

Indian economic growth accelerates, tempering the impact of the second wave

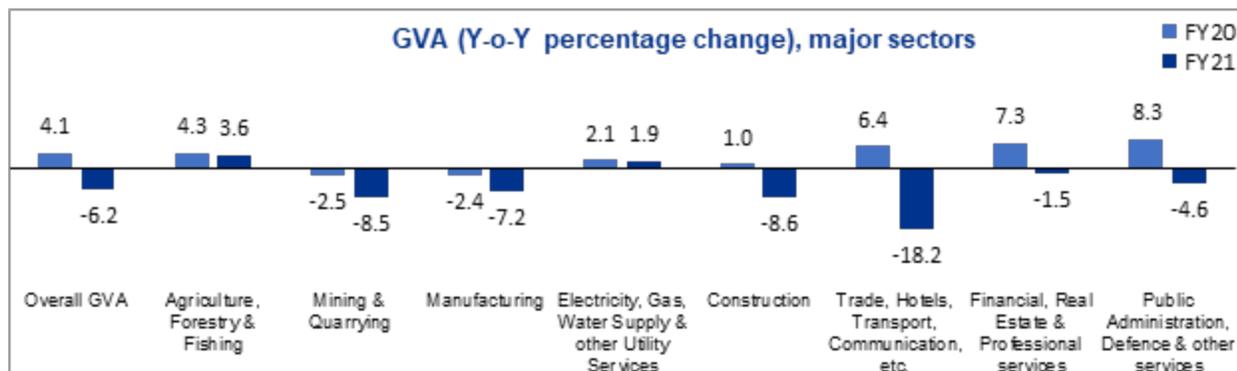
September 2021

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(5 min read)

The outbreak of COVID-19 had a significant impact on the social and economic situation in India, putting its collective resilience to test. The Indian economy, which was recuperating well in early 2021 after the onset of COVID-19, was again impacted by the gruelling second wave of the pandemic. This led to a contraction in India's Gross Value Added (GVA) by 6.2 per cent in FY21, with six out of eight key sectors witnessing a decline^[1].

While latest official data is awaited, given that the lockdowns in the second wave were more calibrated, their eventual impact on economic activity is expected to be muted. It is hoped that with the permeation of vaccination across the population and by better management of the dialectics between pandemic containment and economic growth; the recovery pathway will eventually become agnostic to the effects of COVID-19.



Source: "Provisional Estimates of Annual National Income, 2020-21 and Quarterly Estimates of Gross Domestic Product for the Fourth Quarter (Q4) of 2020-21", Ministry of Statistics & Programme Implementation, accessed on 23 August 2021

Furthermore, the high-frequency indicators have already started showing relative resilience. For instance, while the unemployment rates surged to a 12-month high at 11.9 per cent in May 2021, it receded to 6.9 per cent in July 2021^[2]. Key indicators such as freight traffic and exports have been restored to the pre-pandemic levels owing to a surge in pent-up demand, along with clear signs of recovery in core sectors such as manufacturing and electricity generation.

Encouraging trends were visible as corporate activity maintained its momentum with new company registrations. The RBI Business Confidence Index displayed positive sentiment underpinned by reopening

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of states and ramping up of vaccination drives. These positive signs indicate that the impact of the pandemic has largely been subdued and transient, with major financial institutions expecting only a marginal decline in the economic growth projections from the earlier estimate of 10.1–13.0 per cent to 8.3–11.1 per cent^[3], in FY22.

To alleviate the impact of the second wave and revive businesses, the government has undertaken active measures and unveiled a range of macro-level reforms while developing a robust vaccination strategy. The centre has recently announced a relief package of INR1.1 lakh crore to help re-energise the affected sectors such as travel, hospitality and automobiles.^[4] Further, INR50,000 crore has been earmarked for the health sector, aimed at upscaling medical infrastructure in underserved areas. Vaccination drives have been liberalised to allow states, private hospitals, and industry establishments to procure doses directly from manufacturers. The recently announced National Monetisation Pipeline (NMP) that aims to recycle assets worth INR 6 trillion is expected to spark a virtuous investment cycle in terms of new infrastructure creation, by releasing funds for building fresh infrastructure, while greater private sector play in these domains can stimulate further growth and employment.

Furthermore, the government has initiated key structural changes in the policy and regulatory regime for improving the investment climate and boosting economic growth. Recently, in view of the international tribunal rulings against India in a tax dispute, Parliament has passed the Taxation Laws (Amendment) Act, 2021, which plans to do away with the retrospective operation of the indirect transfer tax provisions in respect of transactions made before May 28, 2012. This in turn would help cement India's position as a favourable investment destination which became the world's fifth largest recipient of FDI with USD64 billion inflows in 2020^[5]. Further, it has raised the capital expenditure by 34.5 per cent y-o-y to INR5.54 lakh crore in FY22^[6] to overcome supply-side constraints and provide demand-side stimulus for economic recovery.

These initiatives are likely to play a pivotal role in the country's economic recovery. However, concerns remain in terms of job losses, impact on the informal economy and on small industry. While consumption in the rural economy is expected to be spurred by the Aatmanirbhar Bharat Rozgar Yojana and continued Mahatma Gandhi National Rural Employment Guarantee Act 2005 (MGNREGA) implementation, the government needs to sharpen focus on the vulnerable sections of the population by providing them income support, access to nourishment, and more employment opportunities.

As India's growth story unfolds, the medium- to long-term prospects will be determined by the growth in private investments, increased infrastructure spending, as well as strength of bilateral trade relations. The potential in these factors combined with the pace of vaccinations is expected to enhance the country's economic prospects considerably. The caveat remains that growth will also depend on how India strikes a balance between pandemic containment, revival of social and economic activity and insulating hubs of economic activity from a probable third wave. Amidst these challenges, and once the country emerges out of the pandemic, the prospects for the economy appear to be robust.

(Watch out for a detailed review in KPMG in India's second edition of the 'Indian Economy Insights' report, which provides an analysis of recent trends relating to India's economic recovery and the factors driving medium- to long-term growth)

^[1] Recovery from 2020-21 cannot be automatic, CMIE, 9 July 2021

^[2] Unemployment rate in India, CMIE, accessed on 23 August 2021

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^[3] World bank, OECD, IMF, Nomura, Goldman Sachs, Barclays and DBS; all accessed on 23 August 2021

^[4] Finance Minister Smt. Nirmala Sitharaman announces relief package of Rs 6,28,993 crore to support Indian economy in fight against COVID-19 pandemic, PIB, Government of India, 28 June 2021

^[5] Investment flows to developing Asia defy COVID-19, grow by 4%, UNCTAD, 21 June 2021

^[6] Union Budget Speech 2021-22, Government of India, 1 February 2021

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