State of Indian Economy Post Covid-19

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Abstract

The outbreak of the Covid-19 pandemic has adversely affected the Indian economy. There has been a countrywide lockdown, global economic downturn, disruption of supply chains, fall in demand. The economy was already in a bad state before Covid-19 struck. Out of the three major sectors, only agriculture has registered a positive growth during the pandemic. This may be partly attributed to reverse migration to rural areas due to the lockdown. Manufacturing and contact intensive services have shown negative growth during the year 2020 but have started showing some signs of revival.

The biggest challenge that the RBI faces is to maintain a balance between growth and inflation. Inflation is likely to rise further due to the Russia Ukraine war as it has pushed international crude oil prices and has further led to supply chain disruptions. The central bank is likely to raise interest rates to prevent major capital outflow as the Federal Reserve has raised the interest rates. However, this time India is better prepared to face a taper tantrum-like situation, that first occurred in 2013.

Unemployment had risen to its peak in April 2020 owing to the Covid induced lockdown and is still below the Pre Covid level. The workers working in the informal sector are the worst hit as they have lost their jobs because of the closure of many MSMEs which are mostly informal and have no social protection.

In this paper, an analysis has been done to know the state of the economy post the pandemic, assess the potential impact of the shock on various segments of the economy, analyze the policies of the central government and RBI and their implications for the economy.

Keywords: Covid-19, pandemic, supply chain, economy, MSME, growth, unemployment, slowdown.

Methodology

The analysis relies on secondary data to do a comparison of the state of economy pre and post Covid. The data sources are reports of National Sample Survey Organisation, Ministry of statistics and program implementation (MOSPI); Economic Survey 2021-22, Union Budget 2022-23, Reserve Bank of India; Ministry of Finance: Export-Import Database, Ministry of Commerce, Government of India, PIB. Information has also been collected from websites, newspaper articles, magazines, Government reports, journals, etc. A wide range of literature in the form of global and local reports from financial experts has been referred to. The assessment of the state of the economy has been done by focussing on key indicators like GDP growth, inflation, unemployment, investment, agriculture, industry, services, infrastructure, monetary policy and fiscal developments.

Literature Review

Ashok Gulati et al. stated that the migrant crisis was one of the major catastrophes that emerged during the pandemic.At their native place, with no proper employment opportunities, the household income of migrants fell by 85 percent during June-August 2020, as per the survey findings. With the revival of economic activities post-lockdown, we found that 63.5 percent of migrants have returned to the destination areas by February 2021, while 36.5 percent were still in their villages at their native places. Although the migrant's household income has increased after remigration, there is still a contraction of 7.7 percent relative to the pre-lockdown level.

According to R. Ramakumat et al. about 40% of India's total non-farm work force is engaged in micro, small and medium enterprises (MSMEs). It is estimated that about 60 million MSMEs employ about 110 million workers (GAME, 2020). It was in the MSME sector that the impact of the lockdown was most severe. The total losses in this sector are estimated to be about US$ 10,667 million to US$ 16,000 million in profits.

A report titled 'State of working India 2021 : one year of Covid-19', published by Azim premji University has stated that the pandemic has further increased informality and led to a severe decline in earnings for the majority of workers resulting in a sudden increase in poverty. Women and younger workers have been disproportionately affected. Households have coped by reducing food intake, borrowing, and selling assets.

The already delicate balance between poverty, food security and agricultural productivity especially in the economically weaker sections of the society (Hajra and Ghosh 2018; Priyadarshini and Abhilash 2020) faces the risk of disruption since employment and household incomes have witnessed a downward trend owing to the pandemic Another disturbing statistic is further fall in female workforce participation (accounted for 13.9% of job losses in April 2020) during the pandemic which is already heavily skewed in favour of men.

By analysing the literature, it has been identified that impact of the COVID-19 on macroeconomic indicators of the economy, are still not discussed enough, especially during the two year period starting from 2019-20 to 2021-22. Existing literature mainly focuses upon the impact of Covid on agriculture and the industrial sector along with rising unemployment in the informal sector. This paper analyses the impact of two years of Covid-19 in India on different sectors, GDP, inflation, investment, employment, fiscal and monetary policy of the government etc. It also offers some policy suggestions for the near future.

Introduction

The economic slowdown triggered by the outbreak is believed to have had a significant impact, especially on poor and vulnerable households. It has further increased income and wealth inequalities. The number of poor in India has doubled. The pandemic has provided two shocks to the economy. One is the health shock and the other is an economic shock. The informal sector, where the vast majority of India's labor force is employed, has been particularly affected. This is the third shock faced by this sector, first being demonetisation, second being introduction of GST. Since then, the MSME sector has been facing shortage of liquidity, raw material and low capacity utilisation due to suppressed demand.

Covid-19 has affected all the countries globally but its effect has been more on India because before Covid also, India was facing a slowdown. GDP growth had been declining since 2015-16. It slowed down to around 4.2% in 2019-20 i.e. to the lowest level since 2002-03. Consumption demand fell in Q4 of the year 2020. It can be attributed to low demand due to loss of jobs and salary cuts. Demand for passenger vehicles and consumer durable goods also fell indicating a fall in rural demand in the year 2020.

The government breached its fiscal deficit target of 3.5% during the pandemic to provide policy support to vulnerable groups. It was 4.6% in 2019-20, jumped to 9.2% in 2020-21 and to 6.8% in 2021-22. The government now plans to do gradual fiscal consolidation.

Due to the Covid induced lockdown, construction activities came to a halt. It accounts for 21% of all non-agricultural jobs in the country. The construction sector employs the largest casual labour workforce. Around 84% of those working in construction are casual labour. As a result of this, many casual labourers lost their livelihood and returned back to their villages, thereby leading to an increase in disguised unemployment in the agriculture sector.

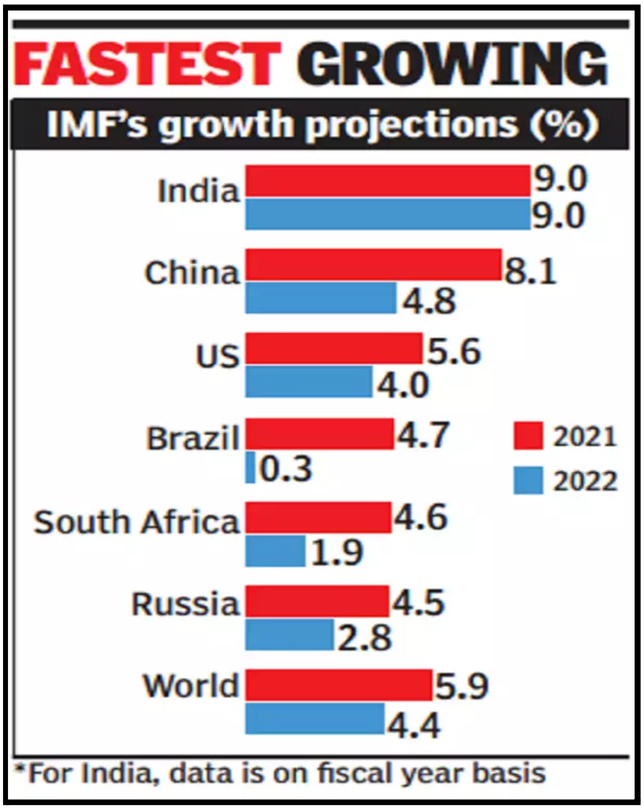
While lockdown and social distancing resulted in productivity loss on one hand, they caused a sharp decline in demand for goods and services by the consumers in the market on the other, thus leading to a collapse in economic activity.

GDP Growth Rate

The projection by the survey appears to be conservative as compared to the estimates of the IMF, which has estimated the growth rate to be 9% and the World Bank which has pegged the economy to grow at 8.7%. However, there are risks that will need to be addressed.

As the world is preparing to come out of the pandemic, countries are grappling with high inflation and hence have reversed their accommodative monetary policy. The US Federal Reserve is also expected to increase the interest rates to tighten its monetary policy. It could create a lot of volatility in capital flows, foreign exchange rate and the bond market. It would lead to outflow of funds from India as the US bond market will become more attractive for investors and weaken the rupee. It would lead to high volatility in the exchange rate. To control the exchange rate, RBI would be pressurized to increase the interest rate and control the outflow of FPI from the Indian bond market.

The second risk is elevated and sticky crude oil prices. It is currently over the survey's assumption of $70-75 per barrel i.e., above $90 per barrel. Survey for 2018 had said that a $10 increase in the price of crude trims GDP growth by 0.2-0.3 percentage points.

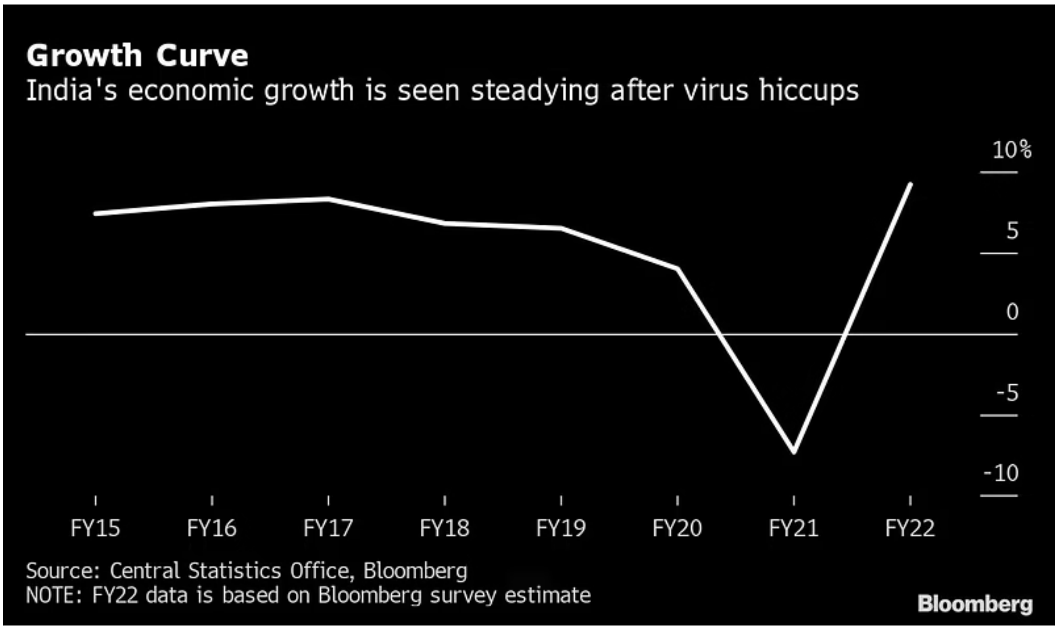


Why has India become one of the fastest-growing economies?

According to the IMF, India's broad range of fiscal, monetary and health responses to the crisis supported its recovery and, along with economic reforms, are helping to mitigate a longer-lasting adverse impact of the crisis and has made it one of the fastest-growing economies. New infections have fallen significantly and vaccination rates have risen to surpass a billion doses[1].

Factory managers in India saw a surge in activity in July post the second wave of Covid-19, reflecting a pick up in new orders, while a similar survey of services' purchasing managers showed the sector was inching back toward expansion. Exports, which account for nearly a fifth of the economy, have been growing signaling strong global demand.

In response to the COVID-19 shock, the government and the Reserve Bank of India took several monetary and fiscal policy measures to support vulnerable firms and households. The government has expanded service delivery through increased spending on health and social protection. Due to these proactive measures, the economy is expected to rebound with a strong base effect materializing in FY22.

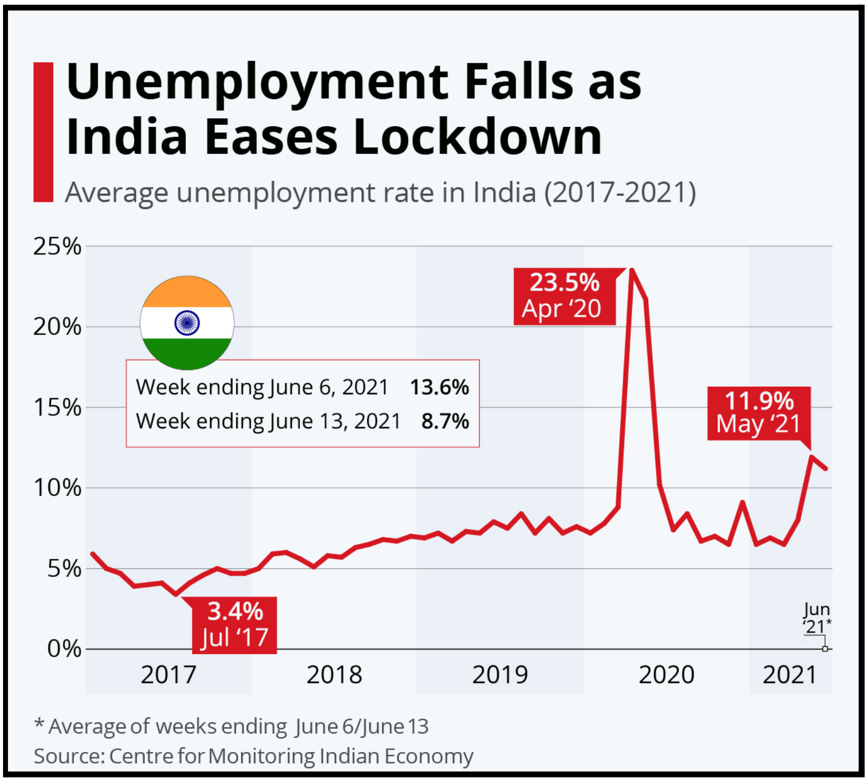


[1] https://www.imf.org/en/Countries/IND

Unemployment

The survey expects capacity utilization and employment conditions to improve. However, the unemployment rate in the fourth quarter of FY21 is still higher than the second quarter of FY20. Higher unemployment and slow wage growth have serious implications for private consumption demand.

According to the Centre for Monitoring Economy, the unemployment rate is around 8% in February 2022. It was 6.57% in January 2022. It was a significant fall of 1.3 percentage points from 7.9 percent in December 2021. It stood at 7 percent in November last year and 9.1 percent in

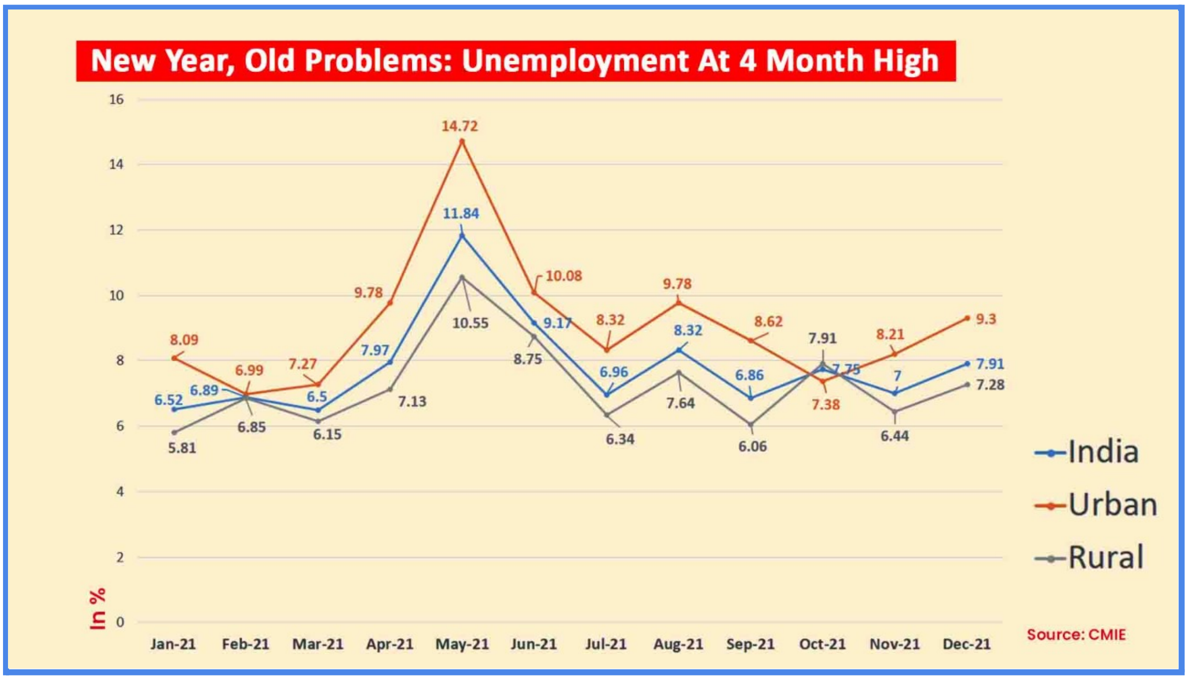


December 2020. Unemployment was at a peak in April 2020 (23.5%), during the pandemic. It is still quite higher than the pre-Covid period.

One recent study has estimated that 116.18 million (25%) and 78.93 million (17 %) of India's workers were affected in Lockdown 1.0 and Lockdown 2.0. A large majority of them are found to be those in the unorganized segments of manufacturing and services. According to the Centre for

Monitoring Indian Economy (CMIE), at least five million salaried people had lost their jobs in the month of July (2020), taking the total count of job losses in the category to 18.9 million since April 2020[2].

The fall in the unemployment rate in January 2022 did not arise out of more people getting jobs. People just stopped looking for jobs. As a result, they were no longer counted as unemployed. The labour force participation rate fell from 40.9 percent in December 2021 to 39.9 percent in January 2022. These two ratios show the real stress in the labour markets in January. The unemployment rate fails to show this stress[3].



Employment in manufacturing is still quite low compared to the 41 million that this sector employed in 2019-20. Reaching the 41 million mark seems extremely difficult because this would require massive investments into the creation of new capacities and conditions are not conducive for that around now. The services sector shed jobs in the personal non-professional category. These are mostly people providing services of house-help, cooks, gardeners and an assortment of personal services to households.

MGNREGA

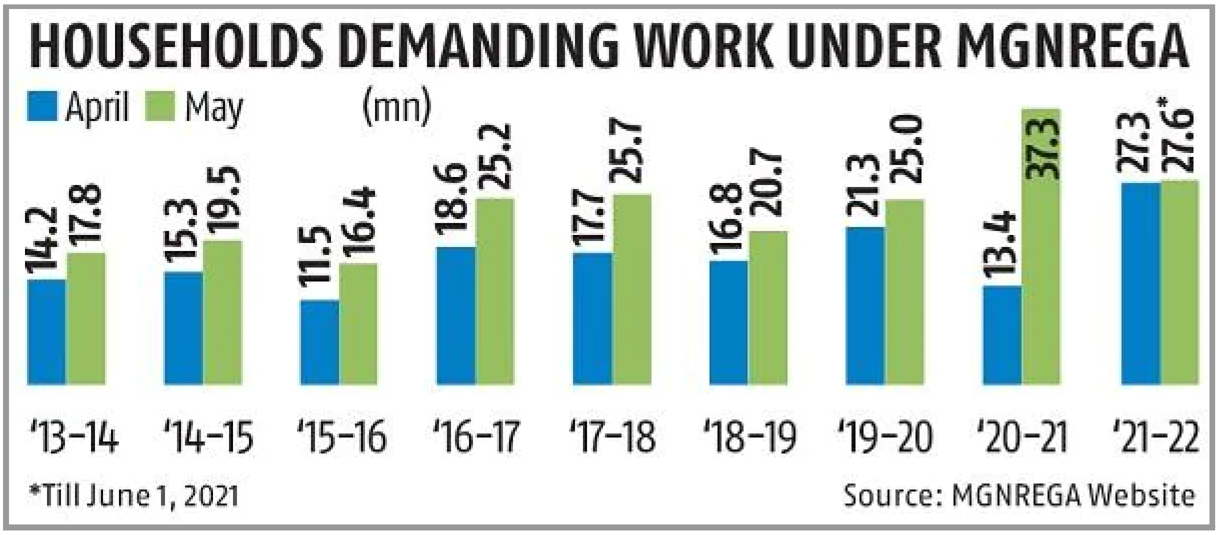
Despite the huge demand for MGNREGA during the pandemic-induced lockdown, the government has reduced the allocation to this scheme. The Centre has reduced its budget

[2] https://www.kiep.go.kr/galleryExtraDownload.es?bid=0026&list_no=9312&seq=2

[3] https://unemploymentinindia.cmie.com/kommon/bin/sr.php?kall=wtabnav&tab=4080

allocation for the rural jobs scheme by 25% in comparison to revised estimates for the current year (from Rs. 98,000 crores to Rs. 73000 crores). Workers are still waiting for almost ₹3,360 crores in pending wage payments, with the largest pending payments in West Bengal, Uttar Pradesh and Rajasthan, according to the government's reply to a question in the Rajya Sabha. If these pending wage and material payment liabilities are carried forward into the next financial year, it will further reduce the amount of money available to pay workers next year.

Every year about 80-90% of the budget gets exhausted within the first six months, resulting in a heavy slowdown of work on the ground. The government has not been able to provide employment to all active job card-holding families due to inadequate budget allocation. According to NREGA Sangharsh Morcha, if at a per person per day cost of ₹334, all active job card workers requested work, the government would only be able to provide 16 days of employment out of the guaranteed 100 days, given the current budget estimates[4].



The demand for MGNREGA work has also been lower in May 2021, compared with last year, as there wasn't any national lockdown in the second wave of Covid. In FY21, around 37.3 million households had sought work under the scheme in May. This was the highest-ever since the scheme was launched. Around 3.9 billion person-days of work were generated under the scheme - the highest since its launch.[5]

4 https://www.thehindu.com/news/national/3358-crore-mgnrega-wage-payments-pending-government-tells-rajya-sabha/article38366264.ece

5 https://www.business-standard.com/article/economy-policy/demand-for-mgnrega-work-slumps-26-in-may-amid-covid-19-pandemic-121060200040_1.html

Inability to meet the demand for work and delayed wage payment would have an adverse impact on people whose livelihood depend on this scheme, especially the people who have migrated back to rural areas after losing their jobs in big cities and towns.

To increase employment, large investments by big companies and more formalization of the economy are required. Formalization of the economy would help in providing social security to people who have lost their jobs. Large investment by big companies will create jobs through backward linkages. During the pandemic, mostly people having blue-collared jobs have lost their jobs. So, an increase in infrastructure spending is needed to increase the pace of employment. There is a need to incentivize small businesses in rural areas for creating self-employment opportunities. Self help groups can be provided support in the form of cheap and easy finance so that they can pool their resources and set up small labor-intensive businesses. This would reduce the burden on agriculture and MGNREGA. More skilled people are required to take up jobs in a growing economy. Hence, people who have migrated back to their villages can be reskilled so that they can get employed in industries that require skilled manpower to handle sophisticated machinery.

Inflation

A rise in energy prices, supply chain disruptions, increase in freight costs, a rise in the price of non-food commodities, input prices have led to an increase in inflation globally.

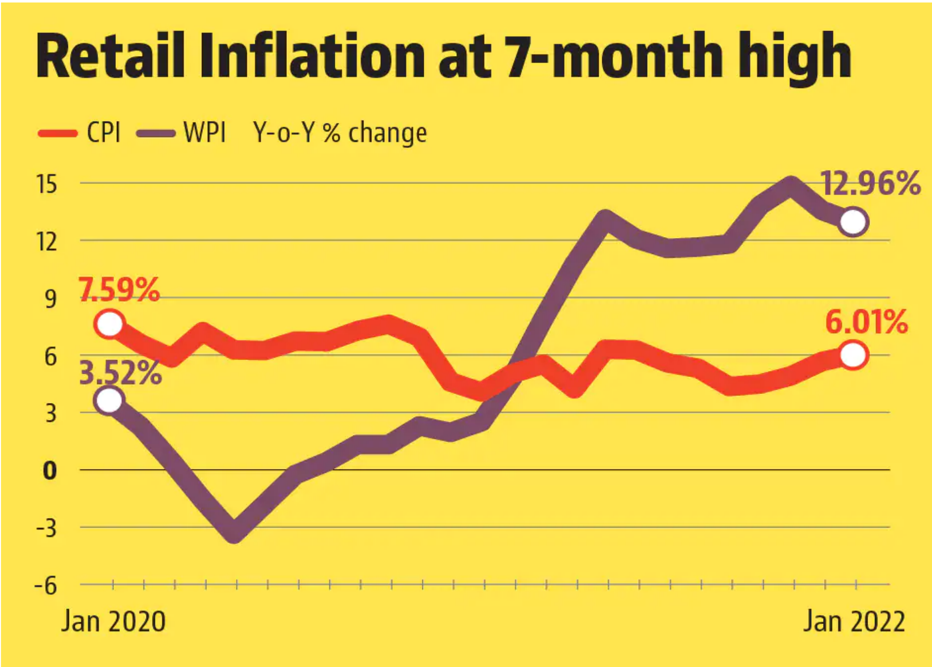
Retail inflation rose to 7 months high of 6.01% in January 2022, above the upper tolerance level of the medium-term inflation target of RBI, according to data released by NSO. The rise was mainly

INFLATION RATES AT WHOLESALE, RETAIL LEVEL

Month	WPI	CPI
June	12.1%	6.26%
July	11.6%	5.59%
Aug	11.64%	5.3%
Sept	11.8%	4.35%
Oct	13.83%	4.48%
Nov	14.87%	4.91%
Dec	13.56%	5.66%
Jan	12.96%	6.01%

Source: MoSPI, Ministry of Commerce & Industry due to high food prices which jumped to a 14 month high of 5.43%, the highest since October 2020. WPI has remained in double digits for the 10th month in a row (12.96% in January 2022).

The inflation stayed at the top of the Reserve Bank of India's target of 2%-6% for the first time since June last year, but the central bank Governor Shaktikanta Das recently said such a high figure should not create any panic because it is mostly due to a base effect.



As RBI keeps its monetary stance easy to ensure a broad-based recovery, there are risks of retail inflation becoming more generalized. There are already signs of inflation turning structural in non-food segments like clothing, health and transport. High global inflation and rising crude oil prices due to Russia Ukraine conflict will exert further pressure. These prices are based on the MRP principle and will not come down once increased. Manufacturers are in the process of passing on the higher input cost to the consumer.

The structural aspect of inflation is reflected in the core inflation remaining sticky (5.96 percent in January). Clothing & footwear inflation now stands at a 97-month high (8.84 percent) on the back of higher cotton prices. Household goods and services inflation at 7.1 percent is at a 94-month high in January 2022. Amid elevated input costs, various automobile, telecom and FMCG firms have announced price hikes. As a result, core inflation has remained sticky.[6]

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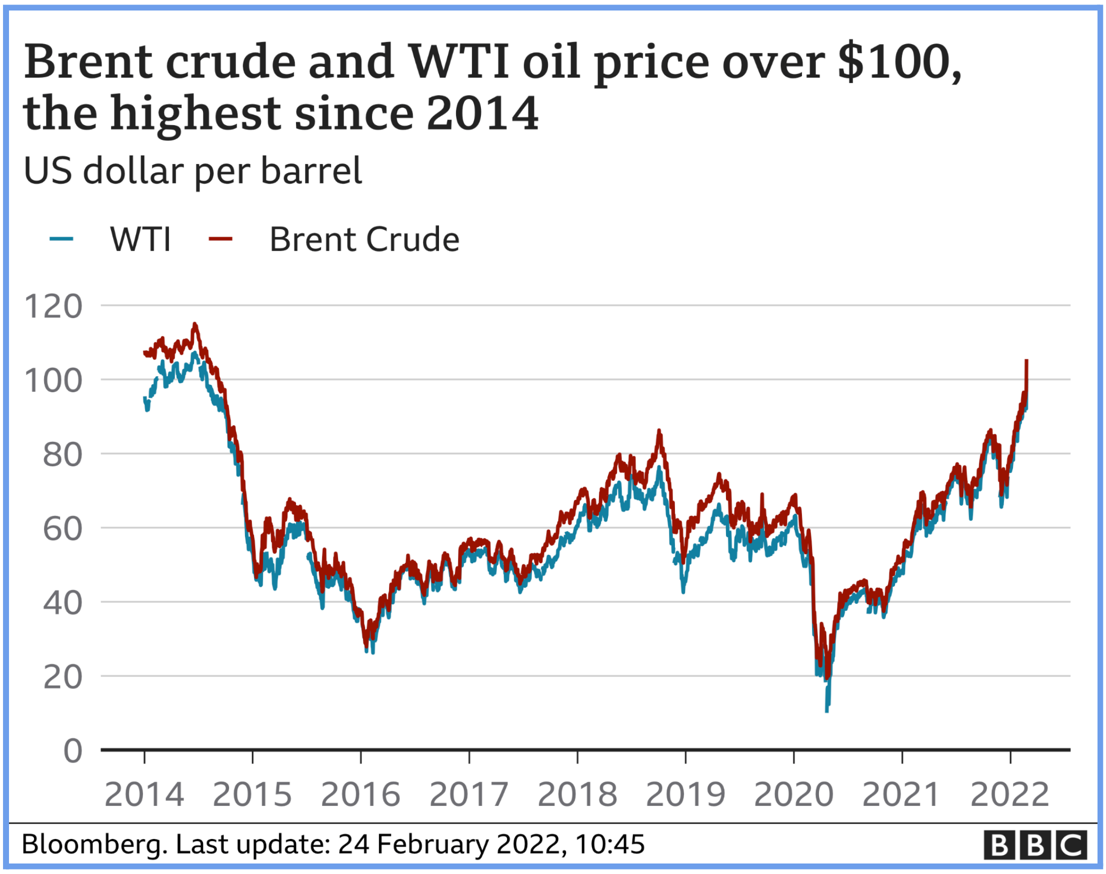
[6] https://indianexpress.com/article/business/economy/india-january-2022-cpi-consumer-price-index-retail-inflation-mospi-government-data-7773245/

RBI's projection of India's average inflation in 2022-23 has been 4.5%, down from 5.3% in 2021-22. The projections need to be revised as there is a risk due to the Russia Ukraine conflict. It is likely to accelerate price pressures due to supply chain disruption and high prices of crude oil (the price of crude oil has risen over $100 per barrel for the first time since 2014), metals and other key commodities. Petrol and diesel prices will rise sharply leading to a jump in logistics costs. It would pose fresh challenges for RBI to revive growth and control inflation. According to the RBI estimate, a 10% change in crude prices impacts retail inflation by 30 basis points.



The Reserve Bank of India is likely to adopt a hawkish perspective with inflation crossing the upper limit of its tolerance band.

A rise in food inflation is a potential concern. Food inflation was less than 1% in September-October 2021, but shot up to 5.4% overall and 5.9% in urban areas by January 2022. Within food, apart from the usual suspects of fruits and vegetables, it is edible oils that have seen consistently high inflation in their prices, with their average price-rise in the last 18 months at a high 24%. WPI cereal inflation has shot up to 5.5% after 13 months of negative inflation until August. This has come at a time when agricultural production in the country, including that of foodgrains, has reached record levels. By recent official estimates, foodgrain production in India is expected to cross 300 million tonnes again this year.[7].

Excess buffer stock

The stock of foodgrains in India's central pool as on 1 January was 86 million tonnes. This figure went up to 87 million tonnes on 1 February. This is more than four times our buffer norm requirement of 21 million tonnes. By hoarding foodgrain stocks, the government is effectively reducing domestic supply, which, unless demand drops equivalently, puts upward pressure on prices. The high stocks available with the government can be used to reduce domestic food prices by extending the Prime Minister Garib Kalyan Yojana (PMGKY). The scheme, which was scheduled to be withdrawn at the end of fiscal year 2021-22, should be extended further until the Indian economy fully recovers and food inflation gets back in control.

Index Numbers & Annual Rate of Inflation (Y-o-Y in %)

All Commodities/Major Groups	Weight (%)	Nov-21 (F)		Dec-21 (P)		Jan-22 (P)	
		Index	Inflation	Index	Inflation	Index	Inflation
All Commodities	100.0	143.7	14.87	142.4	13.56	142.9	12.96
I Primary Articles	22.6	168.4	10.21	167.8	13.38	165.0	13.87
II Fuel & Power	13.2	136.0	44.37	128.2	32.30	133.2	32.27
III Manufactured Products	64.2	136.6	12.34	136.4	10.62	137.1	9.42
Food Index	24.4	170.6	6.83	169.0	9.24	166.3	9.55

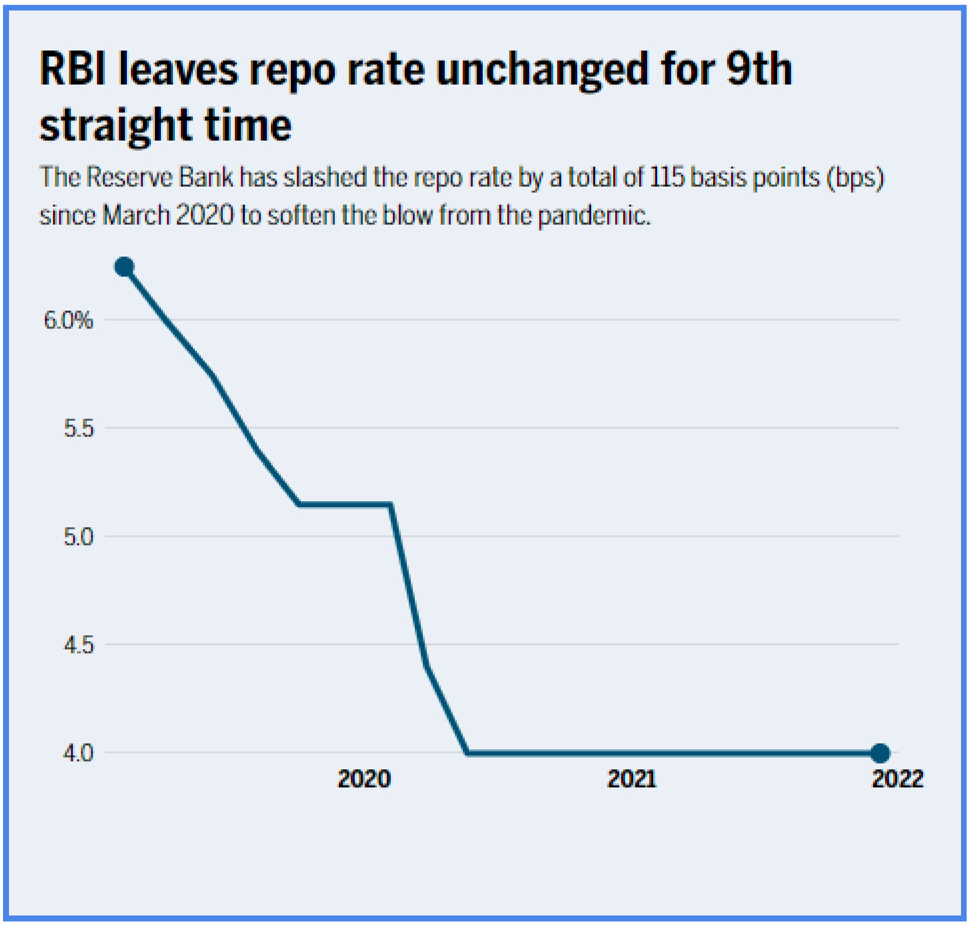
Inflation is likely to rise further as price of fertilisers will increase because of drastic reduction in food and fertilizers subsidy in the Union Budget 2022-23.

7 https://www.livemint.com/opinion/columns/the-country-s-inflation-problem-calls-for-a-multipronged-solution-11645979641036.html

Monetary Policy

In 2014, the primary objective of the RBI monetary policy became price stability, giving less importance to the government's borrowing, the stability of the rupee exchange rate and the need to protect exports. In February 2015, the government and the central bank agreed to set a consumer inflation target of 4 percent, with a band of plus or minus 2 percentage points, from the financial year ending in March 2017.

Interest Rate in India averaged 6.41 percent from 2000 until 2022, reaching an all-time high of 14.50 percent in August of 2000 and a record low of 4 percent in May of 2020.[8]



India will face much tighter external financial conditions in 2022. Many of the G-10 central banks are expected to start raising their policy rates and roll down their balance sheets. As the Fed raises

[8]https://tradingeconomics.com/india/interest-rate

the interest rates, the difference between the interest rates of India and the US will increase, making India less attractive for foreign investors. Global funds will pull out of Indian G-Secs. RBI would be forced to increase interest rates to prevent FPI flows from the Indian bond market.

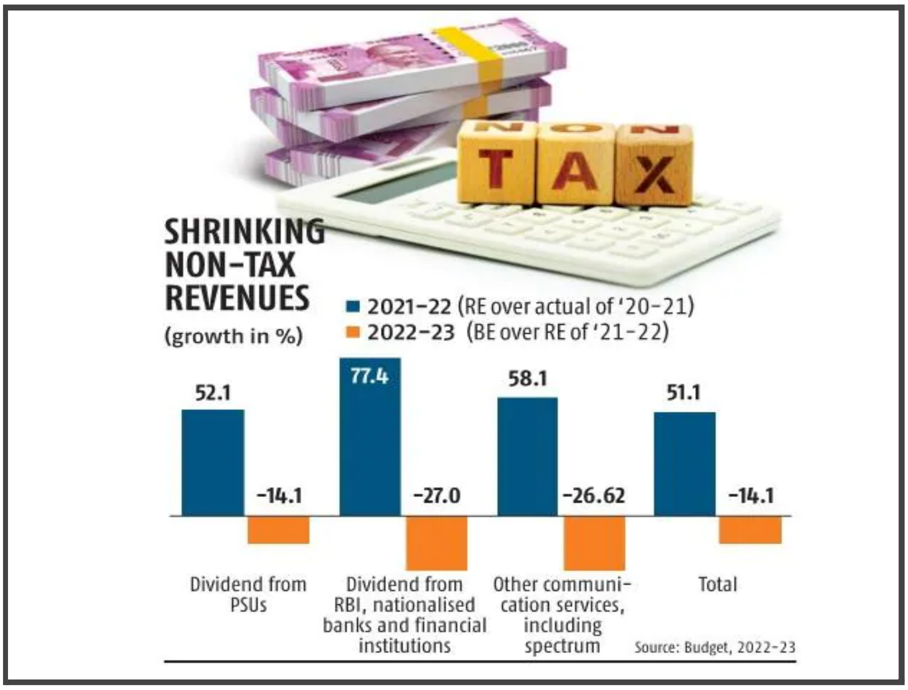
Also, as inflation is likely to increase due to the Russia-Ukraine conflict, it would be a challenge for RBI to maintain a balance between interest rate and inflation. If RBI keeps the interest rate low, then inflation would be high due to increased investment.

Even without the central bank raising rates, lenders' cost of funds has inched up as deposits slowed down and credit grew at a one-year high. Several large lenders, including SBI and PNB have raised their bulk deposit rates[9].

The excess liquidity that is there in the system, and the overnight rates which are close to the lower end of the policy corridor need to be adjusted and fast-tracked. RBI and the government need to manage and implement structural reforms in order to maintain a balance between growth and inflation.

Fiscal Developments

In the first eight months of 2021-22, India had earned net tax revenue of Rs 11.3 lakh crore—65% higher than last fiscal and 73.4% of its Rs 15.4 lakh crore budget estimate, according to the



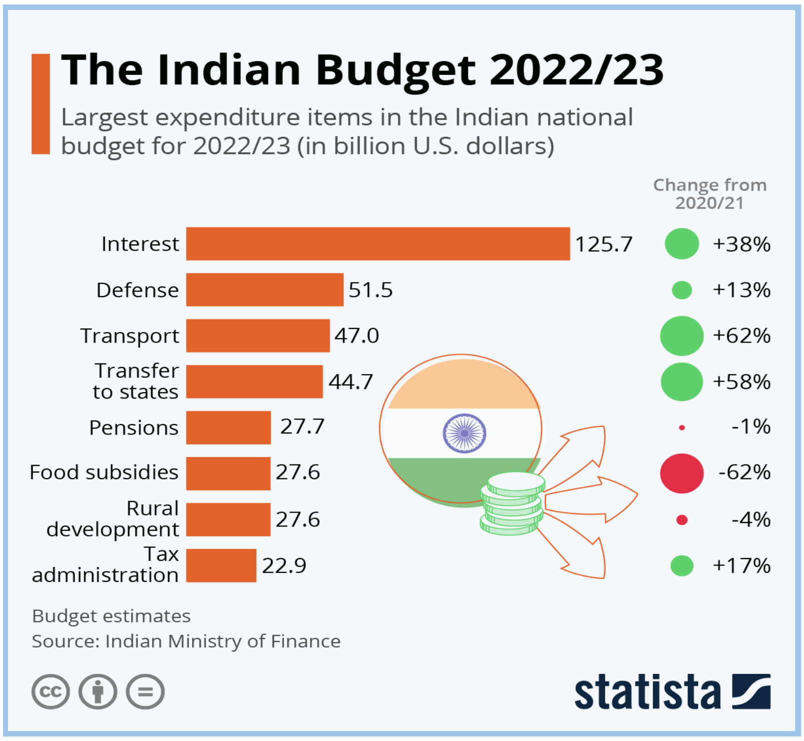
9 https://timesofindia.indiatimes.com/business/india-business/rbi-may-keep-rates-on-hold-adopt-hawkish-stance-on-wed/articleshow/62796626.cms

government's monthly accounts. The gross tax revenue collections during the same period stood at Rs 15.4 lakh crore—69.4% of the Rs 22.1 lakh crore target.

The share of corporate tax has been declining mostly due to the cut in corporate tax rates announced in September 2019. The share of income tax and GST collections have remained largely stable despite the pandemic-induced disruption.

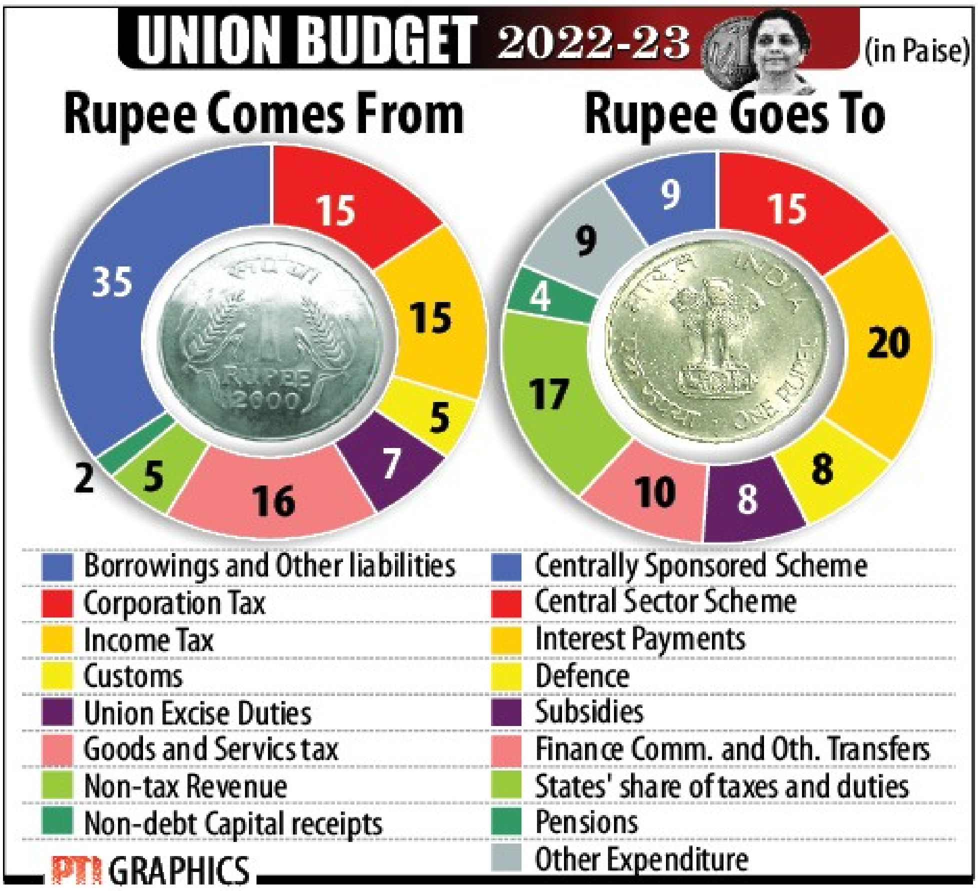
In FY23, the non-tax revenue of the government is likely to reduce. According to Chief Economist Bank of Baroda, the dividend from the RBI nationalized banks and financial institutions is pegged at around Rs 74,000 crore for FY'23, lower by 27 percent compared to the expected in the current financial year. This may be due to the excess liquidity as the RBI's net income falls as it sucks liquidity out. Dividend from public sector units (PSUs) is expected to slip by 13 percent at Rs 40,000 crore in the next financial year compared to Rs 46,000 crore expected in the current financial year. Also, The government had announced a four-year moratorium on paying adjusted gross revenue (AGR) with effect from October 2021. The telcos paid their dues this financial year because of which revenues to the government rose. However, because of AGR calculations, the payout would be less from the next financial year.[10]

The central government's revenue from taxes this fiscal saw an increase due to nominal GDP growth that is higher than expected. The government had budgeted for a 14.4% rise in nominal



10 https://www.business-standard.com/budget/article/union-budget-2022-non-tax-revenues-to-see-a-14-decline-in-fy23-122020200027_1.html

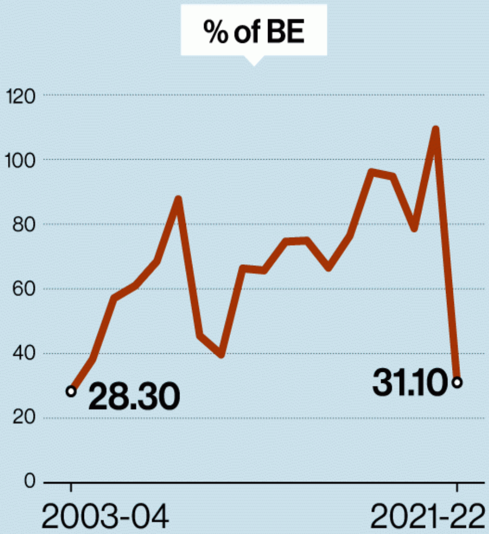
GDP. However, advance estimates showed that the nominal GDP grew at 17.6% in the current fiscal. As a result, India's tax buoyancy has also jumped. In the first half of FY22, tax buoyancy was at 2.7, according to EY India, more than double of what was budgeted.

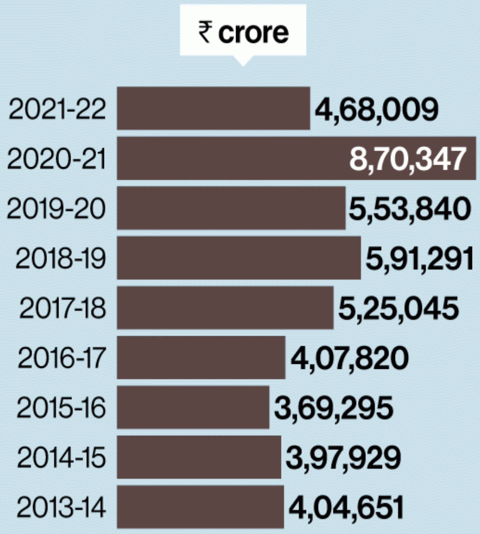


Thus, there is better performance on the tax front but the tax to GDP ratio remains the same as last two years i.e. around 10%, despite the implementation of GST. The aim should be to achieve a tax to GDP ratio comparable to the OECD average of about 34%. Revenues can go up further with better mining and analytics of data on GST.

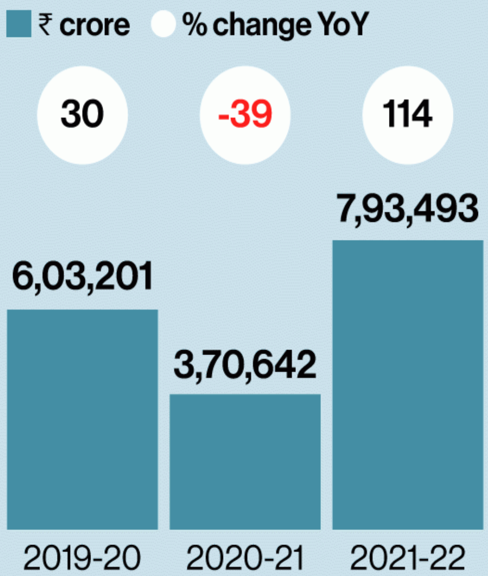
According to the survey, reaching the Union Budget estimate for a fiscal deficit of 6.8% would not be a problem. But this seems doubtful due to a shortfall in disinvestment proceeds. There has been a delay in disinvestment of LIC which was expected to mobilize over Rs. 1 lakh crore in the IPO market. The growth in tax and other receipts might be expected to moderate in FY23 due to a possible need to cut excise taxes on fuel.

Fiscal Deficit

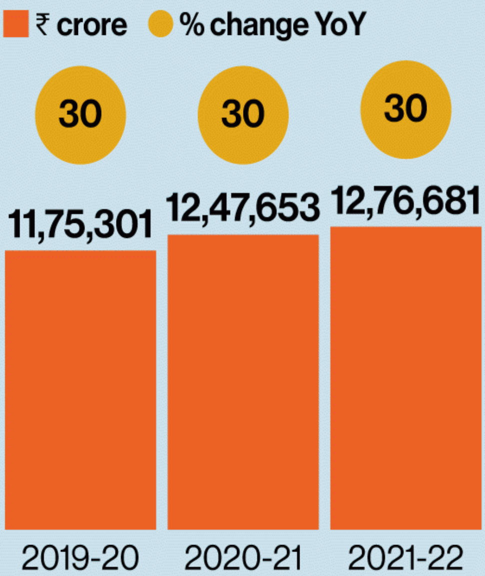




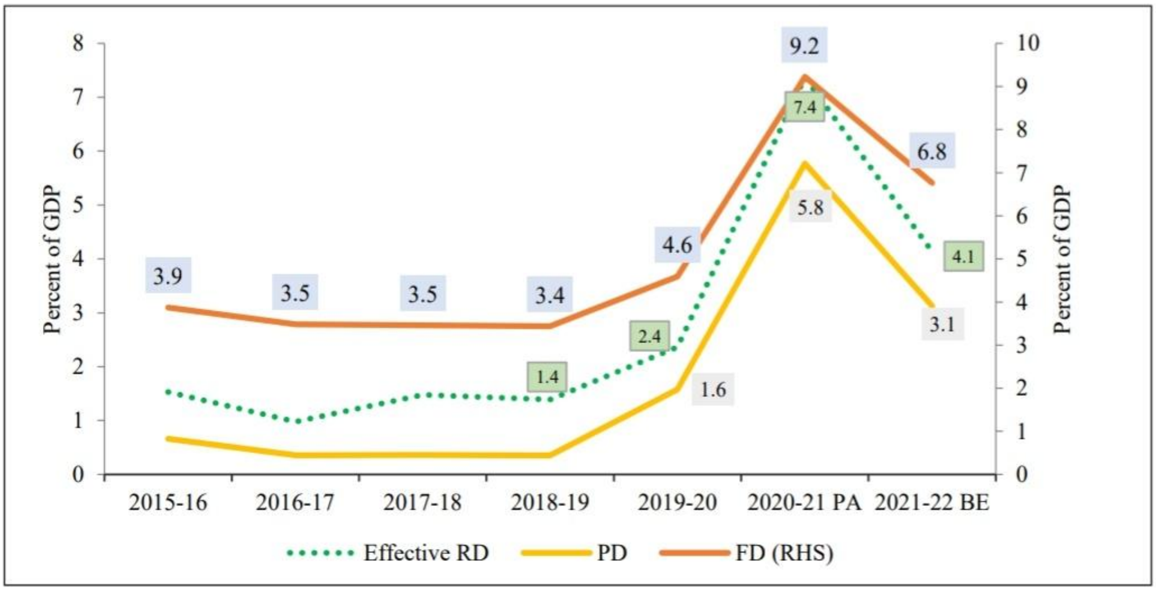
Revenue Receipts



Total Expenditure



Source: CGA



Source: Union Budget Documents & CGA
BE: Budget Estimate, PA: Provisional Actuals
FD: Fiscal Deficit; RD: Revenue Deficit; PD: Primary Deficit

There is a need to gradually consolidate the fiscal deficit. Fiscal Policy needs to remain supportive to signal that the government believes in prudence and is taking inflation seriously. The very large estimated cash balances with RBI along with direct tax and GST collection will help to finance the deficit in FY23. Proceeds from LIC will add to these balances in FY23, opening up the fiscal space to provide additional support to vulnerable sections of the economy.

Disinvestment

The disinvestment targets of the government have remained ambitious in the past. As against the budgeted target of Rs. 2.10 lakh crore in 2020-21, the government raised Rs. 37,897 crore in 2019-20, disinvestment receipts stood at Rs. 50,298 crore lower than RE of Rs. 65,000 crore and BE of Rs. 1.05 lakh crore.

However, this time the government has trimmed the target by 16.6% compared to Rs. 78,000 crore in RE of the current financial year as its big-ticket privatization proposals have seen a delay. The total disinvestment government proceeds is Rs. 12,029 crore which includes Rs. 2700 crore receipt from Air India privatization and balance Rs. 9330 crore through the sale of minority stakes in CPSEs.

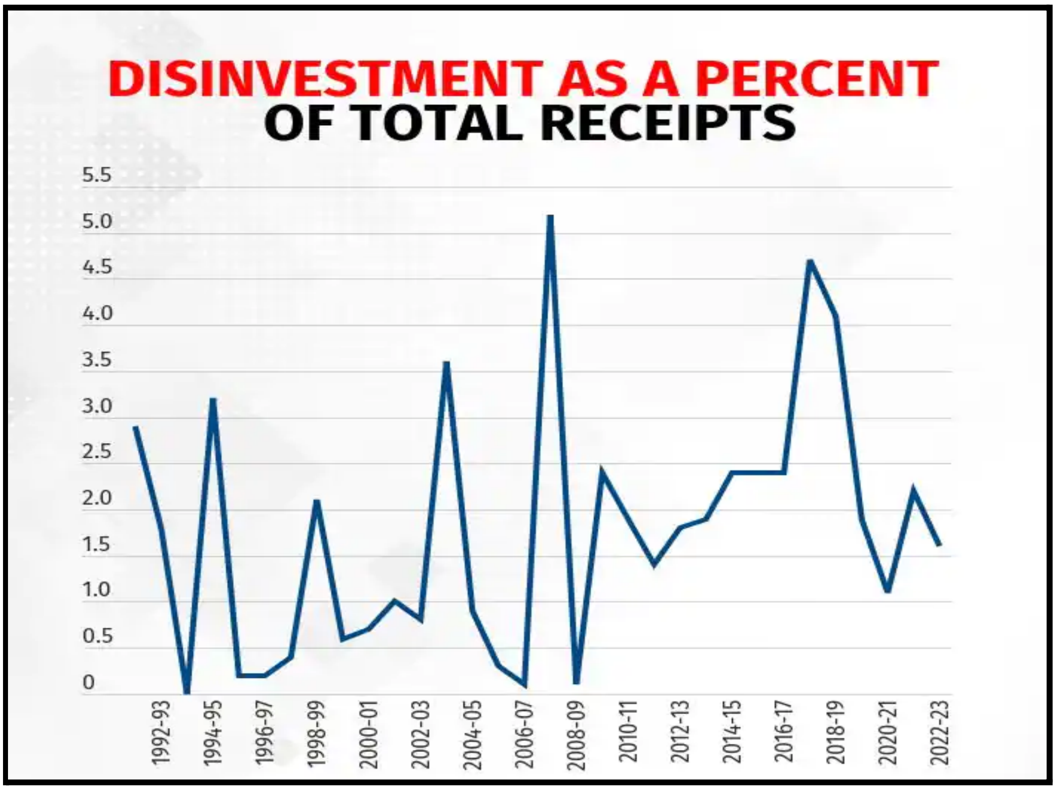
SHEDDING STAKES

Year	Budget Estimate (in ₹ cr)	Revised Estimate (in ₹ cr)	Receipts
FY19	80,000	80,000	84,972
FY20	1,05,000	65,000	50,298
FY21	2,10,000	32,000	32,845
FY22	1,75,000	78,000	NA
FY23	65,000	NA	NA

Source: Budget documents, DIPAM

ILLUSTRATION: AJAY MOHANTY

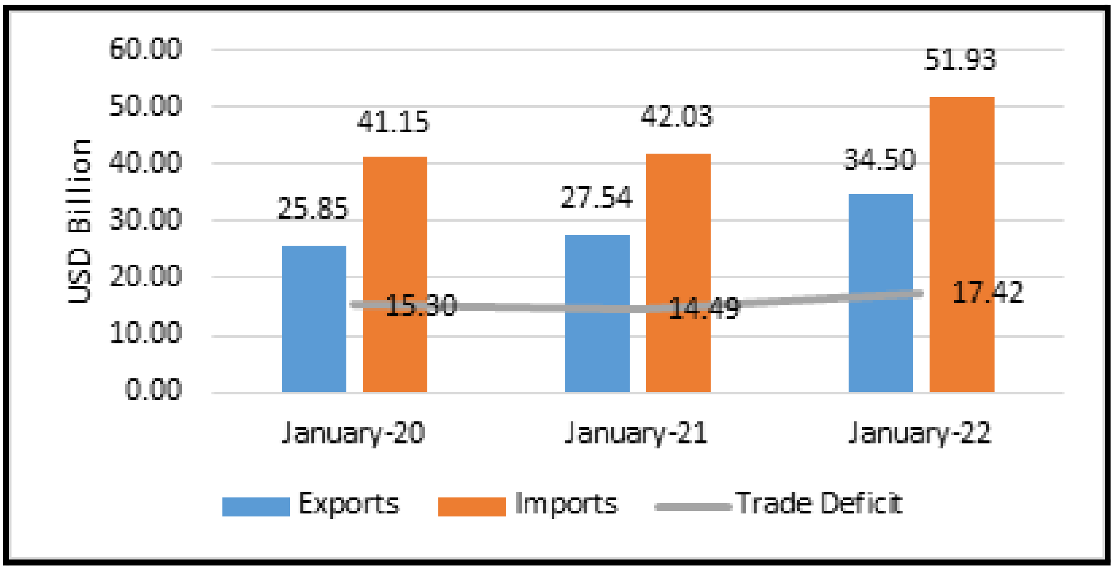
In this year's budget, the government has not mentioned the privatization of BPCL, Container Corporation of India and Shipping Corporation of India, which it had planned in last year's budget. It had also said that it would privatise two public sector banks and one insurance company but there is again no word about it in the budget.



The government should make sure that disinvestment leads to an increase in competition in all cases. There shouldn't be a monopoly in any sector as it would hurt the consumers in the form of rising prices. Secondly, proceeds of disinvestment shouldn't be only used to pay interest or salary but proceeds can be reinvested in long-term infrastructure assets that can yield returns to the economy. Bureaucracy needs to be incentivized to take timely decisions as due to delay in decision making, almost all processes starting from conception to the selection of bidders are suffering. Lastly, the sale process needs to be fair and transparent with a minimum reserve price.

Exports

The Economic Survey mentions that India is well on track as far as attaining the export target is concerned. Out of an ambitious export target of $400 billion set for 2021-22, India has already attained more than 75 percent of it by exporting goods worth $301.4 billion, which is actually higher than the export target of $300 billion set for the April-December period of 2021-22.



India's merchandise exports increased by 25.3% year on year to $34.5 billion in January 2022. While January's goods exports are 8.75% lower than December's all-time record figure of $37.81 billion, it takes India's exports near the $400 billion target set for 2021-22[11]

11 https://www.thehindu.com/news/national/january-exports-rise-25-gold-imports-shrink/article65053501.ece

It can be seen from the figure above that exports have a rising trend. They fell sharply in the year 2020 and have recovered in the year 2021. In recent years, India exported mostly pearls, precious and semi-precious stones and jewelry (16 percent); mineral fuels, oils and waxes and bituminous substances (12 percent); vehicles, parts and accessories (5 percent); nuclear reactors, boilers, machinery and mechanical appliances (5 percent); pharmaceutical products (5 percent); and organic chemicals (4 percent).

India's main export partners are the United States, United Arab Emirates, Hong Kong, China, Singapore and the United Kingdom.

To ensure higher growth of exports in the next fiscal year, there is a need to diversify exports. India needs to take advantage of opportunities that stand in its way. Firstly, people are looking for an alternative to China and India is definitely on the radar of global companies. Secondly, because of PLI Schemes, additional production will be added to the export base of the country. 'One District, One Product' is a step in the right direction. It will provide employment opportunities to people and lead to diversification of exports.

However, there are risks of global liquidity tightening and continued volatility of global commodity prices, high freight costs, coupled with the fresh resurgence of COVID-19.

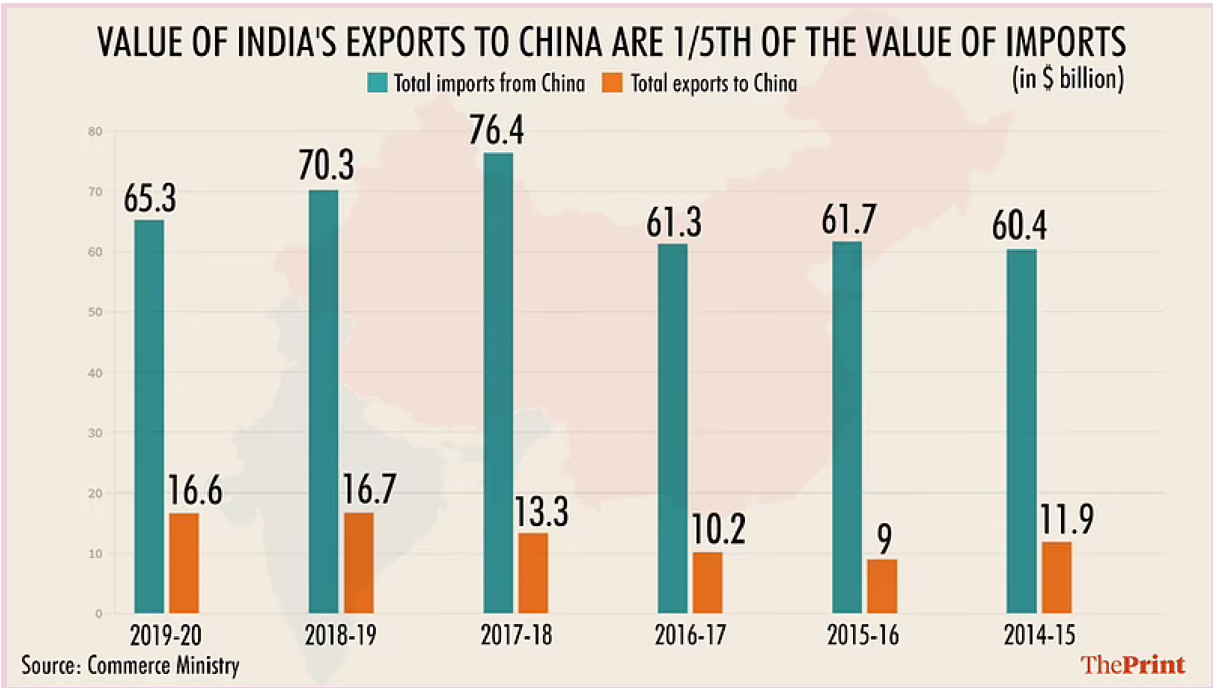
The government needs to reevaluate AtmaNirbhar Policy. Tariffs should not be raised on raw materials which are important for the domestic production of goods. This will help in making Indian goods competitive in the international market by reducing the cost of production.

Imports

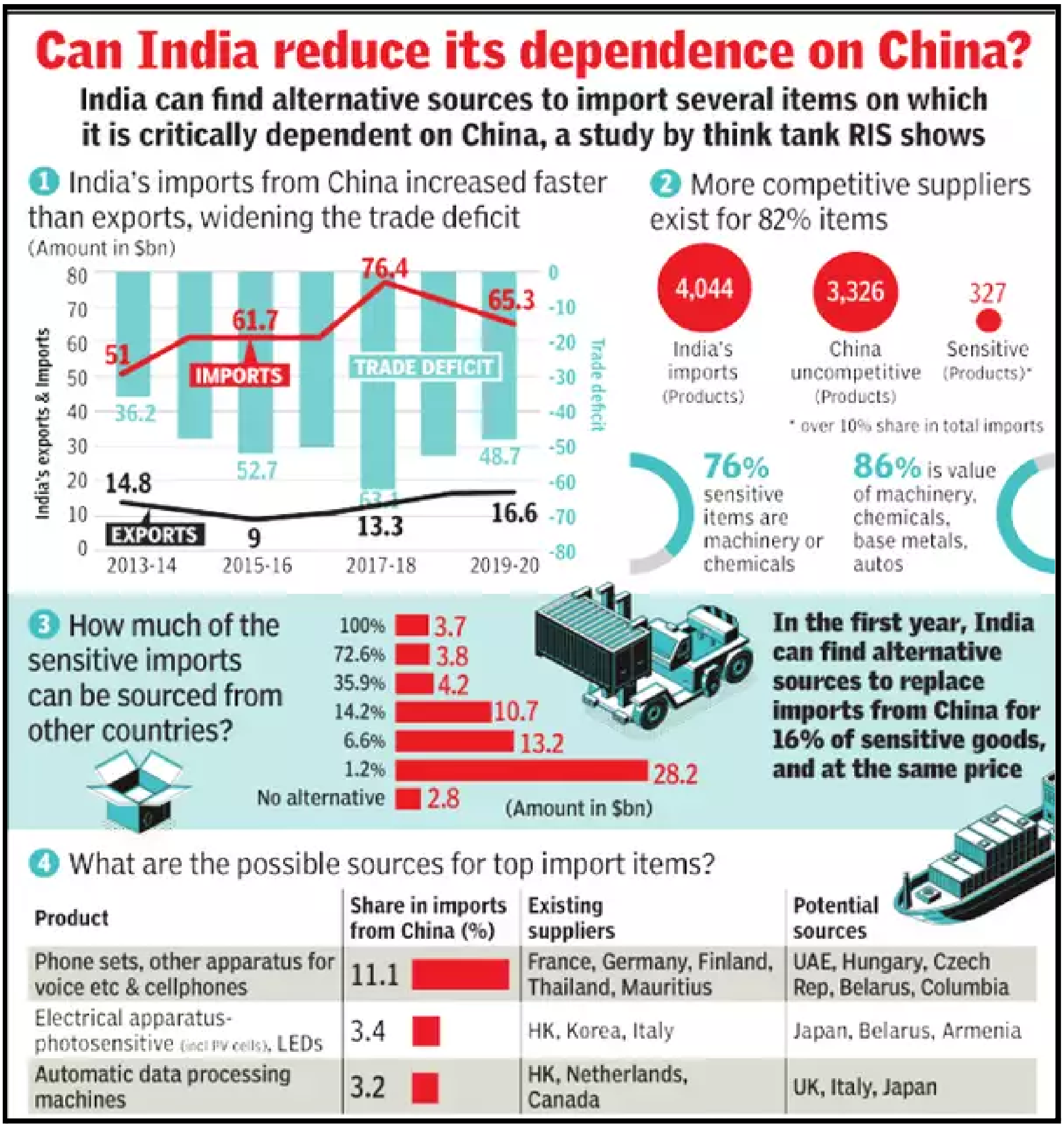
India's merchandise import in January 2022 was USD 52.01 billion, an increase of 23.74% over USD 42.03 billion in January 2021 and an increase of 26.38% over USD 41.15 billion in January 2020. India's merchandise import in 2021-22 (April-January) was USD 495.83 billion, an increase of 62.68% over USD 304.79 billion in 2020-21 (April-January) and an increase of 22.3% over USD 405.33 billion in 2019-20 (April-January)[12].

The top five commodities which are imported include Petroleum, Crude & products; electronic goods; gold; Machinery, electrical & non-electrical; Organic & Inorganic Chemicals.

The top sources of imports include China (16.53%), the US (7.32%), UAE (6.75%), Switzerland (4.62%) and Saudi Arabia (4.1%).



[12] https://commerce.gov.in/press-releases/indias-merchandise-trade-preliminary-data-january-2022/



India's major imports from China have been items like automatic data processing machines and units, telephone equipment and video phones, electronic circuits, transistors and semiconductor devices, antibiotics, heterocyclic compounds including nitrogen, fertilizers, sound recording devices and TV cameras, automobile components and accessories and project goods.

The sharp rise in imports has pushed India's trade deficit with China to $69.4 billion in 2021, up from $45.9 billion in 2020 and $56.8 billion in 2019[13]. Imports from China have risen in the pandemic due to the import of medical products and raw materials for the pharmaceutical industry due to the massive second wave of COVID-19.

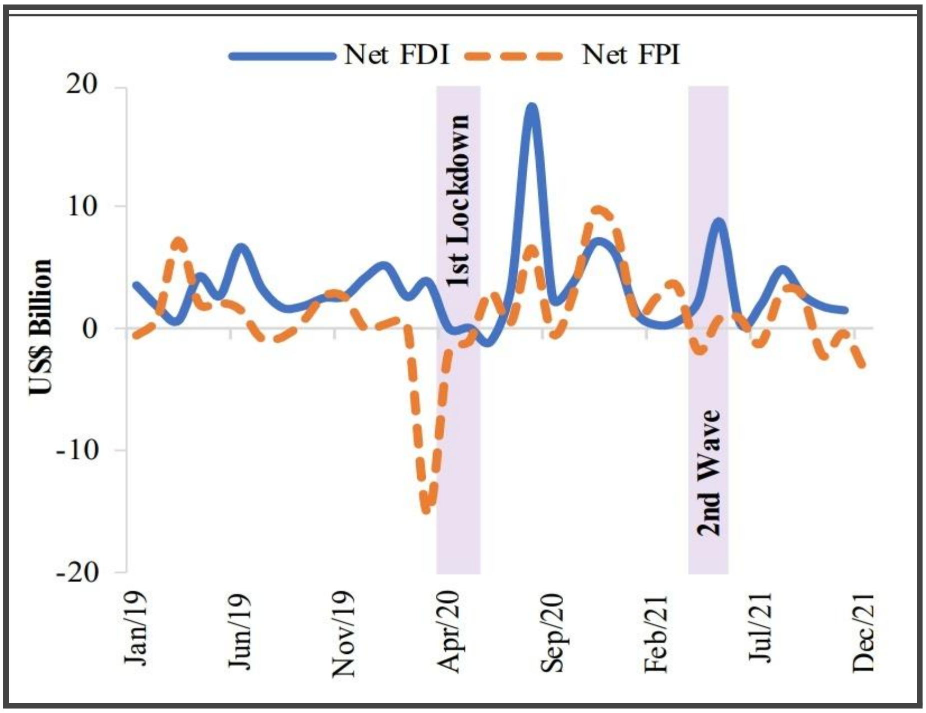
13 https://economictimes.indiatimes.com/news/economy/foreign-trade/india-china-trade-grows-to-record-125-billion-in-2021-despite-tensions-in-eastern-ladakh/articleshow/88900383.cms

The government should think about policy changes to make India again become competitive in producing API. This would help in the reduction of imports of API from China, 60% of which is currently imported from China. PLI Scheme can be expanded to multiple sectors like leather, furniture, toy industry. Manufacturing capabilities of industries dealing with green energy needs to be improved, in which China has an advantage. Financial incentives need to be given to such industries that can produce goods that act as a substitute for low-value imports from China.

The major issues which deter investors from setting up industries in India include paperwork and compliance burden, delay in clearances, uncertain regulatory environment. These issues need to be resolved at the earliest.

Investment

The United Nations Conference on Trade and Development's World Investment Report, published in June 2021, revealed that India became the fifth-largest recipient of foreign direct investment inflows in the world in 2020. Gross FDI inflows amounted to $32 billion in the first five months of 2021—close to 37 percent of the entire inflow in 2020[14].



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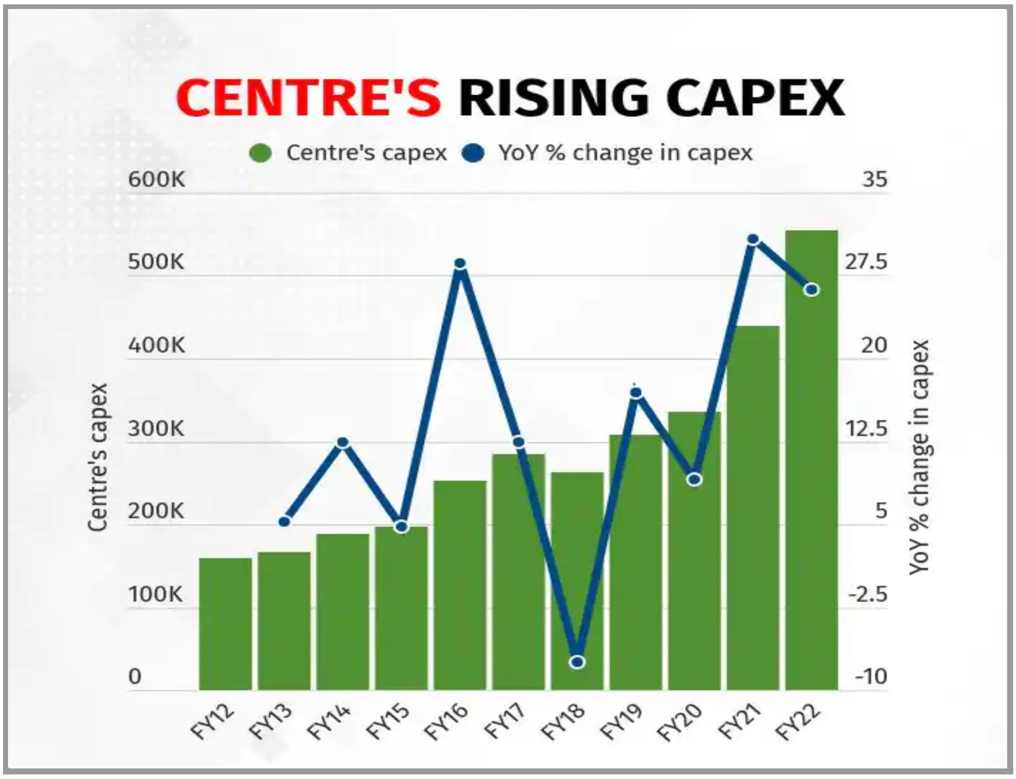
https://www.indiatoday.in/india-today-insight/story/why-domestic-investment-remains-slumped-even-though-fdi-is-at-a-record-high-1841182-2021-08-16

India Investment accounted for 32.5 % of its Nominal GDP in Sep 2021, compared with a ratio of 28.7 % in the previous quarter.[15] During FY 2020-21, total FDI inflow of $58.37 bn, 22% higher as compared to the first 8 months of 2019-20. FDI equity inflows received during April - November 2020 is $43.85 bn which is 37% more compared to April - November 2020 ($32.11 bn)[16].

Private equity/ venture capital investments are rising, but gross fixed capital formation has slipped from 34.3 percent of GDP in 2011-21 to 27.1 percent in 2020-21. An analysis by EY has shown that the decade ended with a record high of PE/ VC investment—$47.6 billion in 2020. A bulk of this ($17.3 billion or 36 percent) went to Reliance Retail and Jio Platforms.

Govt has hiked public expenditure by raising capital expenditure by 35.4 percent to Rs 7.5 lakh crore or 2.9 percent of the GDP in FY23.



15 https://www.ceicdata.com/en/indicator/india/investment--nominal-gdp#:~:text=India%20Investment%20accounted%20for%2032.5,an%20average%20ratio%20of%2033.6%20%25.

16 https://www.investindia.gov.in/foreign-direct-investment#:~:text=India%20has%20attracted%20a%20total,%2D21%20(%24%2016.92%20billion).&text=financial%20year%20and%2022%25%20higher,%2D20%20(%2455.14%20bn).

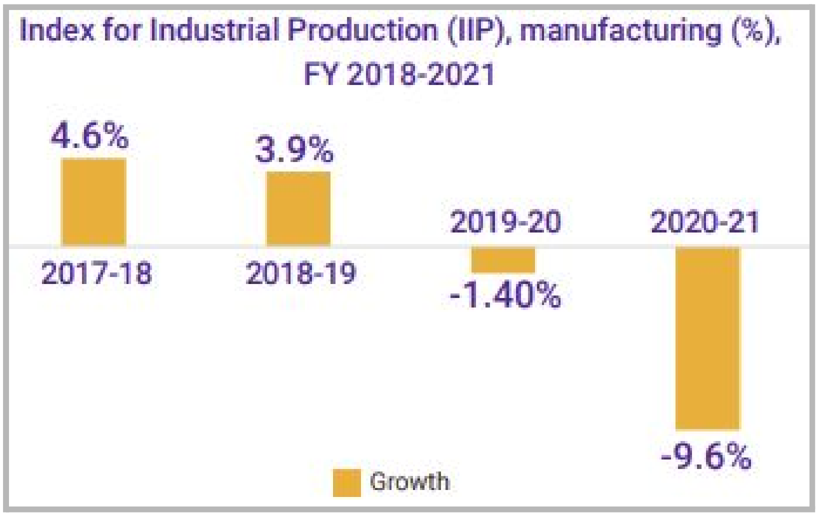
However, financing of public investment will depend on tax revenue realizations, disinvestment proceeds, sale of road and rail assets and the government's ability to raise resources from the market, without raising interest rates for the private sector. With the threat of higher imported inflation and rising interest rates, meeting the investment targets would be challenging.

Private investment has remained flat for many years. Firms have low capacity utilization due to low demand. This has led to the accumulation of excess inventories and thus firms are not willing to invest further despite the government's attempt to provide cheap finance. Public investment could create demand for capital and intermediate goods. However, if a substantial share of such investment leaks out as imports, then the industrial output may not get the desired boost.

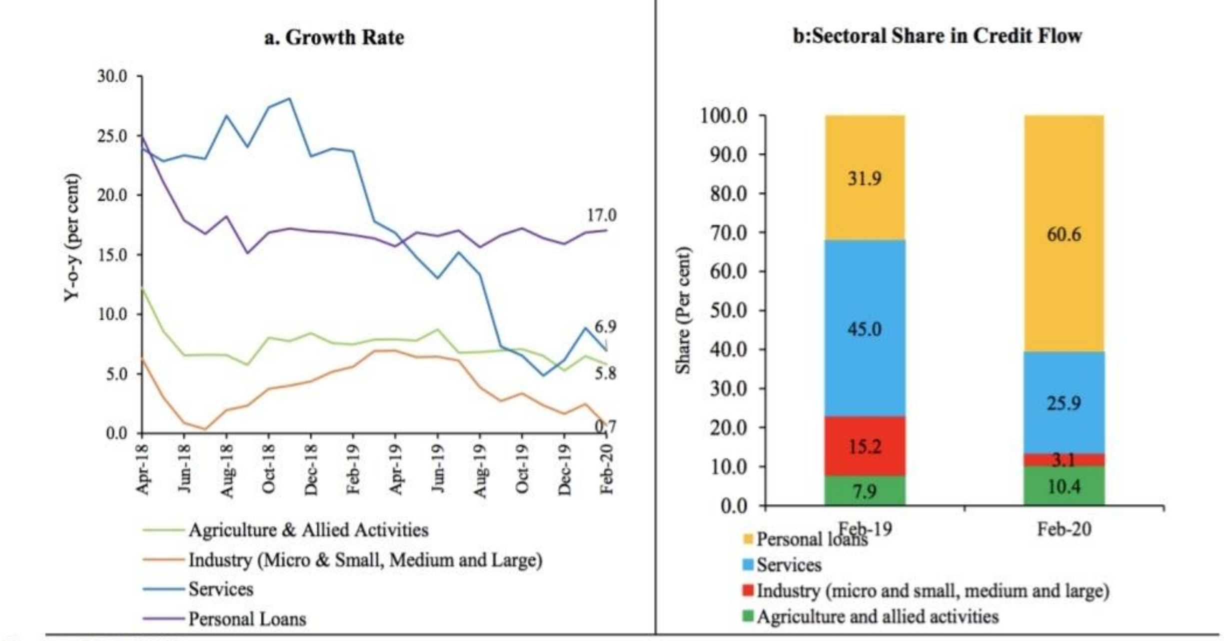
To become a $5 trillion economy, the investment rate needs to rise around 40%. India needs to provide a secure and stable investment climate for investors fleeing from China due to geopolitical reasons. They must feel that India provides a level playing field and there should be stability in regulations and tax regime should become predictable. Secondly, the PLI scheme should also provide benefits to labor-intensive schemes. It will provide employment opportunities to rural and semi-urban people and promote entrepreneurship. Thirdly, fiscal incentives are needed to encourage investment in industries for R&D. There is a need to provide import duty reliefs to enable the industries to import essential raw materials to maintain competitiveness in the international market.

Industrial Sector

According to the survey, the growth of the industrial sector, in the first half of 2021-22, was 22.9 percent vis a vis the corresponding period of 2020-21and is expected to grow by 11.8 percent in this financial year.



However, according to data released by the National Statistical Office (NSO), industrial output fell to a 10-month low of 0.4 percent in December. The IIP had registered a growth of 1.3 percent a month ago and 2.2 percent in December 2020. The biggest drag for the industrial output in December came from the 0.1 percent contraction in manufacturing output, which accounts for 77.6 percent of the weight of the IIP.



Source: RBI (2020)

Factors like supply chain disruptions due to the pandemic, liquidity crunch, capacity underutilization due to suppressed demand have hindered the growth of the industrial sector. According to the Chief Economist of ICRA, capacity utilization is expected to improve to 71-72% in the ongoing quarter despite the third wave, but will not be enough to trigger a pickup in the private capex cycle.

MSME

Studies have shown that approximately 95% of firms were impacted negatively due to the national lockdown imposed in April 2020, 70% of businesses remained disrupted till August 2020. The apparel manufacturing units of the export sector realized a business loss of over Rs. 150 crore from March 2020 to May 2020. Loss of India's leather industries has been valued to be Rs. 11,210 crore in the global market[17].

[17] https://timesofindia.indiatimes.com/blogs/agyeya/msmes-in-india-post-covid-scenario/

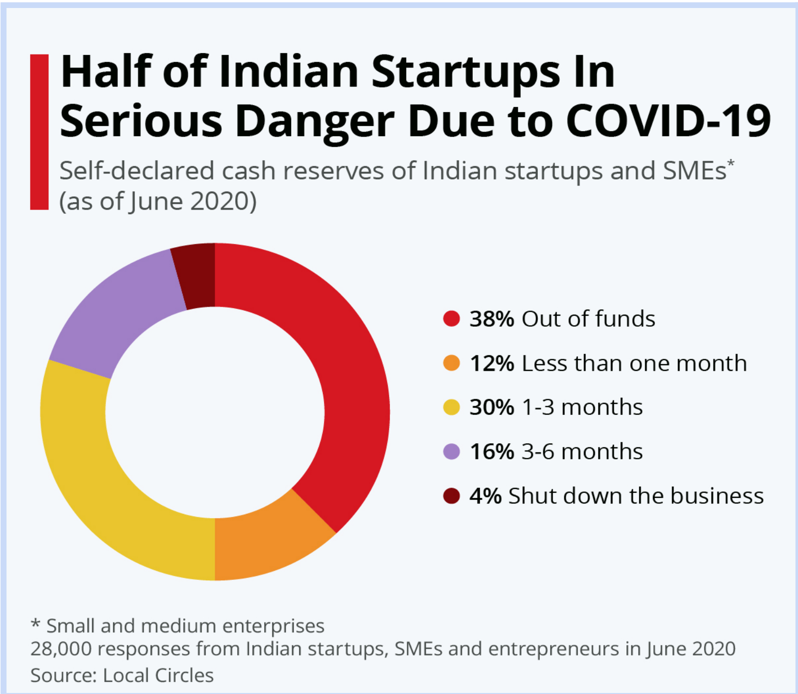
Growth in Industry-wise Deployment of Bank Credit by Major Sectors (YOY, %)

Item	March-15	March-16	March-17	March-18	March-19	Nov-19#
Non-food Credit	8.6	9.1	8.4	8.4	12.3	7.2
Industry	5.6	2.7	-1.9	0.7	6.9	2.4
Micro&Small	9.1	-2.3	-0.5	0.9	0.7	-0.1
Medium	0.4	-7.8	-8.7	-1.1	2.6	-2.4
Large	5.3	4.2	-1.7	0.8	8.2	3.0
Textiles	-0.1	1.9	-4.6	6.9	-3.0	-6.1
Infrastructure	10.5	4.4	-6.1	-1.7	18.5	7.0

Source: Economic Survey 2019-20; # as on November 22, 2019

From the above table, it can be seen that the growth of credit to MSMEs post-Covid-19 has been either low or negative. MSMEs have mainly suffered due to supply chain disruptions, fall in global demand, return of migrant workers to rural areas, shortage of raw materials, trade disruptions, etc.

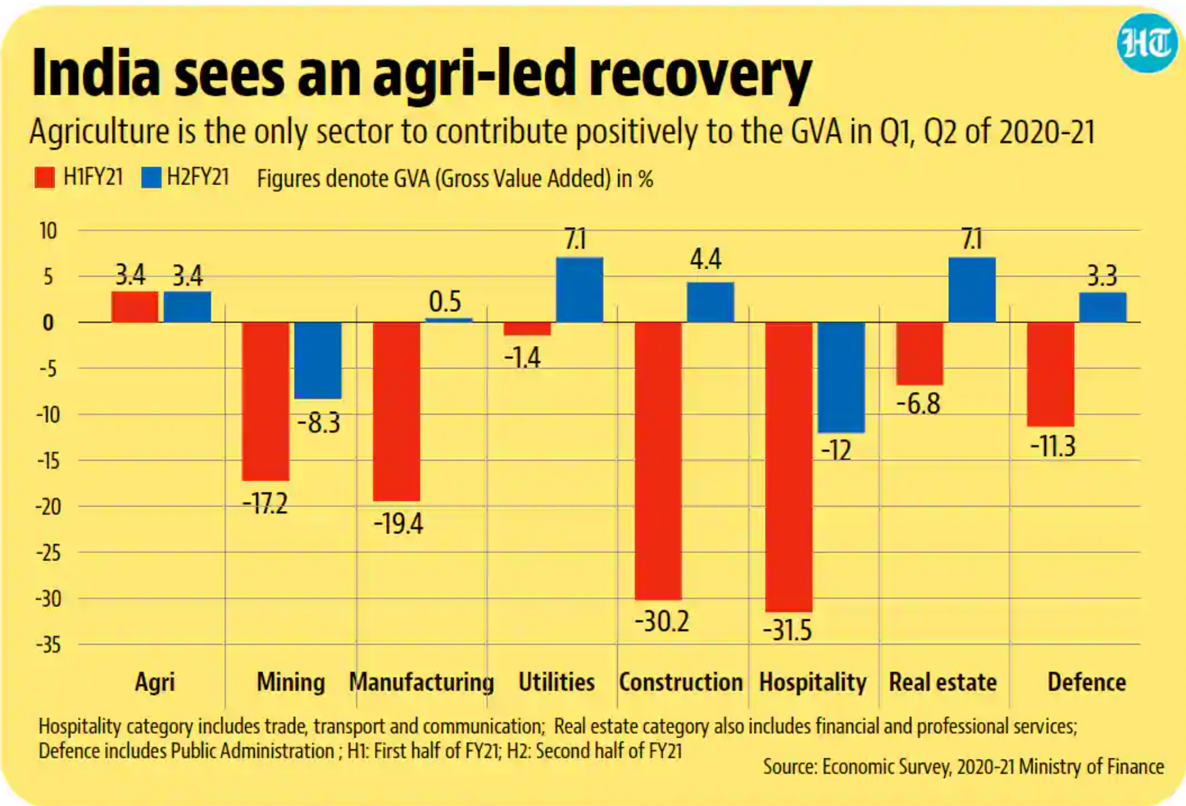
A survey in MSMEs by the All India Manufacturers Organisation in the year 2020 had shown that 35% of MSMEs and 43% of the self-employed said that they see no chance of recovery in their businesses and have begun shutting down their operations.



The government's Production Linked Incentive Scheme (PLI) applicable for the telecom, pharmaceuticals, steel, textiles, food processing, white goods, IT hardware and solar sectors has the potential to help India become a key manufacturing hub. However, this scheme needs to be extended to other sectors as well, especially labor-intensive sectors which will help revive the growth of employment. It would help in promotion of entrepreneurship among people of rural areas. Diversification of sources of essential raw materials is also required to prevent disruption in the manufacturing sector due to Covid. A strong digital ecosystem needs to be created to connect suppliers and buyers. It would give greater market access to MSMEs. It would help to improve the efficiency of the MSME sector. They can collaborate with research institutions and tech startups which would help them in innovating products through spillover of knowledge. Production of new and innovative products would help them in getting access to untapped global markets.

Agriculture

Agriculture sector proved to be the most resilient to the Covid-19 shock as it registered a growth of 3.6 percent in 2020-21 and improved to 3.9 percent in 2021-22, according to the economic survey. Exports of agriculture and allied products also grew by 23.2 percent to $ 31 billion during April-November 2021.



India has achieved significant growth of 21.8 percent in the export of agricultural and processed food products in April-August 2021-22 when compared with the corresponding period of 2020-21[18].

A bumper food-grain production of 303.3 million tonnes in 2020-21, remarkable procurement operation (39 million tonnes of wheat in rabi marketing season (RMS) 2020-21 and 46 million tonnes of rice in the ensuing kharif marketing season (KMS) 2020-21 coupled with favourable monsoon contributed significantly to agricultural growth. Similarly, a steep increase in tractor sales (17.35 percent) and farm exports (9.8 percent) between April-December FY 2020-2021 over the same period of FY 2019-2020 also helped revive the agricultural sector and the rural economy[19].

Despite registering a positive growth during the pandemic, the agriculture sector too faced some challenges. Some of them include disruption of supply chains, disruption of food procurement by government agencies, shortage of workers collecting crops from farms and harvesting Rabi crops, shortage of truck drivers and blockades in the transport of commodities, limited availability of APMC Mandis operations and closure of retail markets.

Another problem faced by this sector is that the Open-ended MSP Scheme for wheat and rice has led to the piling up of food grains with FCI. The optimal level of buffer stock is 21.4 million tonnes. The actual food stock on 1 January 2022 was 86.9 million tonnes which is more than four times the norm. The cost of this excess food stock is Rs. 2.1 lakh crore. There is a need to review the open-ended procurement policy to bring down financial and logistical burden on the government.

In States like Punjab and Haryana, the government procured a large share of wheat production and market arrivals- about 73 percent of production in Punjab and 80 percent in Haryana in Rabi Marketing Season 2019-20. These excess stocks create storage problems and high storage and financing costs, leading to a high food subsidy burden. This has prevented crop diversification as the government does not procure high valued crops just like wheat and rice.

The Government had introduced three agricultural reform laws in June 2020. Important changes in the laws included:

• relaxing restrictions on the purchase and sale of farm produce that take place through state government-regulated marketplaces called mandis;

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18 https://krishijagran.com/agriculture-world/2021-2022-fiscal-almost-over-an-insight-on-performance-of-indian-agricultural-sector/

19 Gulati, Ashok and Jose, Shyma and Singh, B. B., COVID-19: Emergence, Spread and Its Impact on the Indian Economy and Migrant Workers (April 26, 2021)

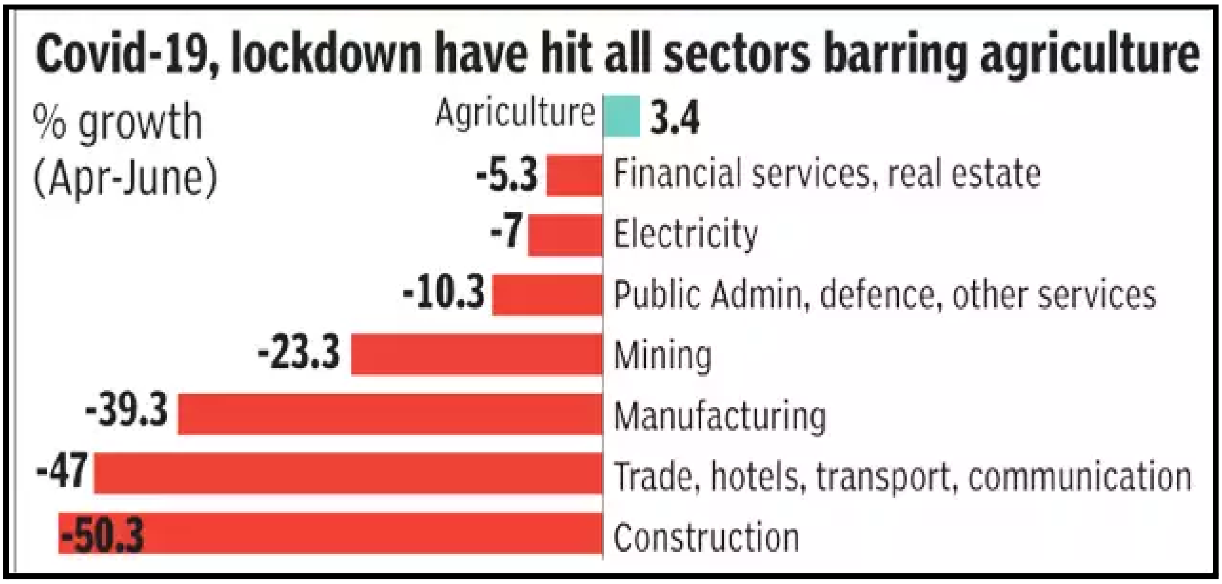
• loosening restrictions on the stocking and movement of food items that are classed as essential commodities, allowing stockpiling
• enabling farmers to enter into contract farming agreements with buyers directly, thus bypassing mandis and providing local dispute settlement mechanisms.
These laws were repealed by the government after prolonged farmers' protests. However, the farm laws were a good reform measure, particularly for small farmers in the long run. These laws would have helped the farmers in getting a good price for their crops by directly selling to the buyers and would have freed them from clutches from middlemen and monopolistic APMCs. But the farmers feared that it would lead to the corporatization of agriculture.

Crop diversification can help in increasing farmers' income as the market value of high-value crops is rising faster than wheat and rice. Government can incentivize farmers to diversify crop patterns by guaranteeing some minimum support price but it shouldn't be open-ended. Farmers Producers Organisation (FPOs) should be promoted as it helps the farmers in getting a good price for their produce as they get support for marketing. They can purchase inputs in bulk which can help in reducing the cost of production. Also, they can get easy credit facilities which an individual farmer can't because of lack of collateral and low creditworthiness.

There is a need to have a transition from conventional agricultural practices to the technology invented smart agriculture. Indian agriculture sector should adapt and the former community needs to be educated in applying ICT-based smart agriculture practices such as the utilization of automated machinery, AI (artificial intelligence) enabled cultivation methods, Internet of Things (IoT) and Wireless Sensor Networks based monitoring and maintenance of the agriculture practice. It would increase the efficiency and competitiveness of the Indian agriculture sector in the global market.

Services

This sector was the worst hit due to the pandemic because services generally depend more than either agriculture or industry on direct human interaction between the producers and users of services. Many personal services like those of barbers, maids or drivers also simply cannot be consumed virtually while digitization has its limits in accessing others like education and health.

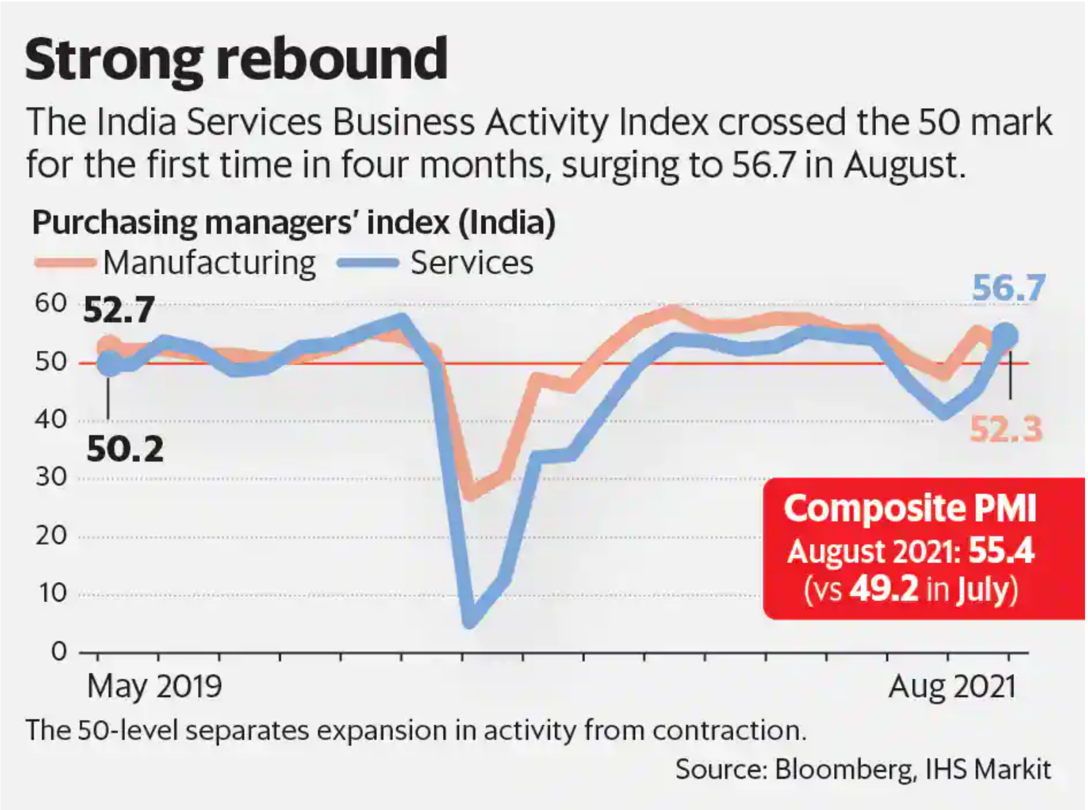


MSMEs in the service sector, the tour and travel industry, hotel and restaurants sector, entertainment, and services like gym, spa, etc, were deeply impacted due to Covid-19. Hotels, restaurants, and transport services depend a great deal on people physically traveling for work and tourism purposes and congregating in numbers.

According to the survey, during the first half of 2021-22, the services sector grew by 10.8 percent. Being a contact intensive sub-sector, GVA of trade, hotels, transport, communication & services related to broadcasting still remains below its pre-pandemic level. The overall services sector GVA is expected to grow by 8.2 percent in 2021-22.

This sector contributes more than 50% to the overall GVA. The tourism sector, which is a major contributor in terms of GDP, foreign exchange earnings and employment, also had a debilitating impact. The sector has already undergone a slowdown in 2018 and 2019 before declining sharply in 2020 after pandemic due to travel-related restrictions. Most of the services have registered negative growth during the pandemic.

The seasonally adjusted India Services Business Activity Index surged to 56.7 in August, up from 45.4 in July 2021. This was the first time it crossed the 50 mark in four months. A reading above 50 indicates an overall increase when compared with the previous month. The index is compiled based on responses from around 400 service sector companies across segments such as consumer (excluding retail), transport, information, communication, finance, insurance, real estate and business services[20]. It can be attributed to the increased pace of vaccination, reopening of establishments, increased customer footfall which led to an increase in output and rise in business confidence.



The government has done a commendable job of vaccinating people by building a proper digital platform that provides all the information regarding vaccination. It can now allow vaccines to be sold by the private market so that more people can get it. The increased digitization due to the pandemic will help in the revival of the service sector. But the extent of the recovery depends on the response of the regulators, government and industry.

To revive travel and tourism, there is a need to restore traveller confidence. The government needs to support tourism businesses to adapt and survive and strengthen co-operation within and between countries. Building more resilient, sustainable tourism is the need of the hour.

The emergence of new variants of Covid can pose a threat to the revival of this sector (travel, tourism, hospitality) as countries impose lockdowns and travel restrictions.

20 https://www.livemint.com/economy/services-sector-growth-bounces-back-in-august-11630649831102.html

Infrastructure

In order to achieve USD 5 trillion GDP by FY25, India needs to spend about USD 1.4 trillion over this period on infrastructure, according to the Economic Survey. However, the challenge is to step up infrastructure investment substantially.

The government had launched the National Infrastructure Pipeline (NIP) with a projected infrastructure investment of around Rs 111 lakh crore (USD 1.5 trillion) during FY20-25 to provide world-class infrastructure across the country and improve the quality of life for all citizens.

Government has made good advancements in building the physical and digital infrastructure. It has introduced various policies for this sector which includes GatiShakti Masterplan, Housing for all, Smart Cities Mission, Bharatmala Pariyojana, etc. PM GatiShakti Master Plan will drive huge investment in roads, railways, logistics parks and ropeways, if properly executed. The gross budgetary support towards capital expenditure has been increased significantly with the infrastructure sector being the key beneficiary. Despite the government's stated push for capital spending to revive the economy, public infrastructure investments almost halved compared to the January March quarter 2021, bringing the total outlay pon new infrastructure plans down by nearly 39% over April to June in the year 2021[21].

Investments dip

New investments from the Union and State governments fell 41.6% from nearly ₹1.67 lakh crore in Q4 of 2020-21 to ₹97,376 crore during Q1 of 2021-22

FRESH INVESTMENTS BY THE GOVERNMENT

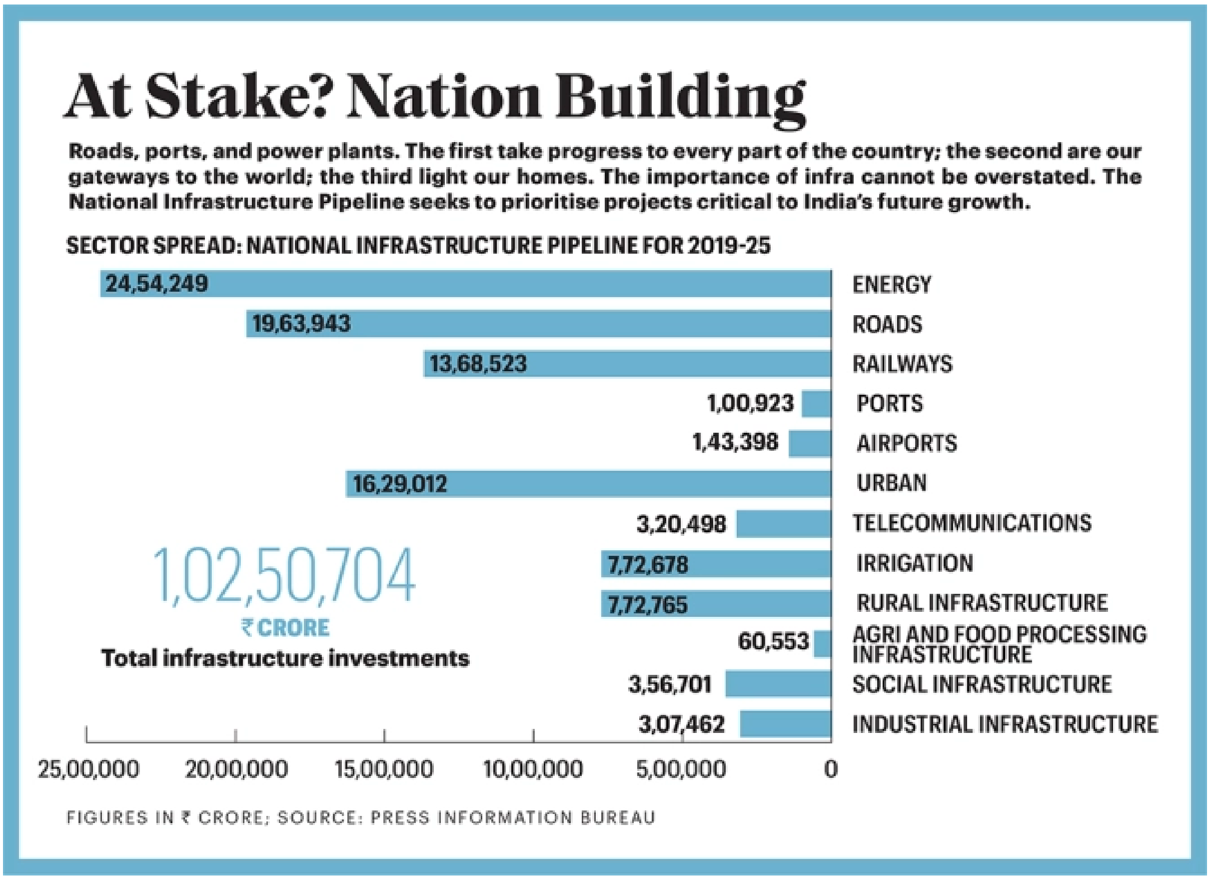
Sectors	Jan. - Mar. '21 (Q4FY21) in ₹Cr.	Apr. - Jun. '21 (Q1FY22) in ₹Cr.	Q-o-Q (%)
Manufacturing	2,093	481	-77.03
Mining	4,057	15,315	277.51
Electricity	7,152	11,455	60.17
Infrastructure	1,33,696	69,343	-48.13
Irrigation	19,873	783	-96.06
All sectors	1,66,870	97,376	-41.65

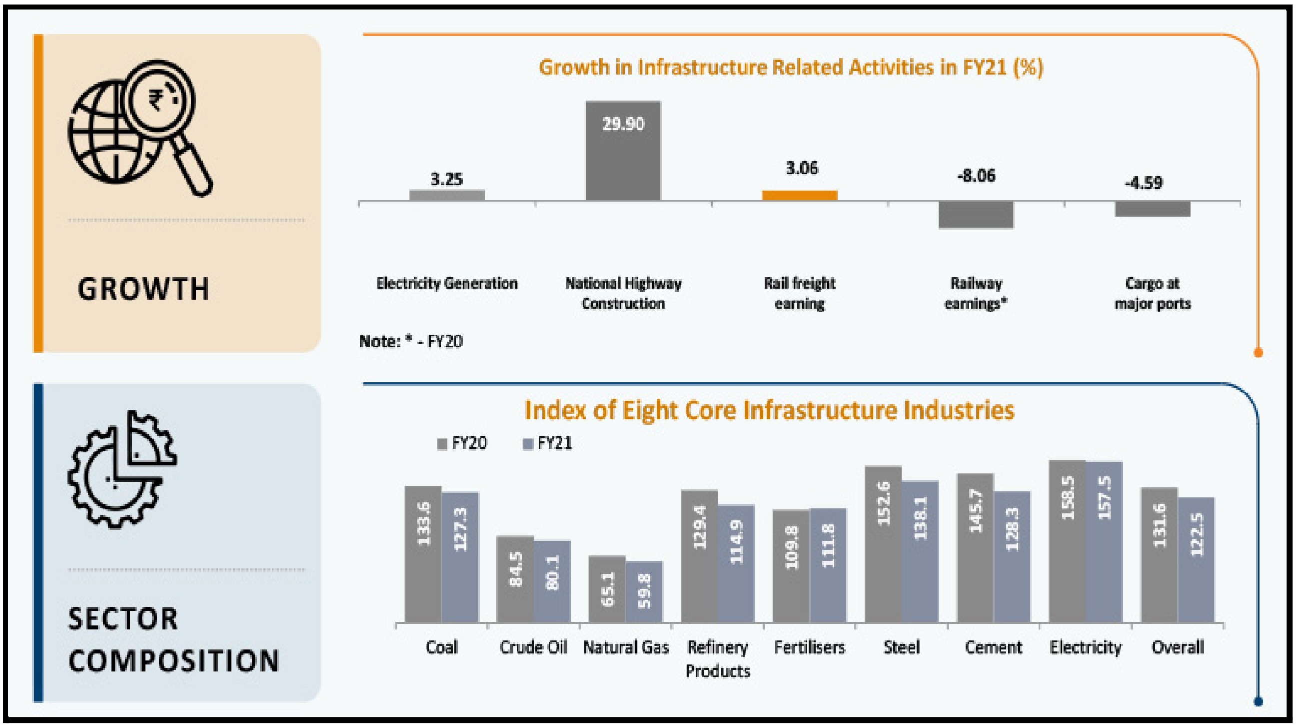
Source: Projects Today's survey on project investments in India

21 https://www.thehindu.com/business/Economy/government-infrastructure-spending-sees-steep-fall-in-q1/article35257319.ece

The NIP is a step in the right direction. However, there is a need to facilitate the assimilation of data and information from all the stakeholders like Central and State Governments, Urban Local Bodies, Banks and Financial Institution, PE funds, and private investors, both local and foreign on one platform to increase accountability and transparency in the infrastructure sector. To get higher benefits from this project, there is a need to push timely execution of over 8000 projects worth Rs. 153.37 lakh crore listed inNIP.

The main challenge faced by this sector is the timely completion of projects as delays in implementation lead to increased costs of the projects, rendering them inefficient. The other challenge is to revive private investment in infrastructure, which has been facing a slowdown due to the pandemic.





The long-term participation of the private sector in infrastructure development in the form of public-private partnership needs stability of policies, delay in acquisition of land, dispute resolution mechanism, quick and reliable legal framework and strong insolvency and restructuring regimes that can safeguard private finance. In the absence of these, conflicts may arise between involved stakeholders and may lead to delays in the execution of projects.

The government had plans to raise Rs 6 lakh crore through National Monetisation Pipeline through selling old infrastructure. But it had still not executed it. The focus should be on increasing the productivity of existing stretches of roads and railways. Considering the rise in demand for Electric Vehicles, charging infrastructure should be set up for EVs to encourage its use.

A proper roadmap must be laid for expansion of the 5G network across the country, especially focussing on rural areas which need to be better connected to the rest of the country through proper digital infrastructure. Expenditure needs to be raised to around 2% of GDP to improve health and education infrastructure. Norms for raising funds for infrastructure projects should be eased and the use of technology should be incentivized in the development of infrastructure.

Way Forward

The government has started focussing on capital expenditure. This will help in productive asset creation which in turn will raise employment, crowd in private investment and will have a multiplier effect on the economy. However, in a low demand scenario, private sector participation in capital expenditure is limited to certain sectors. Unless demand revives, it is difficult for private investment to increase as firms still have excess capacities. Increased returns from capex also depends on timely execution and completion of projects.

The main challenge is to revive consumer demand which has remained low due to job losses and salary cuts in the manufacturing and services sector during the pandemic. This will ensure full capacity utilization by firms, a fall in inventories and a faster recovery of the economy. This can be done by widening the social safety net to include a higher number of vulnerable groups, particularly in rural and semi urban areas.

To meet rising demand for MGNREGA, the kind of work done under this scheme can be broadened to include both skilled and unskilled workers who have migrated back to their villages. Skill mapping of the workers can be done in rural areas and then they can be given employment accordingly.

North-eastern and eastern states need proper development of infrastructure including education and heath infrastructure and agriculture markets. Tourism needs to be promoted in these areas through campaigns which highlight art, culture and heritage of this region. It would help in providing employment opportunities to locals. The new government campaign 'Dekho Apna Desh' is a step in the right direction. Safety and hygiene needs to be maintained as these are critical factors for travellers to select destinations. Virtual Reality can be implemented in the tourism sector which can help people to take virtual tours of hotels and places. This would help in building the confidence of tourists and a sustainable and resilient tourism sector.

The Covid-19 pandemic has changed the way an economy functions.The challenge is to prevent a downturn in economy by adopting sustainable development models, while balancing inflation and employment as new variants of Covid 19 emerge. Measures like trade diversification, supply chain resilience and innovation, sustainable agriculture, real time surveillance of the virus, providing support to underprivileged groups, higher vaccine coverage, social distancing need to be adopted.