

Expected Economic Recovery and Factors it will depend on

What is the issue?

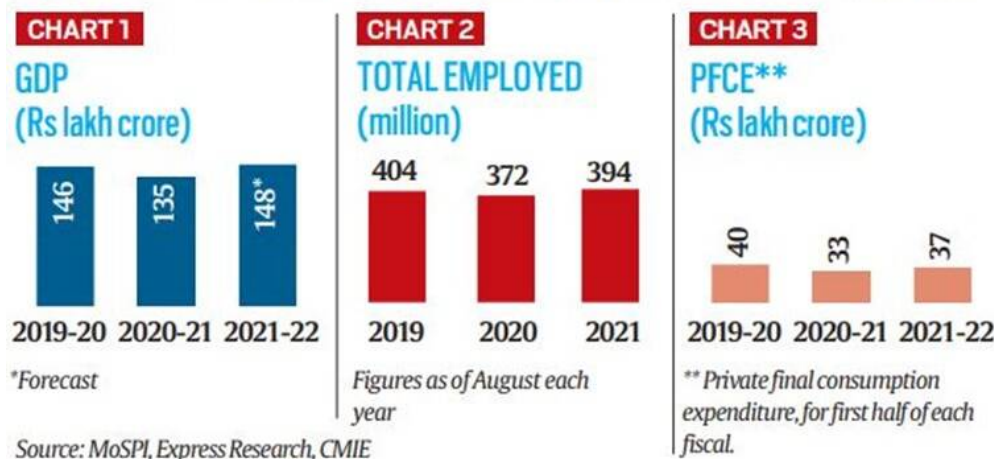
India's GDP is expected to return to pre-Covid levels by the end of 2021-22 but some sectors are struggling more than others, the number of unemployed remains high, and private consumption is low.

What is the status on economic recovery?

- By October 2020, official data confirmed that the Indian economy had gone into a technical recession.
- At the start of 2021, it was hoped that India's growth recovery would start to gather momentum but a second Covid wave had upset all calculations.
- But still, by the end of the financial year 2021-22, India's GDP is expected to come back to the pre-Covid level.

RECOVERY AT A PRICE

Absolute GDP is expected to claw back to pre-Covid levels, but it may happen with fewer people employed and people spending less on aggregate



What are the concerns?

- **K-shaped recovery**- It means that while some sectors/ sections of the economy have registered a very fast recovery, many are still struggling.
- Many big firms in the formal economy have actually increased their market share during the Covid-19 pandemic at the cost of smaller and weaker firms.
- As almost 90% of all employment in India happens in the informal sector, when the medium, small and micro enterprises (MSMEs) lose out to their counterparts, it results in the same GDP being produced with fewer people in jobs.
- **Unemployment concerns**- While the GDP is expected to recover back to pre-Covid levels, the

same cannot be said about total employment in the country.

- The total number of employed people as of August 2021 was lower than the August 2019 level, which itself was lower than the August 2016 level, pointing to a stagnant employment situation over the past many years.
- This means that
 - An easing of the situation will require time.
 - It requires government action to address the change of shift introduced by Covid.
 - It can pose a challenge for social cohesion as witnessed in Haryana and Jharkhand where locals demand laws to bar migrants from other states.
- **Private consumption slump**- Private consumption expenditure accounts for over 55% of all GDP.
- It is down because of job, income losses and people wanting to hold back due to the fear of a third wave.
- **Widening inequalities**- Oxfam India report that detailed how Covid was widening existing inequalities and the World Inequality Report pegged India as one of the worst performers.
- While the top 10% and top 1% held respectively 57% and 22% of total national income, the bottom 50% share had gone down to 13%.
- **Rising poverty**- A study has found that between 2012 and 2020, India witnessed an increase in the absolute number of poor which the first such reversal in poverty alleviation since Independence.
- **Persistently high inflation**- Due to higher crude oil prices, high domestic taxation and supply bottlenecks in different commodities, both retail and wholesale inflation stayed too high.

What factors will decide the economic recovery in 2022?

- **Omicron**- If the Omicron or any other variants lead to substantial loss of life or economic disruption, then, concerns about lives will yet again dominate.
- A lot may depend again on the pace of vaccination including the booster doses.
- **Union Budget**- The Budget is more than just an accounting exercise as the government would be expected to lay out its plan to tackle high unemployment, high inflation, widening inequalities and rising poverty levels.
- Last year, the government cut its Budget allocation for health by 10% which resulted in formal sector firms increasing the market share at the cost of MSMEs.
- This, in turn gets reflected in both higher tax collections and lower employment levels.
- **Elections**- The repeal of the three contentious farm laws was another example of how policymaking can be impacted by electoral pressures.
- 2022 is a critical year as it has seven state Assembly elections which may impact the central government's policy choices, especially with general elections due in early 2024.
- **NPAs**- Before Covid disrupted India's economy, high levels of non-performing assets (NPAs) were one of the biggest hurdles.
- During Covid, mandatory asset quality reviews have been suspended but when they are re-started in 2022 it may rise to a new high.
- **External factors**- Several key central banks, such as the US Fed, have started tightening their monetary policy in light of the high inflation in the developed countries which will force India's RBI to raise interest rates.
- This might have reduction in the crude oil prices.

Reference

1. <https://indianexpress.com/article/explained/explained-india-economic-recovery-2022-7693960/>

