The government is undertaking significant reform initiatives which would improve business sentiment and help achieve the targeted growth rates," says Banerjee. ●

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