# State of the Economy 2020-21: A Macro View

**01**

**CHAPTER**

**பருவத்தோ டொட்ட வொழுகல் திருவினைத்**
**தீராமை யாக்குங் கயிறு**

**"Doing the right things at the right time, is the rope**
**which binds the wealth, making it boundless."**
**– Thirukkural, Chapter 49, Verse 482.**

*The year 2020 threw at the world a bedlam of novel COVID-19 virus, threatening all that was taken for granted –mobility, safety, and a normal life itself. This, in turn, posed the most formidable economic challenge to India and to the world in a century. Bereft of a cure or a vaccine, public health policy became central to tackling this all-pervasive crisis. The imperative of flattening the disease curve was entwined with the livelihood cost of an imminent recession, which emanated from the restrictions in economic activities from the lockdown required to contain the pandemic. This inherent trade-off led to the policy dilemma of "lives versus livelihoods".*

*Governments and central banks across the world deployed a range of policy tools to support their economies such as lowering key policy rates, quantitative easing measures, loan guarantees, cash transfers and fiscal stimulus measures. India recognised the disruptive impact of the pandemic and charted its own unique path amidst dismal projections by several international institutions of the spread in the country given its huge population, high population density and an overburdened health infrastructure.*

*As shown in Chapter 1 of Volume 1, the intense lockdown implemented at the start of the pandemic – when India had only a 100 confirmed cases – characterized India's unique response in several ways. First, the policy response was driven by the findings from both epidemiological and economic research. Specifically, faced with enormous uncertainty about the potential spread of the pandemic, the policy implemented the Nobel-prize winning research in Hansen and Sargent (2001) that recommends a policy focussed on minimising losses in a worst case scenario. Faced with an unprecedented pandemic, loss of scores of human lives captured this worst case scenario. Moreover, epidemiological research highlighted the importance of an initial, stringent lockdown especially in a country where high population density posed difficulties with respect to social distancing. Therefore, India's policy humane response that focused on saving human lives, recognised that the short-term pain of an initial, stringent lockdown would lead to long-term gains both in the lives saved and in the pace of the economic recovery. The scores of lives that have been saved and the V-shaped economic recovery that is being witnessed – due to the causal impact of the initial lockdown – bear testimony to India's boldness in taking short-term pain for long-term gain.*

*Second, India recognised that the pandemic impacts both supply and demand in the economy. The slew of reforms – again unique amidst all major economies – were implemented to ensure that the supply-side disruptions, which were inevitable during the lockdown, are minimised in the medium to long-run. The demand side policy reflected the understanding that aggregate* *demand, especially that for non-essential items, reflects precautionary motives to save, which inevitably remains high when overall uncertainty is high. Therefore, during the initial months of the pandemic when uncertainty was high and lockdowns imposed economic restrictions, India did not waste precious fiscal resources in trying to pump up discretionary consumption. Instead, the policy focused on ensuring that all essentials were taken care of, which included direct benefit transfers to the vulnerable sections and the world's largest food subsidy programme targeting 80.96 crore beneficiaries. Government of India also launched Emergency Credit Line Guarantee Scheme to provide much needed relief to stressed sectors by helping entities sustain employment and meet liabilities.*

*During the unlock phase, when uncertainty declined and the precautionary motive to save subsided, on the one hand, and economic mobility increased, on the other hand, India has ramped up its fiscal spending. A favorable monetary policy ensured abundant liquidity and immediate relief to debtors via temporary moratoria, while unclogging monetary policy transmission. India's demand-side policy, thus, underscores the idea that pressing on the accelerator while the brakes are clamped only wastes scarce fuel.*

*India has been able to avoid the second wave while ably managing to flatten the epidemiological curve, with its caseload peaking in mid-September. As shown in Chapter 1 of Volume I, the initial stringent lockdown was critical to saving lives and the V-shaped economic recovery. The continuous drop in daily cases and fatalities bespeak India's escape from a Sisyphus fate of back-and-forth policy responses, enabling continual unlocking of the economy. As anticipated, while the lockdown resulted in a 23.9 per cent contraction in GDP in Q1, the recovery has been a V-shaped one as seen in the 7.5 per cent decline in Q2 and the recovery across all key economic indicators. Starting July, a resilient V-shaped recovery is underway, as demonstrated by the recovery in GDP growth in Q2 after the sharp decline in Q1, a sustained resurgence in high frequency indicators such as power demand, E-way bills, GST collection, steel consumption, etc. The reignited inter and intra state movement and record-high monthly GST collections have marked the unlocking of industrial and commercial activity. A sharp rise in commercial paper issuances, easing yields, and sturdy credit growth to MSMEs portend revamped credit flows for enterprises to survive and grow. Imports contracted more sharply than exports, with Forex reserves rising to cover 18 months of imports. Inflation, mainly driven by food prices, remained above 6 per cent for much of the year; the softening in December suggests easing of supply-side constraints.*

*India's GDP is estimated to contract by 7.7 per cent in FY2020-21, composed of a sharp 15.7 per cent decline in first half and a modest 0.1 per cent fall in the second half. Sector-wise, agriculture has remained the silver lining while contact-based services, manufacturing, construction were hit hardest, and have been recovering steadily. Government consumption and net exports have cushioned the growth from diving further down.*

*The V-shaped economic recovery is supported by the initiation of a mega vaccination drive with hopes of a robust recovery in the services sector. Together, prospects for robust growth in consumption and investment have been rekindled with the estimated real GDP growth for FY 2021-22 at 11 per cent. India's mature policy response to this "once-in-a-century" crisis thus provides important lessons for democracies to avoid myopic policymaking and demonstrates the significant benefits of focusing on long-term gains.*

1.1 The year 2020 witnessed unrivalled turmoil with the novel COVID-19 virus and the resultant pandemic emerging as the biggest threat to economic growth in a century. The World Health Organization (WHO) declared COVID-19 a 'Public Health Emergency of International Concern' (PHEIC) on 30th January, 2020 and advised that all countries should be prepared for containment, including active surveillance, early detection, isolation and case management, contact tracing, and prevention of onward spread. The exponential rise in the number of daily cases compelled the WHO to title this outbreak a pandemic on 11th March, 2020 - within a period of three months of its emergence. The contagion is still spreading with over 10 crore confirmed cases around the globe and over 2 lakh deaths. The ensuing shock has been extremely unconventional in terms of its size and uncertainty, with its impact dependent on unpredictable factors like intensity of lockdowns, extent of supply chain and financial market disruptions alongside societal response to the associated public health measures. The pandemic has been unique in its wide-ranging effects on almost every section of the economy and the society.

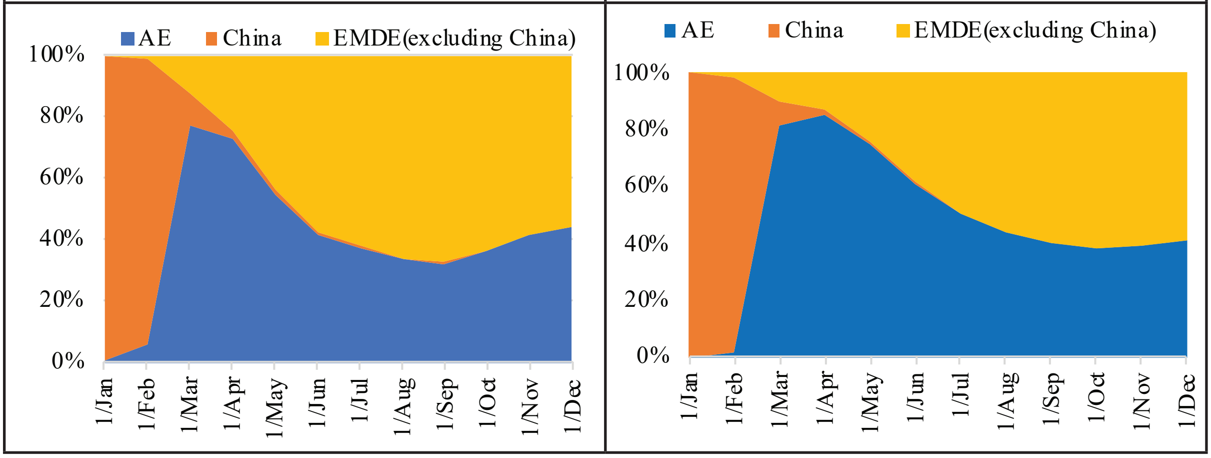
## SPREAD OF THE PANDEMIC

### Global Spread

1.2 Since its first outbreak in Wuhan, China, COVID-19 has infected all continents, including Antarctica (in December, 2020), and more than 220 countries. The health shock, though global, has transmitted through different trajectories across countries in terms of total infections, mortalities, and recoveries. In the initial stages of the pandemic, the Advanced Economies (AE) of North American and West European region were disproportionately impacted with more than 70 per cent of the total cases and total deaths (Figure 1). The pandemic quickly intensified in number of Emerging Market and Developing Economies (EMDEs) such as Brazil, India, Mexico, Russia and Turkey– that now constitute around 50 per cent of total cases and total deaths. In recent months, amidst a repeat wave, AEs—particularly the United States and several Euro area countries—have accounted for an increasing share of cases; in EMDEs, outbreaks in the Latin America and the Caribbean, and Europe and Central Asia regions have continued to grow. It is evident that AEs have been affected harder by the pandemic.

**Figure 1: Trend in World-wide Spread of COVID-19**

**1 (a): Share in Cumulative Confirmed Cases** | **1 (b): Share in Cumulative Deaths**

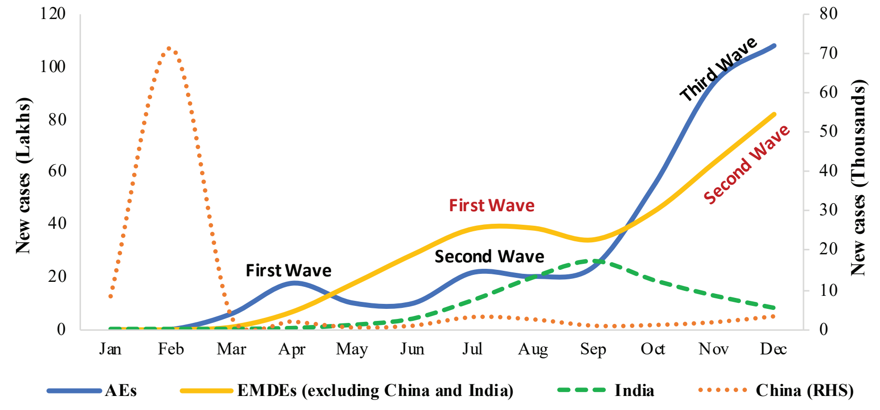



Source: WHO, Survey Calculation

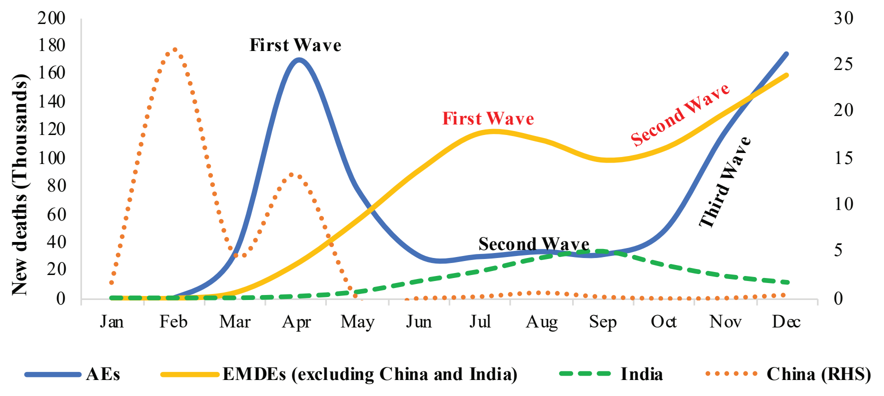
1.3 The spread of the pandemic has been in waves as is evident in Figure 2. AEs were experiencing their third waves, both in terms of cases and deaths, at the end of the year while EMDEs (excluding China and India) were facing their second waves. China experienced the first wave of cases in February, 2020 after which it has been able to control the spread. India experienced its first wave till September, 2020 after which it has been able to effectively manage the spread – avoiding the second wave as on date.

**Figure 2: COVID -19 Infection Waves**

**2 (a): Confirmed Cases**




**2 (b): Deaths**



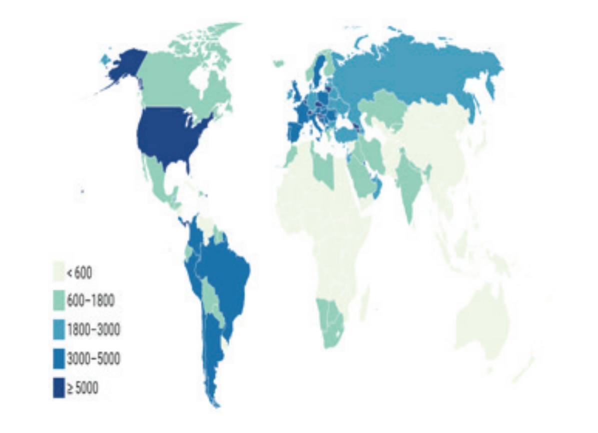

Source: Survey Calculations using data from WHO

Note: data is as on 31st December, 2020

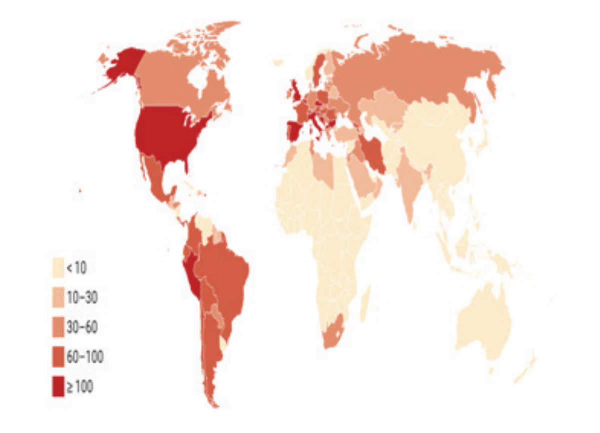
1.4 AEs witnessed higher confirmed cases and deaths on per capita basis too as compared to EMDEs (Figure 3). The third wave in AEs has proven to be more lethal with fatalities exceeding by 5.3 times compared to the second wave and surpassing the level during the first wave in December itself.

**Figure 3: Per Capita COVID-19 Caseload across Countries**

**3 (a): Cases per Lakh**




**3 (b): Deaths per Lakh**




Source: Survey Calculations using data from WHO

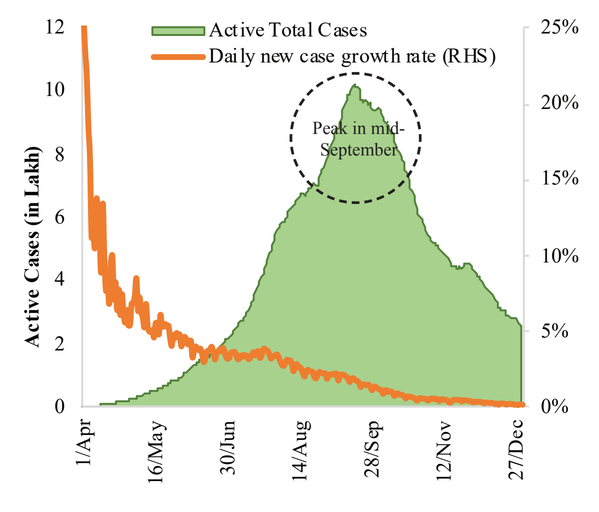
Note: Data is as on 31st December, 2020

## SPREAD OF PANDEMIC IN INDIA

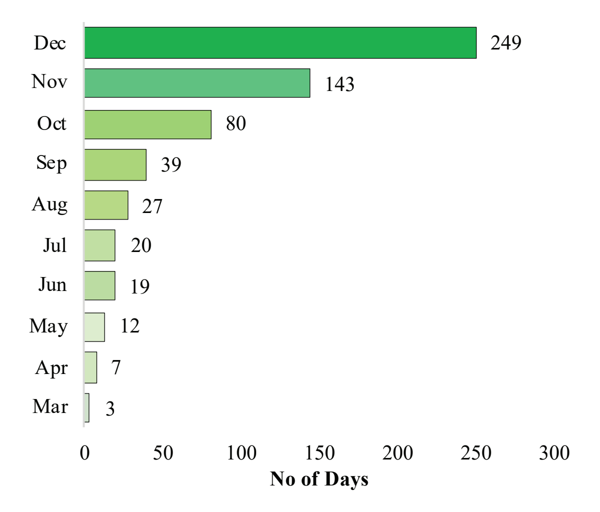
1.5 India imposed a stringent nation-wide lockdown during the initial phase of the pandemic in March-April, 2020, followed by gradual unlocking and phasing out of the containment measures. India crossed its peak in mid-September with 11.12 lakh active cases on 17th September, 2020 and 97,860 daily new cases on 16th September, 2020 (Figure 4 (a)). Subsequently, new cases have moved down to less than 16,000 cases per day in January, 2021 despite the festive season and onset of the winter season. The confirmed cases in India have touched more than 1.06 crore, representing around 11 per cent of the world's total case load. India's share in new cases load globally has drastically come down from 31 per cent in September, 2020 to 4 per cent in December, 2020. The pace of spread has been controlled with doubling time of cases rising from 12 days in May, 2020 to 249 days in December, 2020 (Figure 4 (b)).

**Figure 4: Spread of COVID-19 in India**

**4 (a): Total Active Cases**




**4 (b): Doubling Time**




Source: Data accessed from https://www.covid19india.org/, Ministry of Health and Family Welfare (MoH&FW)
Note: Doubling rate is defined as ln2/ ln (1 + r), where r is the average of last seven days of growth in cumulative cases.

1.6 The initial spread of pandemic was limited primarily to western and northern zones of the country, which contributed 42 and 22 per cent respectively (Figure 5 (a)). On the other hand, a sharp rise in share of Southern zone was witnessed since July, 2020 with the zone adding more than one-third of the new cases per month on an average. The eastern and central regions each constituted 10 per cent of the total cases respectively during the year. All zones, barring northern region, experienced a single wave of infection till December (Figure 5 (b)). The festive season during October and November led to a second wave of infections in the northern region. In per capita terms, the southern zone had a maximum caseload at 1226 cases per lakh followed by western zone at 1124 cases per lakh; the eastern region had the lowest caseload at 342 cases per lakh as on 31st December, 2020 (Figure 5 (c)).

**Figure 5: Trends in Spread of COVID-19 across Regions in India**

| 5 (a): Share in Cumulative Confirmed Cases | 5 (b): Infection Waves |
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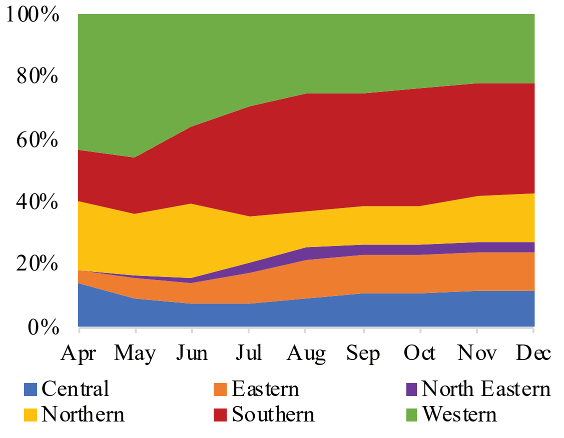
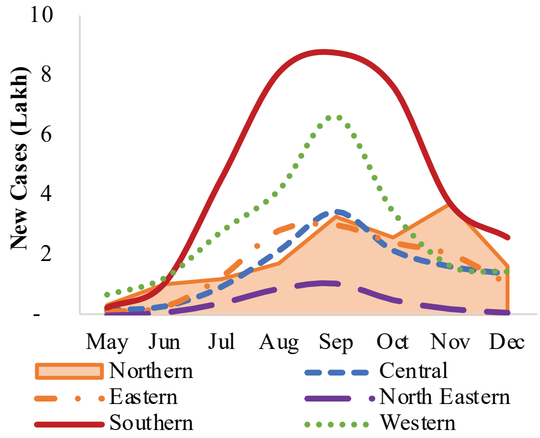
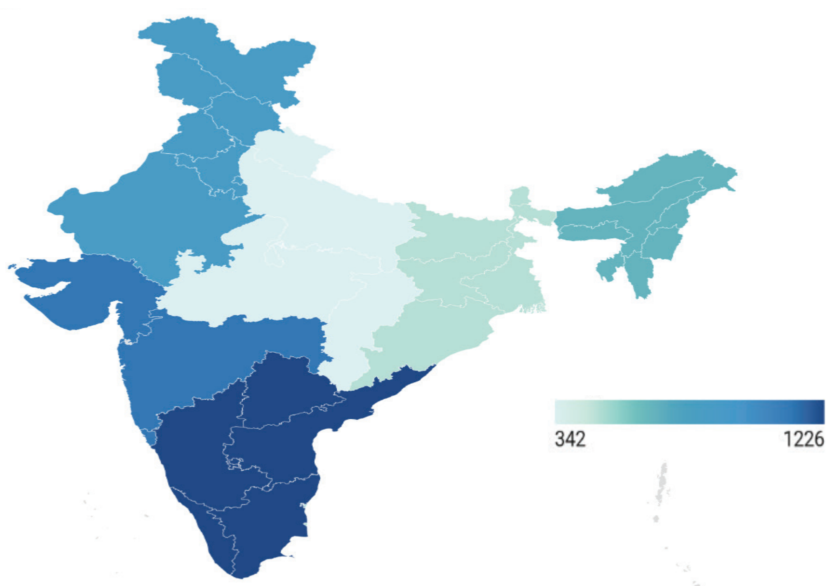
|  |  |





**Figure 5 (c): Total Confirmed Cases per Lakh**



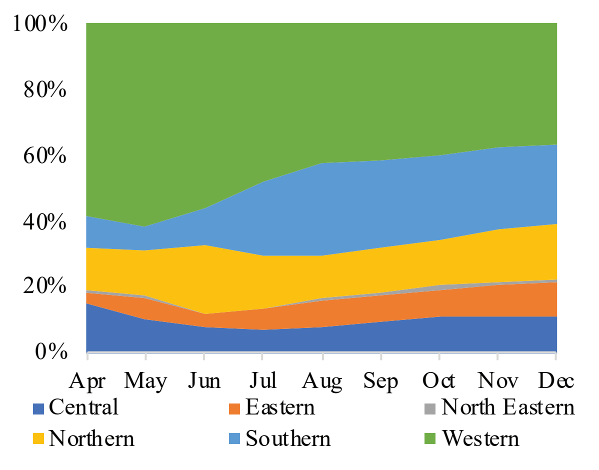

Source: Data accessed from https://www.Covid19india.org/, MoH&FW

Note: Data is as on 31st December, 2020; the Zones are defined as per the Zonal Councils

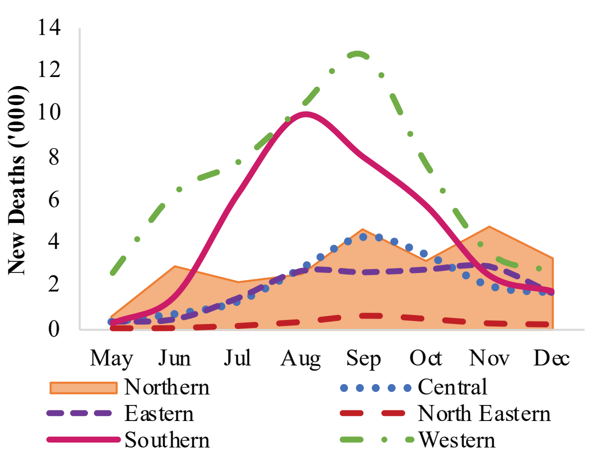
1.7 The total death toll in India, as on 31st December, 2020, was 1.48 lakh with more than 50 per cent of the fatalities occurring in western and southern zones of the country. Throughout the pandemic, Maharashtra has been the worst affected state having highest incidence of deaths in India (Figure 6 (a)). All zones, except the northern zone, experienced a single wave in terms of deaths (Figure 6 (b)). The northern region witnessed three death waves, with the third wave proving to be the most lethal as deaths exceeded 1.7 times more than what it was during the first wave. In per capita terms, the western zone has been the worst performer with 27 deaths per lakh, followed by northern region at 13 deaths per lakh (Figure 6 (c)). Deaths per capita have been lower in the eastern and north-eastern zones at 6 and 4 deaths per lakh respectively.

**Figure 6: Trends in COVID-19 Deaths across Regions in India**

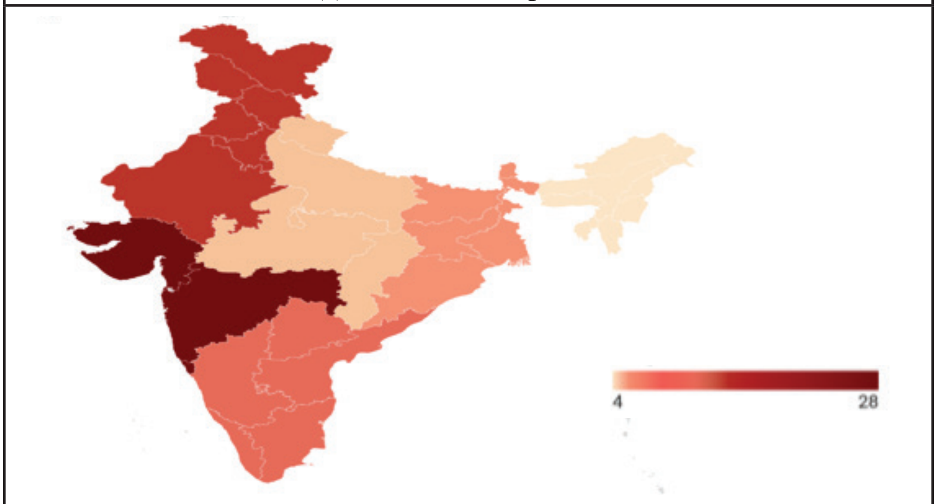
**6 (a): Share in Total Deaths**




**6 (b): Death Waves**




**6 (c): Total Deaths per Lakh**

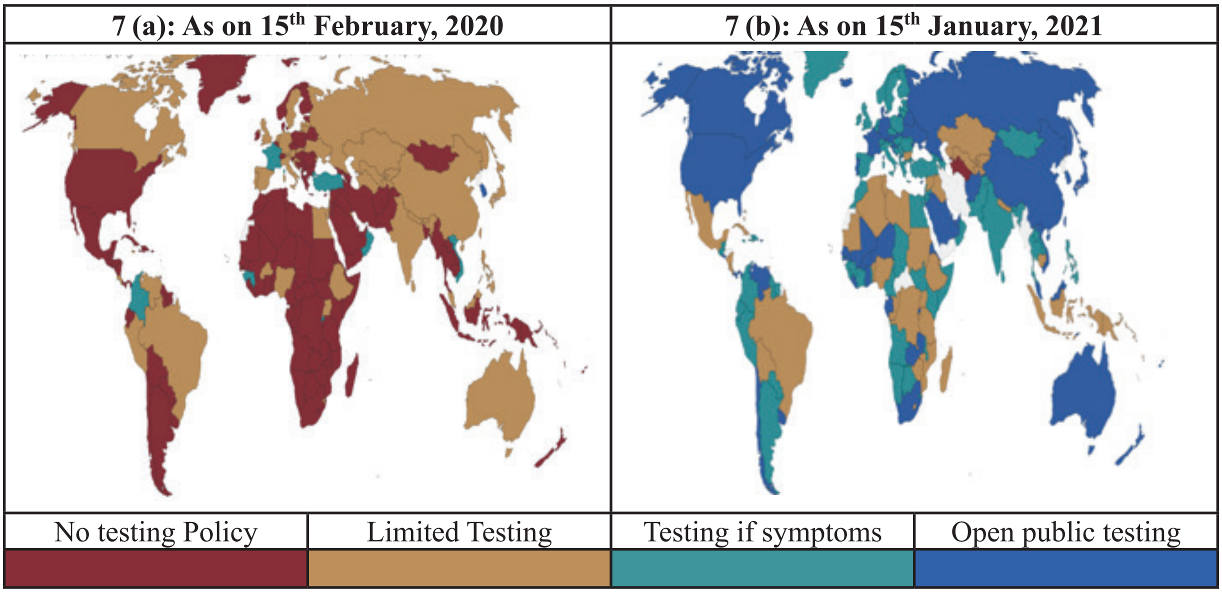



Source: Data accessed from https://www.Covid19india.org/, MoH&FW
Note: Data is as on 31st December, 2020
The Zones are defined as per the Zonal Councils

## RAMPING UP TESTING

1.8 As the first step towards timely identification, prompt isolation & treatment, testing was identified as an effective strategy to limit the spread of infection. A characteristic of the pandemic, which aggravated its virulence, was its probable transmission by asymptomatic people. Large-scale testing was, therefore, imperative for quick identification of cases, immediate isolation to prevent spread and timely treatment. It also helped in effective contact tracing and timely isolation of prospective cases. Testing policy has been continuously evolving since the beginning of the pandemic with countries rapidly gearing up the testing capacity to curb the pace of spread (Figure 7).

**Figure 7: Ramping up Testing across the World**

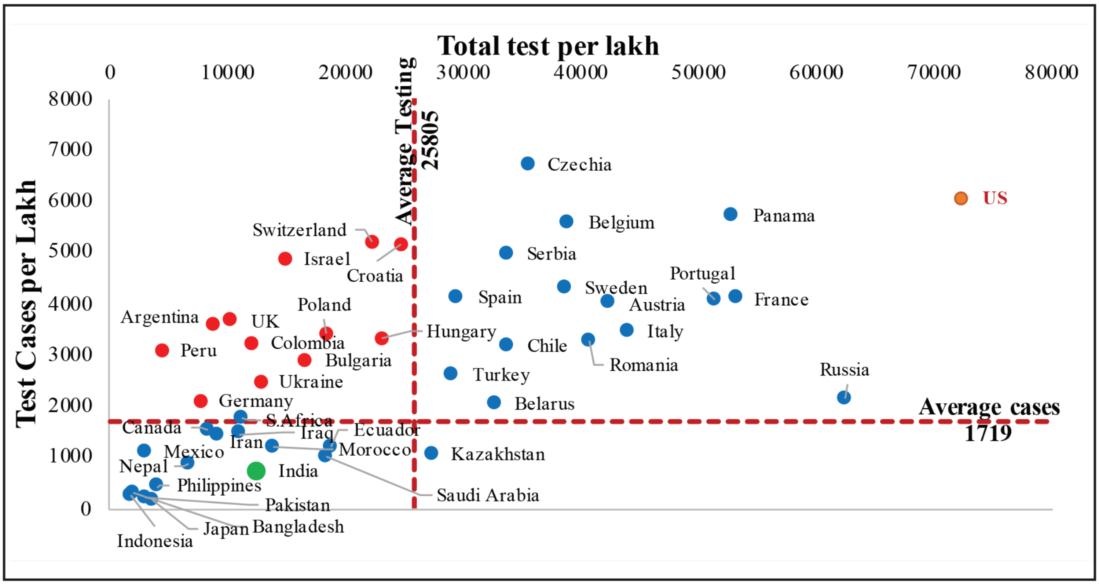



Source: WHO

Note: "Open public testing" is aggressive testing; "Testing if symptoms" refers to testing anyone who shows COVID-19 symptoms; "Limited testing" is when an individual is showing symptoms and meets a laid down criterion like medical worker, overseas travel etc. "No policy" refers to having no testing policy in place.

1.9 An analysis of tests per lakh and total cases per lakh shows that countries such as United Kingdom, Argentina, Germany, Colombia, Switzerland, Poland and Peru need to perform more tests as cases per lakh are on the higher side relative to tests conducted (Figure 8). US is an outlier as it has both high tests per lakh and high caseload per lakh as on 31st December, 2020. India lies below the global average of cases, despite being the second worst affected country in the world.

**Figure 8: Total Tests vs Confirmed Cases per Lakh**

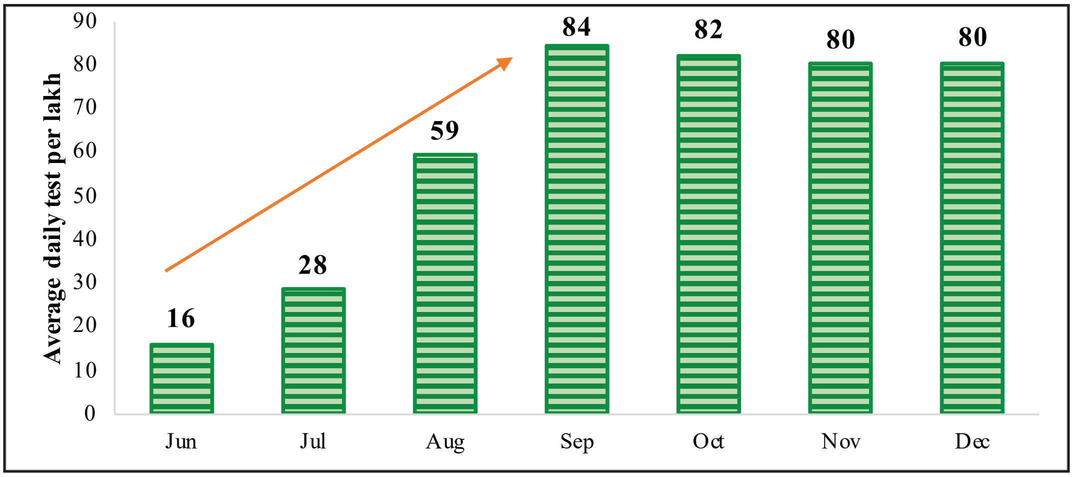



Source: WHO

Note: Data is as on 31st December 2020

1.10 India rapidly ramped up its capacity to rapidly scale-up tests. In January 2020, India had only one laboratory testing for COVID-19, at the National Institute of Virology, Pune. Today there are more than 2300 laboratories across the country, performing molecular tests for its diagnosis - an unparalleled achievement in the history of the Indian health system. India has shown tremendous progress in conduct of daily tests with a dedicated emphasis on expansion of testing infrastructure (Figure 9). Keeping the focus on "Test, Track and Treat", India has tested nearly 18.5 crore cumulative COVID-19 samples with cumulative test positivity rate at 5.6 per cent, as on 31st December, 2020.

**Figure 9: Ramping up Testing in India**




Source: MoH&FW

1.11 The unprecedented pace of transmission and lethality of COVID-19 triggered a global health crisis that has led to an enormous human toll of over 10 crore confirmed cases and over 21 lakh fatalities. Given the unavailability of a potent cure and a preventive vaccine, it was imperative that the spread be contained by implementing various public health measures. However, this presented crucial policy dilemmas before governments across the globe.

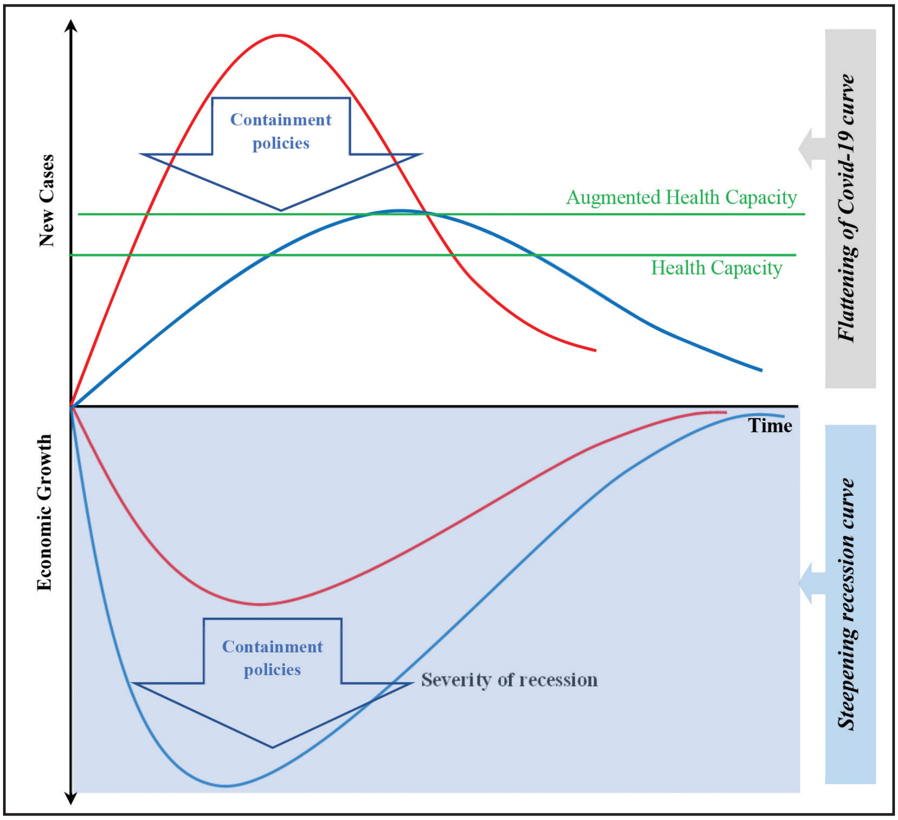
## POLICY DILEMMAS UNDERLYING COVID-19

### 'Lives Vs Livelihoods'

1.12 Given the fast spread of the pandemic, the immediate public health policy priority was, 'flattening the epidemiological curve' to mitigate the impact of the spread (refer to Box 1 in Chapter 1, Volume-I, Economic Survey, 2020-21). The steps to "flatten the curve" were intended to slow the transmission of the virus, push the peak of the curve and spread the distribution of cases over time. Countries, accordingly, across the globe adopted various non-pharmaceutical interventions (NPIs) like social distancing measures via work & school closures, travel bans, cancellations of public events and restrictions of internal movement and, by social isolation measures via quarantining infected people from the population, tracing infected persons contacts and enhanced testing. The containment measures allowed ramping up of the health and testing infrastructure, arresting the spread of the virus and saving 'lives'. Chapter 1, Volume I of the Survey delineates that countries that imposed effective NPIs, especially at the onset of the pandemic, could manage the spread of the pandemic relatively better.

1.13 Even if no containment measures were implemented, a recession would have been fuelled by the precautionary and/or panic behaviour of households and firms faced with the uncertainty of dealing with a pandemic that had no cure. This is because households voluntarily took precautions which affected demand, especially for non-essential items. The lockdown reinforced this response to the pandemic. The public health measures, adopted to contain the spread, engendered sizeable immediate economic costs as they led to almost full suspension of economic activity, curbed consumption and investment, as well as restricted labor supply and production. COVID-19, therefore led the world to the predicament of saving 'lives' or 'livelihoods' as the steps taken to flatten the infection curve, steepened the macroeconomic recession curve (Figure 10).

**Figure 10: Trade-off between Flattening COVID-19 Infection Curve and Steepening of Recession Curve**

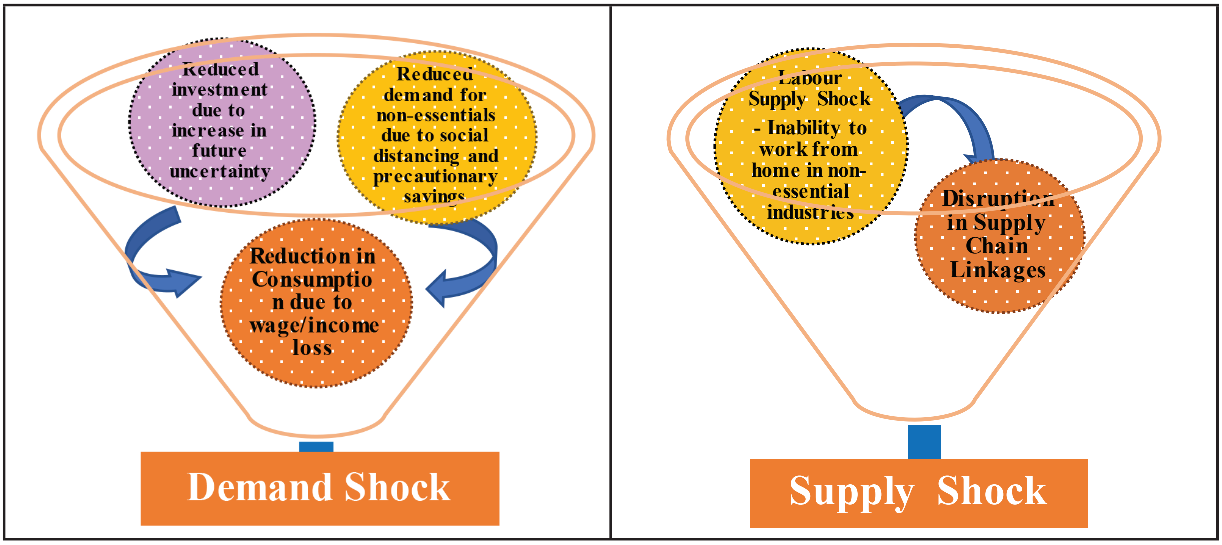



Source: Adapted from Gourinchas, P-O (2020)

## Demand-side and Supply-side Shocks

1.14 The pandemic has been a unique economic shock that has triggered both supply and demand side shocks simultaneously across economies around the world (Figure 11). Increased uncertainty, lower confidence, loss of incomes, weaker growth prospects, fear of contagion, curtailment of spending options due to closure of all contact-sensitive activities, the triggering of precautionary savings, risk aversion among businesses and resultant fall in consumption and investment – leading to the first order demand shock. The supply chain disruptions caused by closure of economic activity and restricted movement of labour lead to the first order supply shocks.

**Figure 11: Twin Economic Shocks by the Pandemic**




Source: Adapted from Estupinan, Xavier and Sharma, Mohit and Gupta, Sargam and Birla, Bharti (2020)

1.15 The first order supply side disruptions potentially created second round effects on both demand and supply. The initial supply shock, resulting in wage and income loss, could impact aggregate demand and impair productive capacity leading to supply shocks. These effects were further amplified through international trade and financial linkages, dampening global activity and pushing commodity prices down. The feedback loops of demand and supply generated potential hysteresis effects - when households demand less, firms get reduced revenues, which feeds into reduced activity by firms, and thus reduced household income.

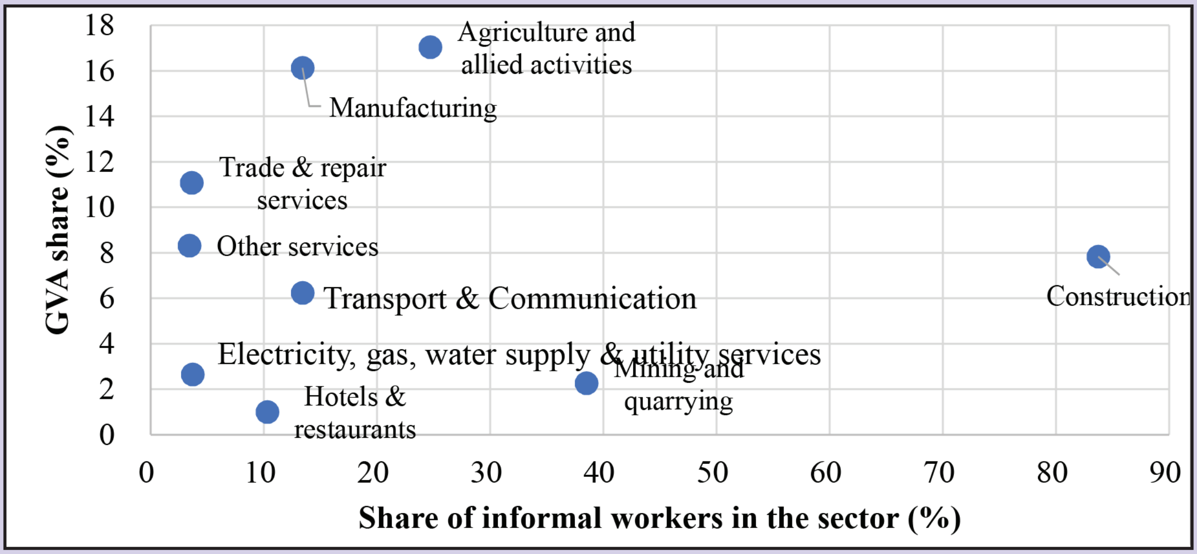
1.16 The policies to 'flatten the epidemiological curve', therefore, needed to be accompanied by economic policies designed and targeted to mitigate the resulting shock to the economic system and 'flatten the recession curve'. There was, however, unprecedented uncertainty about the potential spread of the pandemic. The pandemic, therefore, posed unprecedented dilemmas before policymakers – lives vs livelihoods and flattening the twin curves of pandemic and the resultant economic recession.

## BOX 1: SECTORAL IMPACT OF COVID-19 IN INDIA: UBIQUITOUS, YET IRREGULAR

The spread and intensity of COVID-19 induced twin economic shock can be broadly captured through impact on output/Gross Value Added (GVA) and employment. In terms of GVA shock, non-essential activities are likely to endure a combined shock directly proportional to their respective GVA contribution, given that they could not operate during lockdown. Essential activities are likely to undergo a dampened shock, primarily arising from the indirect impact of restricted activities in non-essential sectors. In terms of employment shock, contact-sensitive sectors like trade, hotels, transport, tourism, etc. are likely to undergo a shock proportional to the respective employment share, with informal workers likely to bear the larger brunt (Figure B1)[1]. The construction and mining sectors, that employ a larger share of informal workers, have been severely affected by the pandemic-induced lockdowns.

[1] Percentage distribution of usually working persons in usual status (ps+ss) by broad status in employment for each industry of work.

**Figure B1: Sectoral Distribution by GVA Share and Share of Casual Workers**



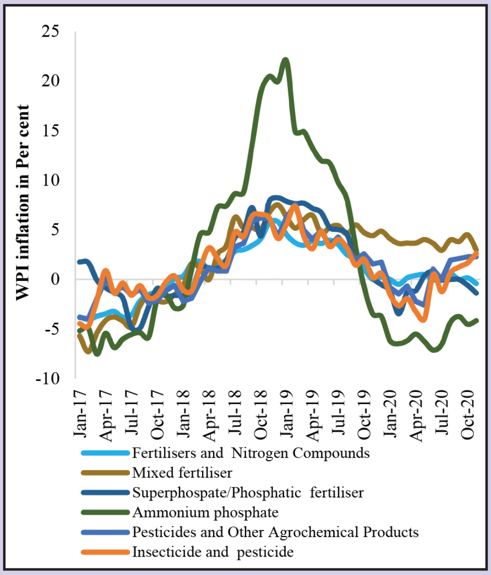

Source: MoSPI, PLFS 2018-19

The impact of the pandemic and associated health measures has been unique as it has affected every sector of the economy. Agriculture was largely insulated from the lockdown in India as timely and proactive exemptions from COVID-induced lockdowns to the sector facilitated uninterrupted harvesting of rabi crops and sowing of kharif crops. However, supply chain disruptions impacted the flow of agricultural goods leading to high food inflation and adverse initial impact on some major agricultural exports. The manufacturing sector was hit hard in the first quarter but has since picked up though mining still remains impacted. Construction and Services sector were hit the hardest due to the pandemic induced requirements of social distancing and minimising of personal interaction.

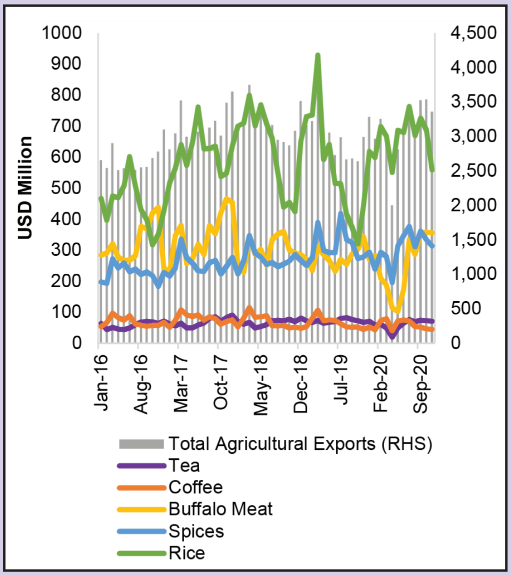
**Figure B2: Sectoral Impact of COVID-19 in India**

**Agriculture and Allied Activities**

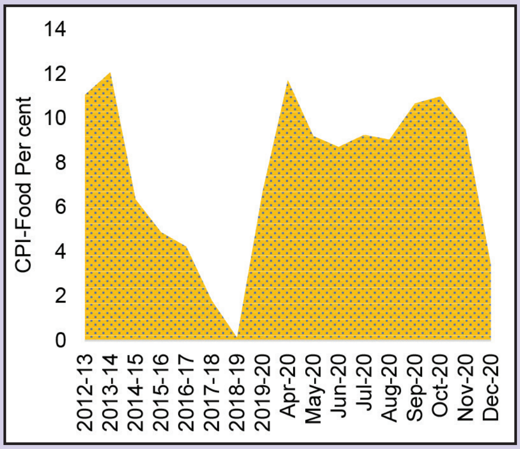
*Agricultural Imports*



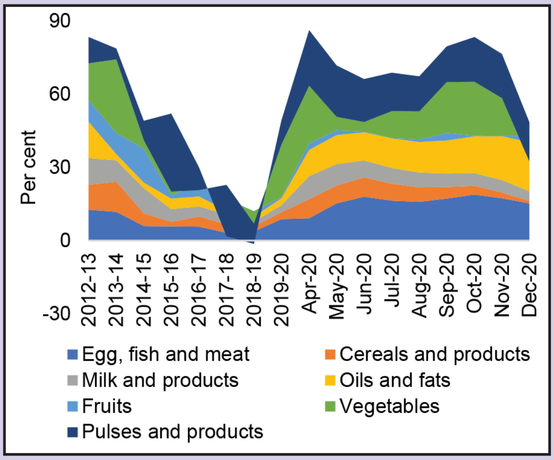

*Agricultural Exports*



*CPI- Food Inflation*

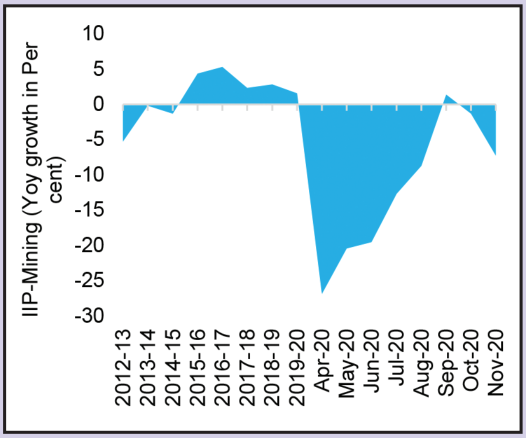



*Components of CPI- Food Inflation*

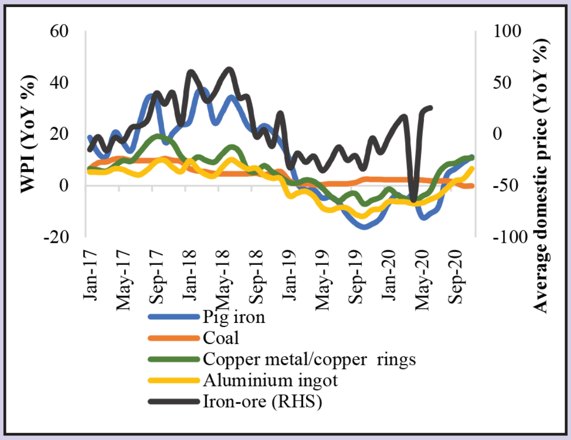



**Mining and Quarrying**

*Mining Activity*

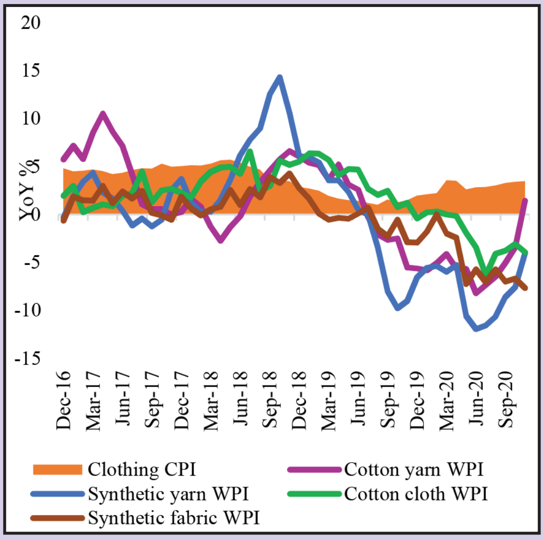



*Mineral Price Inflation*

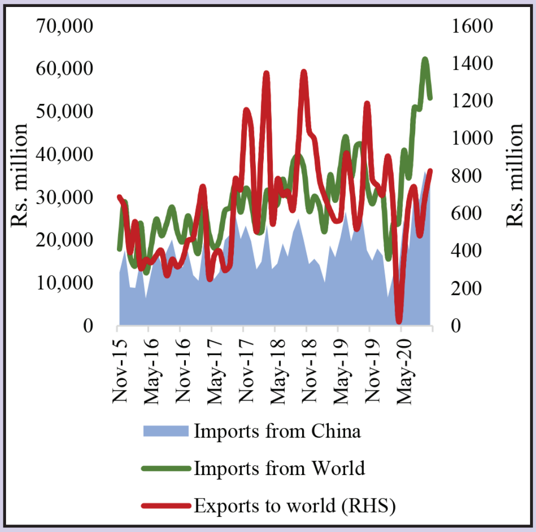



**Manufacturing**

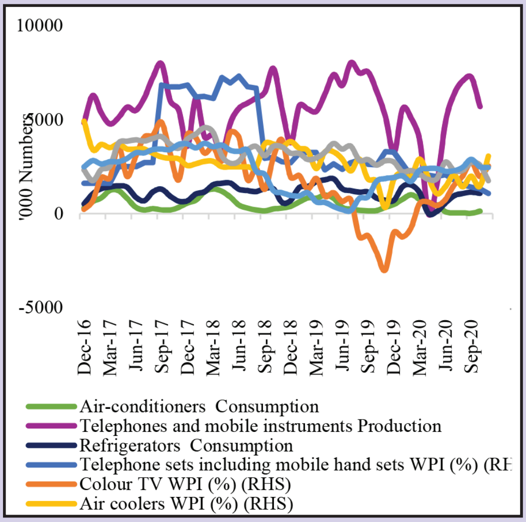
*Textiles and Fabrics*



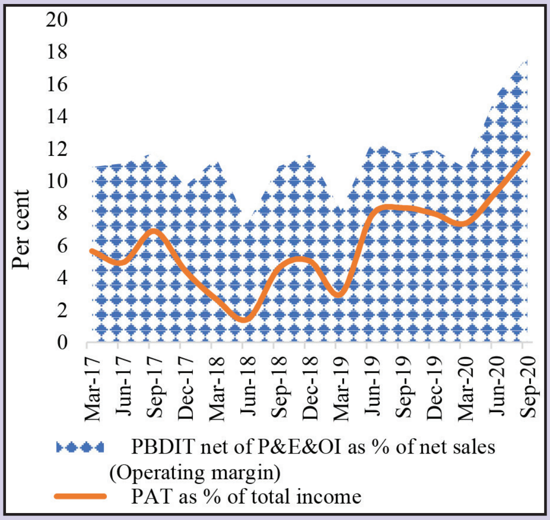

*Computer Hardware & Peripherals*



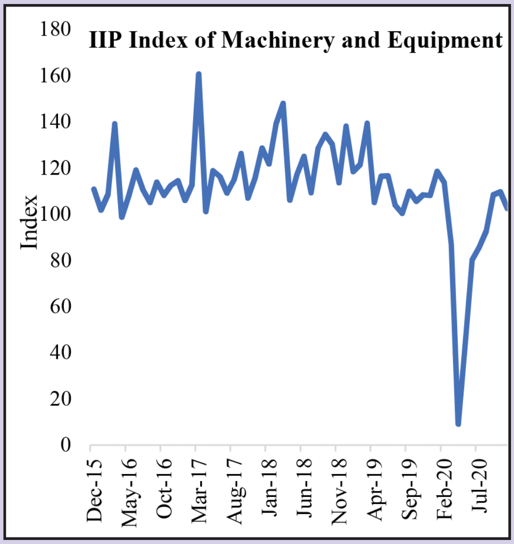
*Consumer Goods*



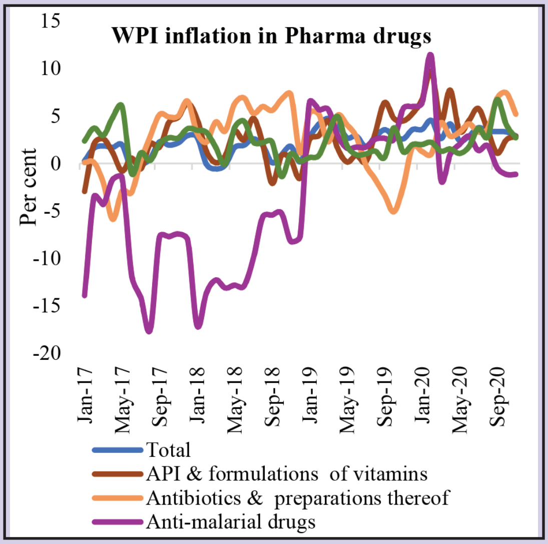

*Profitability Ratios of Consumer Goods Industries*



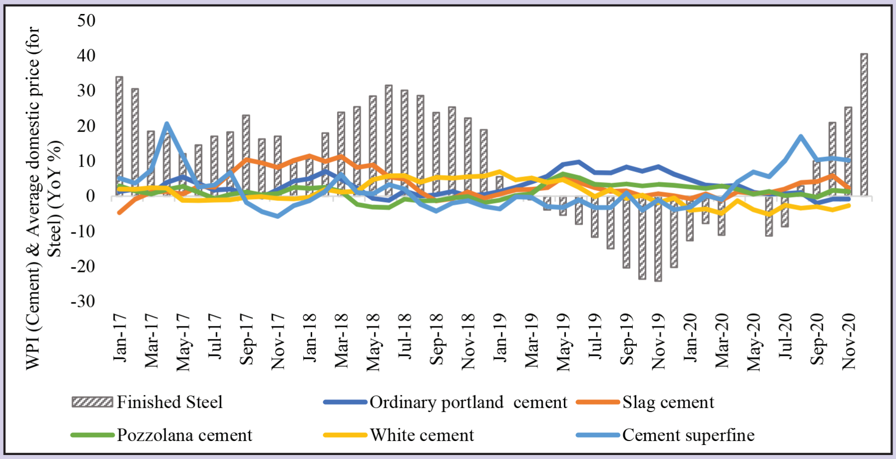

*Machinery Sector*



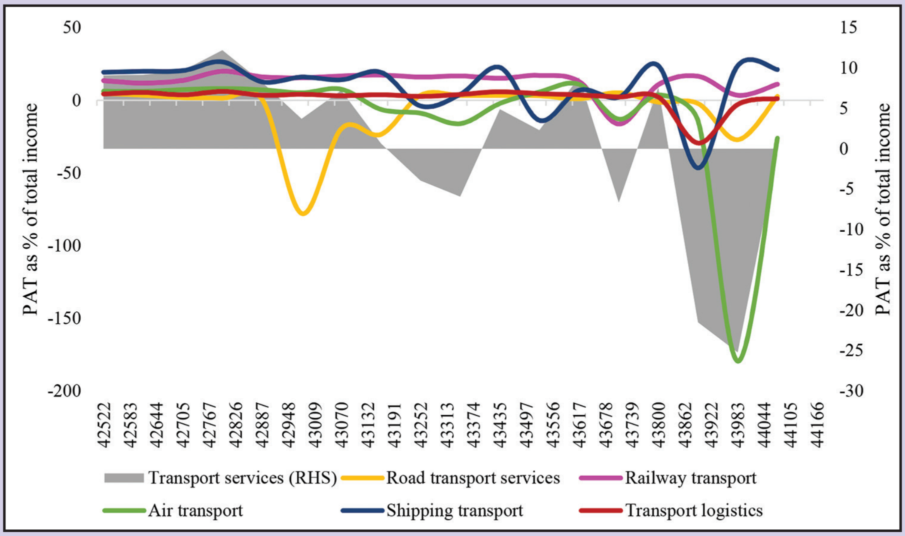

*Pharmaceuticals*



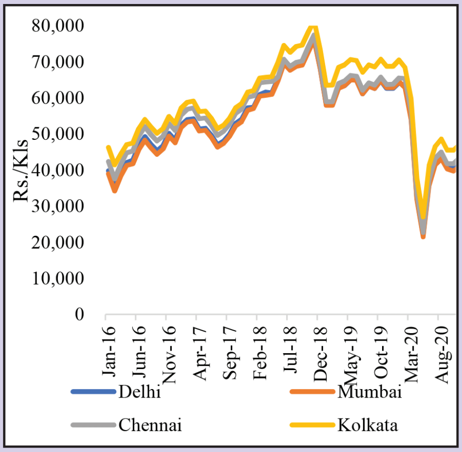

**Construction**



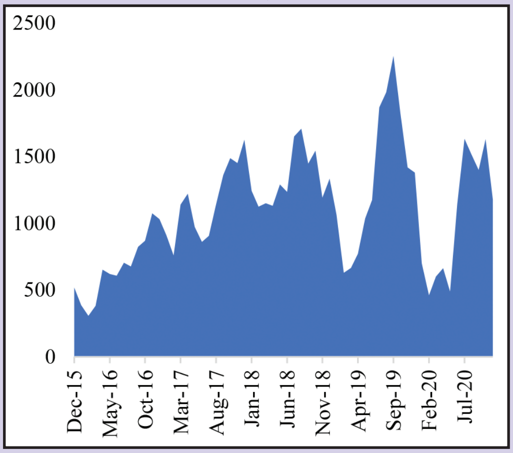
## Services



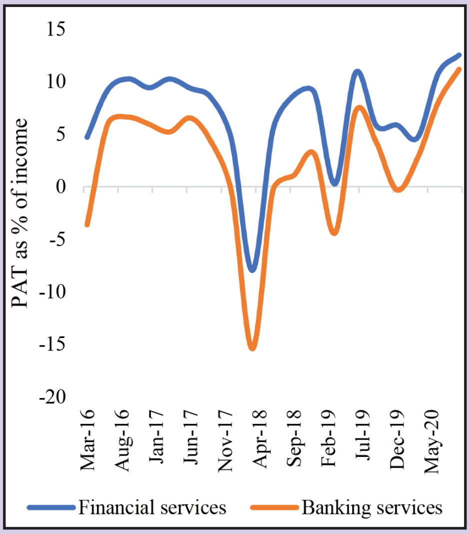

*Air Turbine Fuel Prices: India*



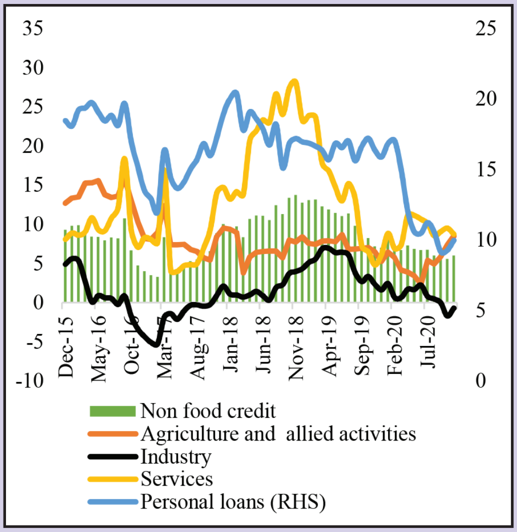

*Shipping Freight Rate (Baltic Dry Index)*



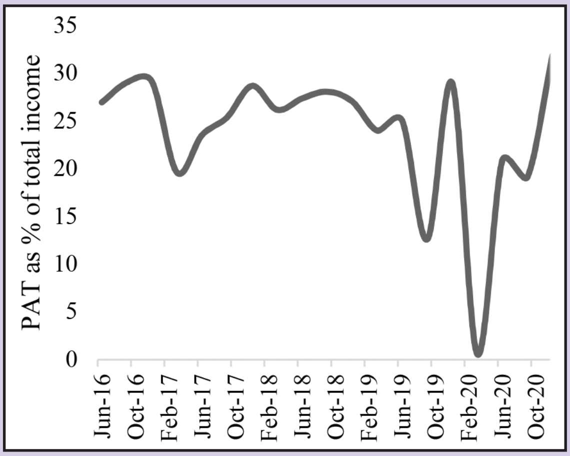

*Financial Services*



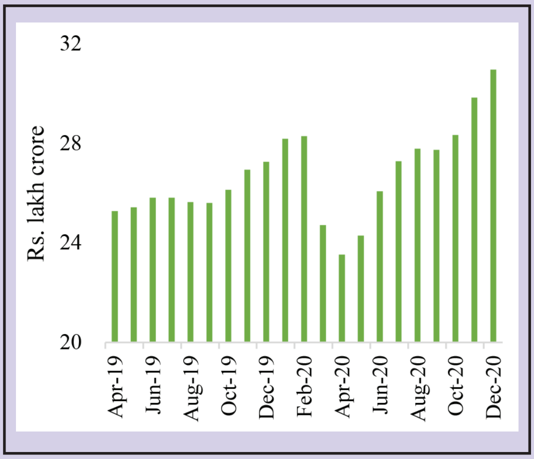

*Bank Credit Growth (YoY)*



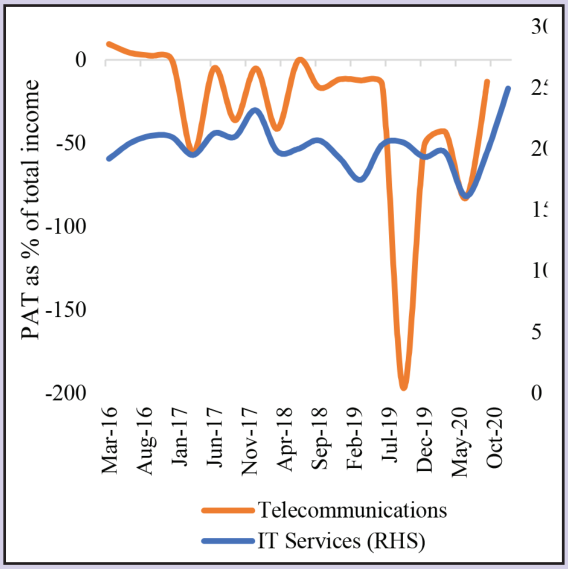
*Asset Financing Services*



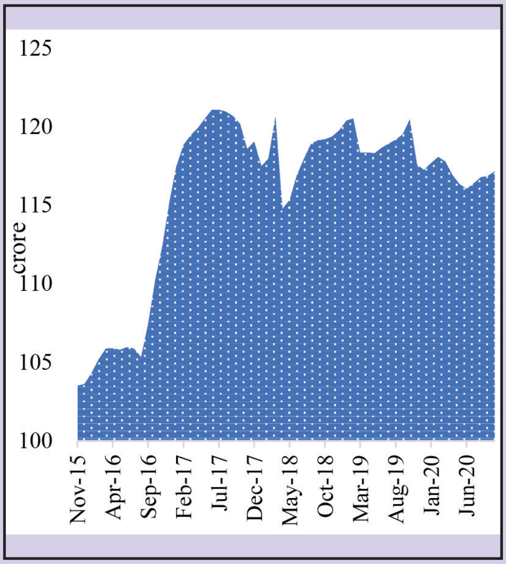

*Average Net Assets Under Management (Mutual Funds )*



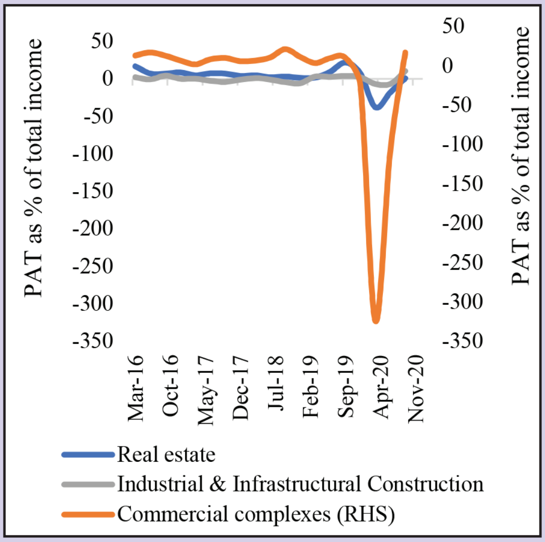

*Communications Services*



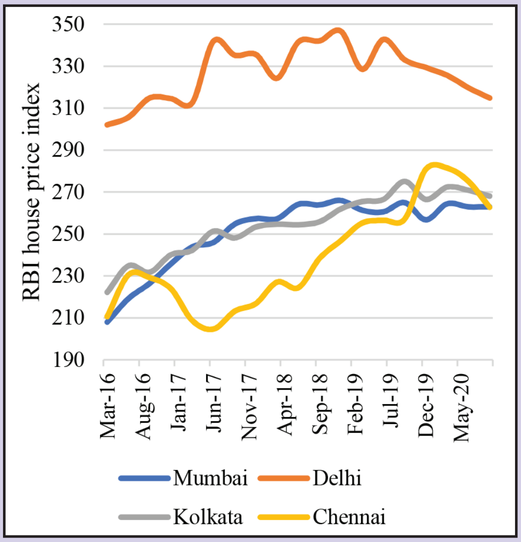

*Telecom Subscriber Base*



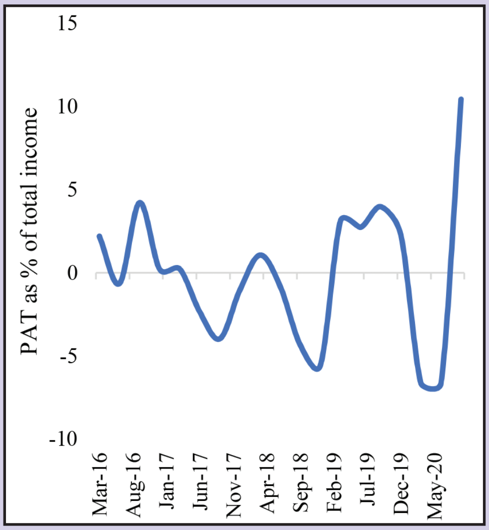

*Real Estate Services*



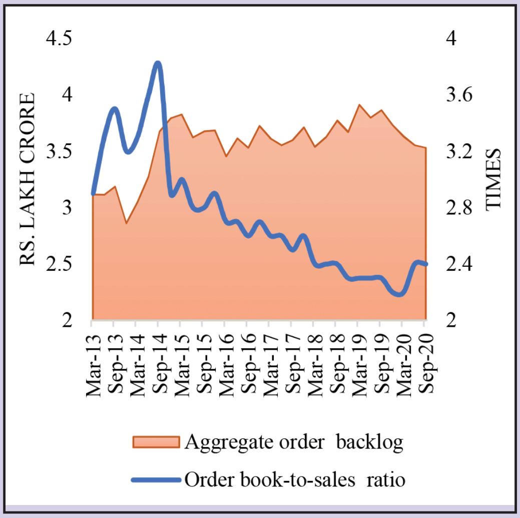

*Housing Prices*



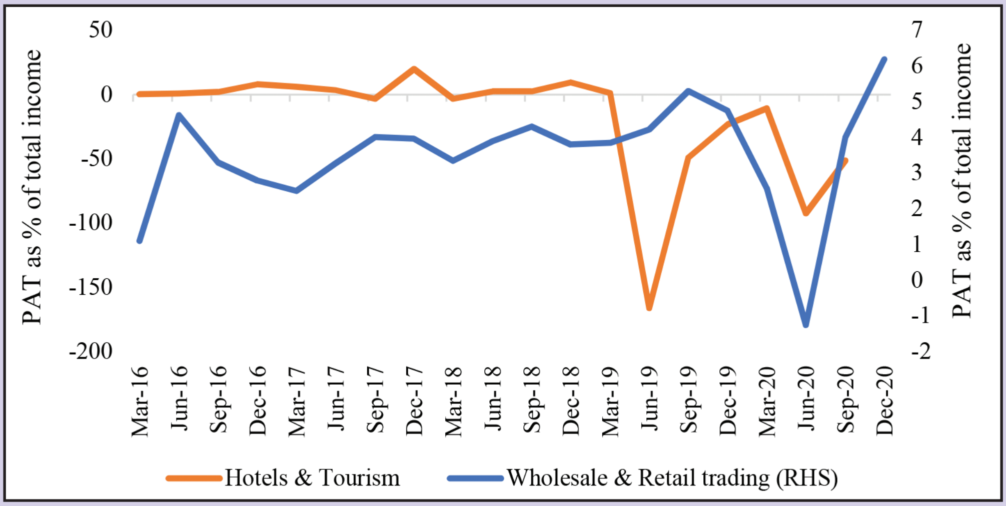
*Industrial and Infrastructure Companies*




*Aggregate Order Backlog of Industrial & Infrastructure Construction Companies*




*Hotels & Tourism, Wholesale & Retail Trading*




Source: Compiled from various sources

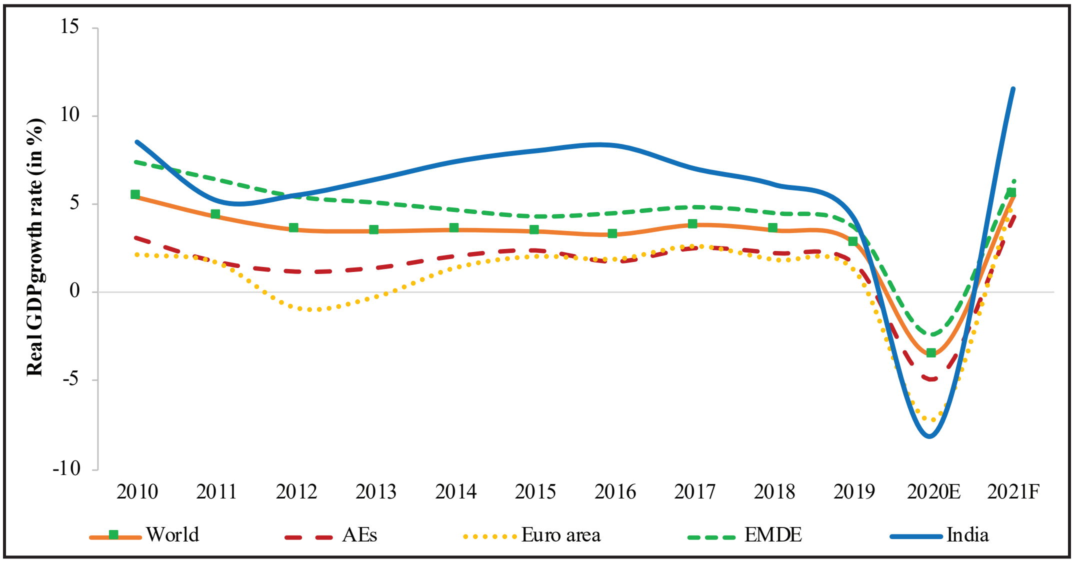
## DISRUPTION OF GLOBAL ECONOMY BY THE PANDEMIC

1.17 As was evident from the earlier section, the pandemic raised unprecedented health challenges on a global scale and posed unique policy dilemmas. Since 2018, the growth momentum in global output was on a weakened footing owing to various factors like trade tensions, political instability, slowed demand and reduction in industrial activity. COVID-19 pandemic accentuated the deceleration by causing severe demand and supply disruptions. Economic activity has been belaboured by reduced mobility, owing both to official restrictions and private decisions; uncertainty regarding the post-pandemic economic prospects and policies has impacted investment; disruptions in education have decelerated human capital accumulation; concerns about the viability of global value chains; and the adverse impact on international trade and tourism.

1.18 The month of April 2020 became the month of "Global Lockdown" with world economic activity coming to a standstill – leading to a steep fall in output during second quarter of 2020.

Global output is expected to witness the sharpest contraction in a century, contracting in the range of 3.5 - 4.3 per cent in 2020 as per the estimates provided by IMF and World Bank (Figure 12). The cumulative loss to global GDP over 2020 and 2021 is estimated at around USD 9 trillion – greater than the economies of Japan and Germany combined. Loss of output is anticipated to be more severe in AEs at 5.4 per cent compared to EMDEs, excluding China, which stood at 5.0 per cent for the year 2020 (Figure 12). This is aligned with the more severe impact of the pandemic spread in AEs than EMDEs as was seen above. The estimates for global growth were revised upward through the year with easing of lockdowns and resurgence in economic activity in July-September quarter of the year. The rebound in global activity has, however, been uneven and subdued since the beginning of second half of the year due to resurgence in COVID-19 infection rates in AEs.

**Figure 12: Trend in Global Growth**

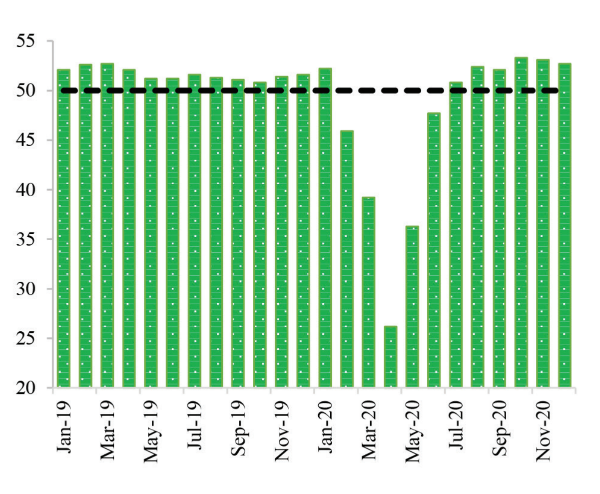



Source: IMF
Note: E is Estimate, F is Forecast

1.19 The pandemic induced border closures and supply disruptions interrupted the international provision of goods and services. The Global composite Purchasing Managers Index (PMI) was in contraction for five months before July, 2020 (Figure 13). Global trade is projected to contract by 9.2 per cent in 2020—comparable to the decline during the 2009 global recession but affecting a markedly larger share of economies (Figure 14). Trade has, however, played a critical role in responding to the pandemic, allowing countries to secure access to vital food and medical supplies.

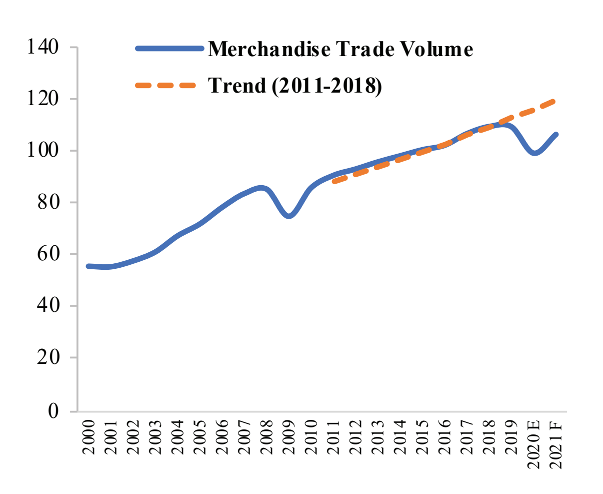
1.20 Most commodity prices rebounded from their mid-2020 lows as strict lockdowns were gradually lifted and demand firmed, especially from China (Figure 15). The recovery in oil prices was more modest amid concerns over the pandemic's lasting impact on oil demand. Gold emerged as a safe-haven investment in the backdrop of the pandemic prices with prices increasing by 26.2 per cent in November, 2020 as compared to December, 2019. Food prices also surged during the year reflecting supply chain disruptions. As a result of weak demand and subdued energy prices, inflation moderated in most part of the world, deflationary pressure emerged in major AEs. Fall in inflation in EMDEs was less broad based than in AEs, reflecting the effects of sharp currency depreciations as well as rising domestic food prices in some countries (Figure 16).

**Figure 13: Global PMI**




Source: IHS

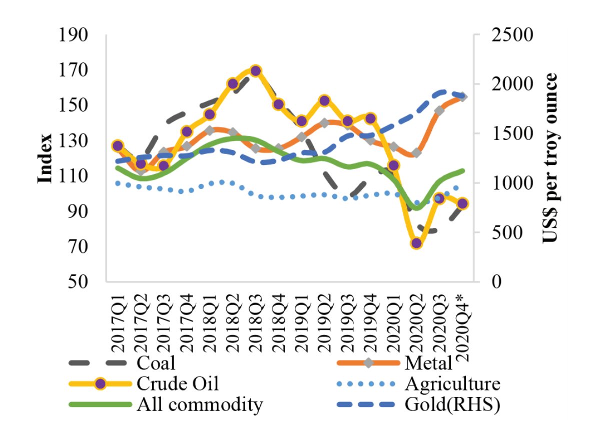
**Figure 14: World Merchandise Trade Growth**




Source: WTO

Note: World Trade in 2015 Indexed at 100

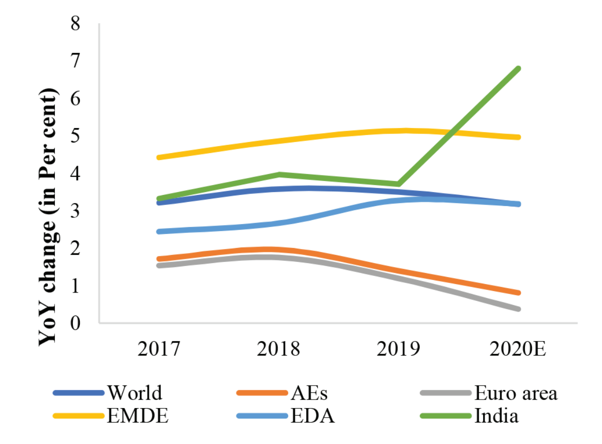
**Figure 15: Commodity Prices**




Source: IMF

Note: * Data till November 2020

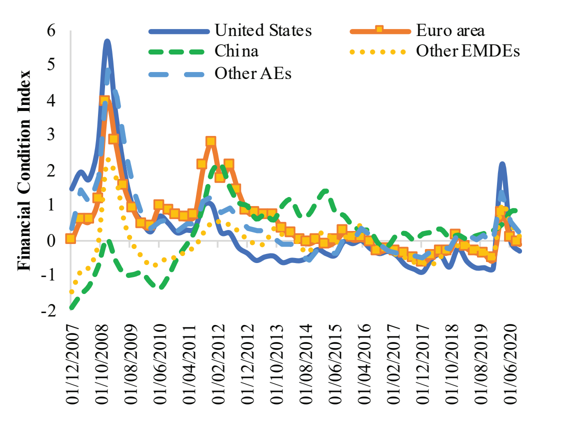
**Figure 16: Inflation Dynamics**




Source: WEO October 2020 database, IMF

1.21 Global financial conditions have remained accommodative on the back of continued policy support via unprecedented swift interventions by Central banks (Figure 17). Despite subdued activity and a highly uncertain outlook, global equity markets have rebounded at a faster pace from the March lows, though with notable differentiation across countries, depending on the spread of the virus, the scope of policy support, and sectoral composition. Behind the broad rebound of risky assets, there are clear signs of differentiation across sectors. Some sectors (such as airlines, hotels, energy, and financials) have been more affected by the lockdown and social distancing, whereas those that are less contact-intensive (information technology, communications) have fared better. US dollar index has weakened by 7.4 per cent on year-to-date basis in comparison to most G-10 currencies with countries adopting various policies to alleviate downward pressure on their exchange rates (Figure 18).

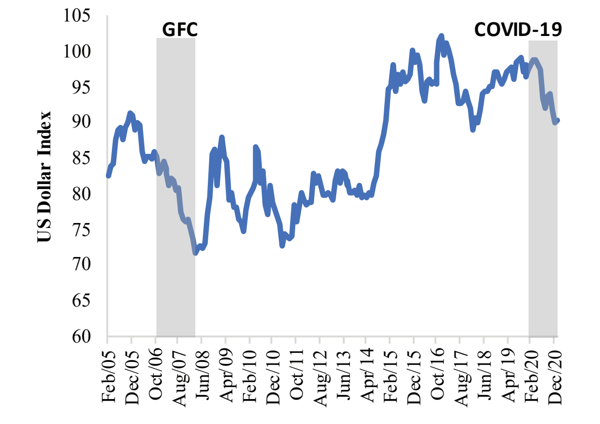
**Figure 17: Global Financial Conditions**




Source: IMF

Note: Graph depicts Standard Deviation from mean of the Index – a lower value indicates accommodative stance

**Figure 18: Weakened US Dollar**

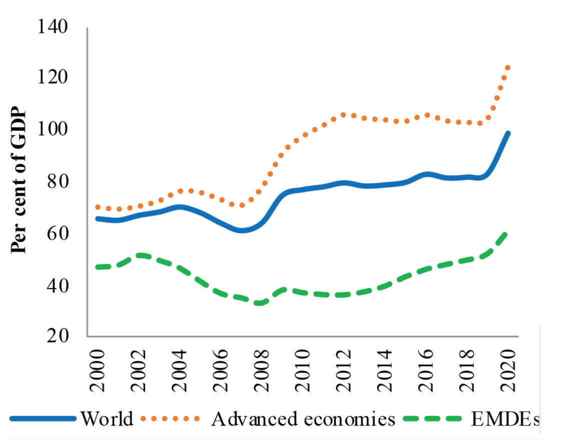



Source: Thomson Reuters

Note: US Dollar Index is a measure of the value of the USD against a weighted basket of currencies used by US trade partners

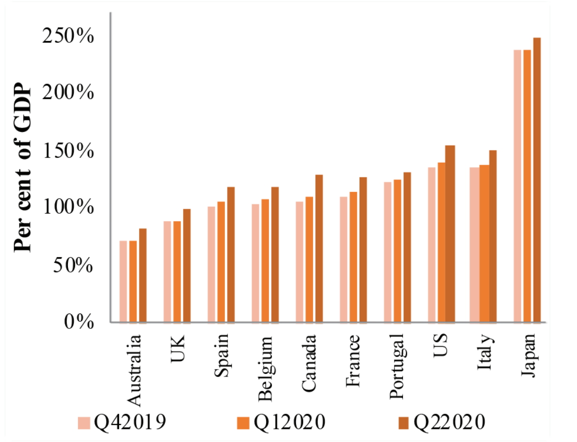
1.22 The pandemic has exacerbated the risks associated with a decade-long wave of global debt accumulation. Sizeable discretionary support, along with a sharp contraction in output and an ensuing fall in revenues has led to a surge in government debt and deficits. Debt burdens have increased as corporates faced a period of sharply reduced sales and sovereigns have financed large stimulus packages. Debt levels have reached historic highs, making the global economy particularly vulnerable to financial market stress (Figure 19). General government debt in major economies rose during Q2 2020 (Figure 20). Debt is likely to rise further as governments finance the recovery by facilitating the transition of capital, labor, skills, and innovation to a post-pandemic economic environment.

**Figure 19: Government Debt as % of GDP**




Source: World Bank, Data for 2020 is Estimates

**Figure 20: Major Economies - Total Debt as per cent of GDP**




Source: OECD

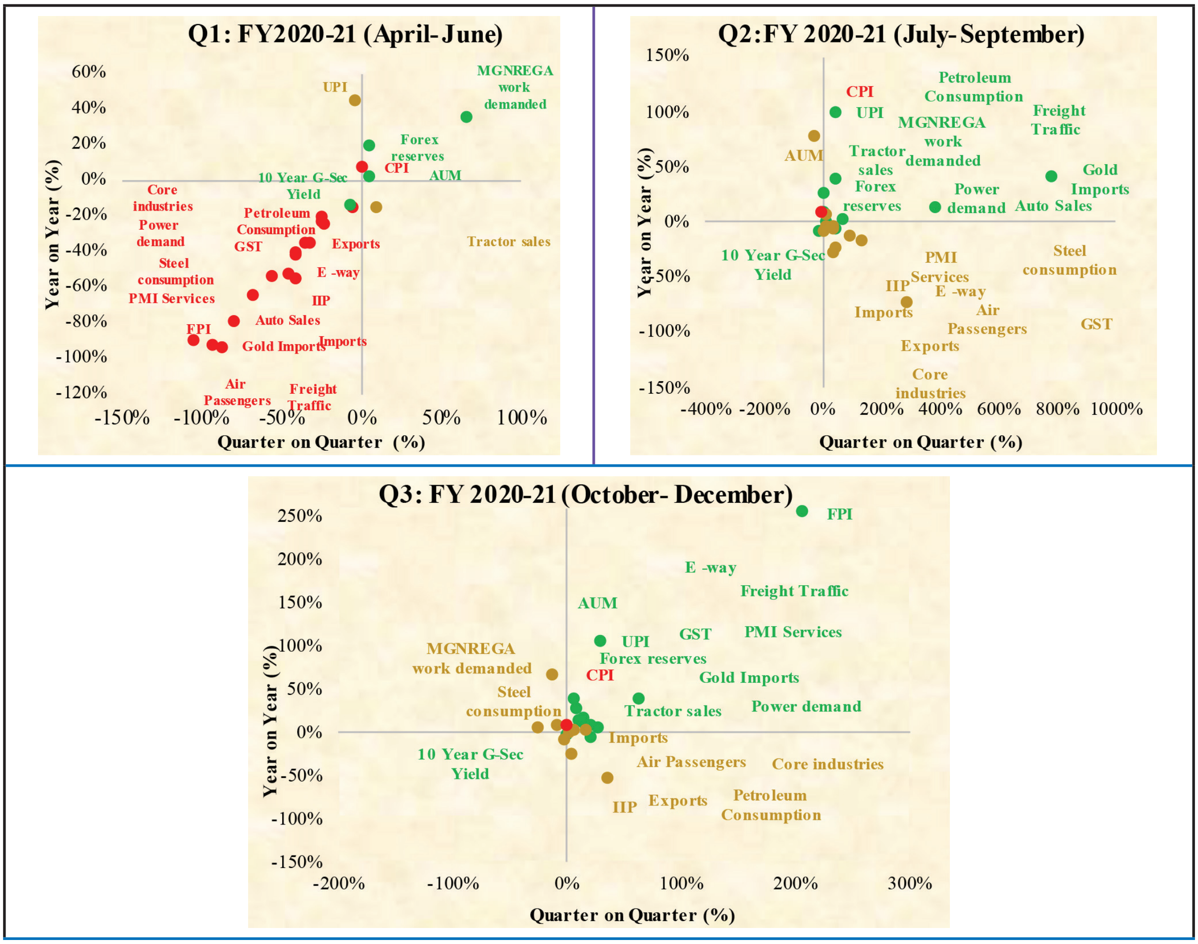
1.23 Going forward, an effective vaccination campaign, restoration of consumer and business confidence as well as continued monetary and fiscal support are expected to lift the global output by 4.5 – 5.5 per cent in 2021. Downside risks to this forecast include the possibility of mutant strains, delays in vaccine procurement and distribution, disruptive effects on potential output from the pandemic, and financial stress triggered by high debt levels and weak growth.

## INDIAN ECONOMY ON THE PATH OF A RESILIENT V-SHAPED TRAJECTORY

1.24 The Indian economy, after subdued growth in 2019, had begun to regain momentum January 2020 onwards, only to be stalled by the once-in-a-century black swan COVID-19 outbreak. The economy witnessed a sharp contraction of 23.9 per cent in Q1: FY 2020-21 and 7.5 per cent in Q2: FY 2020-21 due to the stringent lockdown imposed during March-April, 2020. Since then, several high frequency indicators have demonstrated a V-shaped recovery. The fundamentals of the economy remain strong as gradual scaling back of lockdowns along with the astute support of Atmanirbhar Bharat Mission have placed the economy firmly on the path of revival.

1.25 There has been rapid recovery in India's economic activity from the COVID-19 pandemic induced unprecedented lows of the first quarter of FY 2020-21 on the back of extraordinary fiscal and monetary support provided by the Government and RBI. Overall movement of high frequency indicators over Q1, Q2 and Q3 indicated speedy pickup in Q2 and growing convergence to pre-pandemic levels in Q3 (Figure 21). As India's mobility and pandemic trends aligned and improved concomitantly, indicators like E-way bills, rail freight, GST collections and power consumption not only reached pre-pandemic levels but also surpassed previous year levels.

**Figure 21: Movement of High Frequency Indicators**




Source: Compiled from various sources

Note: Red colour indicates negative YoY and QoQ growth; Brown colour indicates positive YoY or QoQ growth and Green colour indicates positive YoY and QoQ growth. For indicators like CPI and G-Sec yield decline is considered as positive, i.e., green and vice versa.

## Sectoral Trends

1.26 The year also saw manufacturing sector's resilience, rural demand cushioning overall economic activity and structural consumption shifts in booming digital transactions. The full impact of the pandemic on the Indian economy is still unravelling and the future growth prospects would critically depend on sustenance of momentum of this recovery. Agriculture is set to cushion the shock of the COVID-19 pandemic on the Indian economy in 2020-21 with a growth of 3.4 per cent in both Q1 and Q2. It is the only sector that has contributed positively to the overall Gross Value Added (GVA) in both Q1 and Q2 2020-21. This indicates that agricultural activities for rabi harvesting and kharif sowing were largely unaffected by the COVID 19-induced lockdown. Given the expectation of a bountiful kharif harvest, the food grain production target has been set at 301 million tonnes for the 2020-21 crop year, up by 1.5 per cent from the record output achieved in 2019-20 (Figure 22). Sowing remained healthy while procurement continued unabated, firming up buffers and channelizing supply, while ensuring food security throughout the year (Figures 23).

**Figure 22: Foodgrain Production in India**

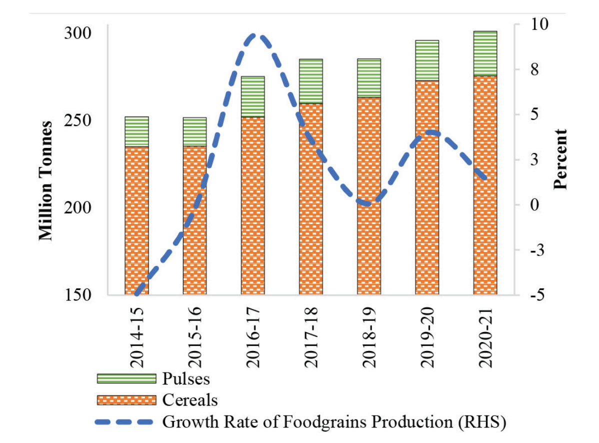
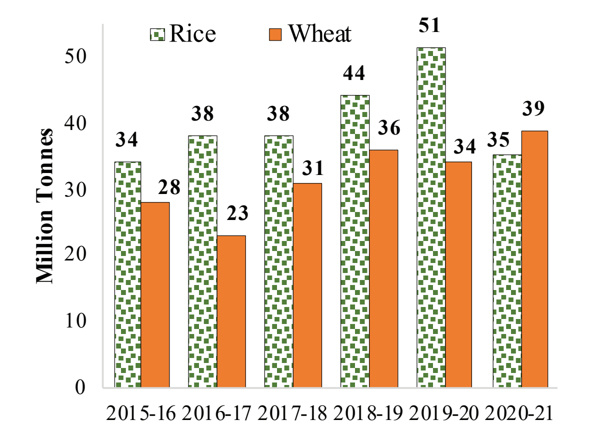



**Figure 23: Procurement of Rice and Wheat**




Source: Ministry of Agriculture, Department of Food and Public Distribution

Note: Production figures for 2020-21 are estimates. Procurement of Rice is as on 15 January 2021. The target for procurement of rice for 2020-21 is 495.37 lakh tonnes

1.27 Rural demand has remained resilient empowered by the government's thrust on the rural economy and infrastructure in previous years, through a bouquet of reforms for both farm and non-farm sectors. There has been re-energised focus in the last six years on rural roads by extension to smaller villages, rural housing and sanitation, provision of basic amenities under various Government Schemes and creation of durable assets through MGNREGS. These measures have been reinforced by rural digitalisation and financial inclusion drives which also aided in smooth implementation of demand push measures during COVID-19. Initiatives to spur skill development, entrepreneurship, Self Help Groups and livelihoods have further empowered the rural economy to combat the COVID-19 induced vagaries. Critical steps such as PM-KISAN, adoption of cost plus 50 per cent formula for MSP, focus on irrigation via PM Krishi Sinchai Yojana, micro-irrigation scheme, promoting economies of scale through FPOs, and institutionalizing e-NAM (Electronic national agricultural market), and promotion of agricultural mechanization through subsidies and custom hiring centres, have contributed to nourishing a vibrant agricultural sector, which remains a silver lining to India's growth story of FY 2020-21.

1.28 A palpable V-shaped recovery in industrial production was observed over the year. Manufacturing rebounded and industrial value started to normalize. Headwinds, however, lingered on. The index of eight core industries, which make up around 40 per cent of the index, registered a growth of (-) 2.6 per cent in November, 2020 as compared to a growth of 0.7 per cent in November, 2019 and (-) 0.9 per cent in October, 2020 (Figure 24). Consequently, IIP, after registering positive growth in October 2020 slipped back into contractionary zone in November, 2020 (Figure 25). PMI Manufacturing, however, continued to remain in expansionary zone in December 2020. Resuscitating steel consumption reinforced acceleration in construction sector, propping up employment as economy unlocked. The housing market, a key forward linkage sector for steel consumption, saw gradual resurgence from its Q1: 2020-21 trough. Electricity sector retained its momentum with power consumption registering positive YoY growth since September, 2020.

**Figure 24: Growth in Core Index**

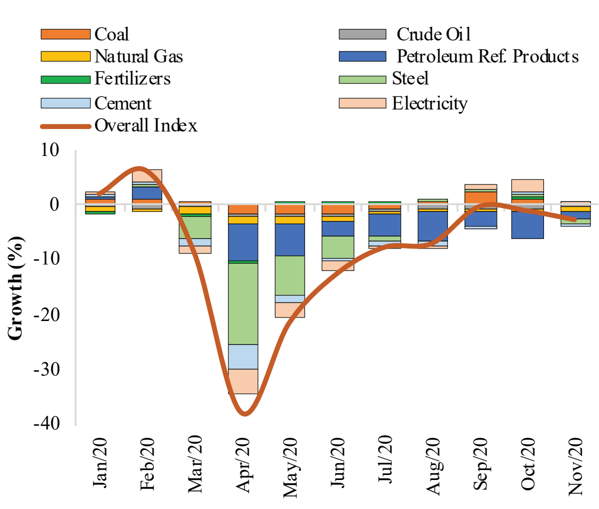
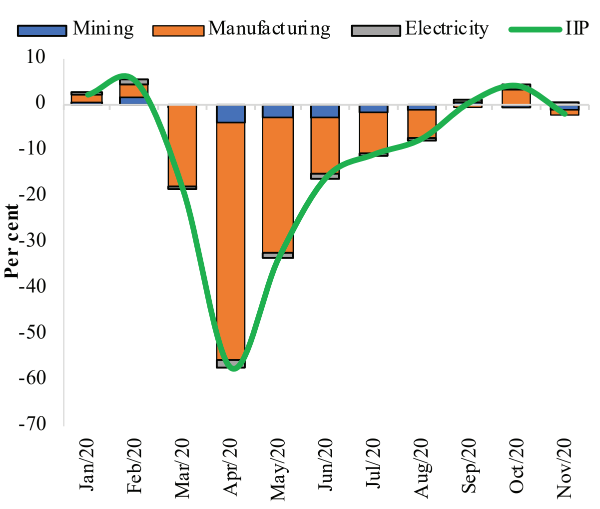



**Figure 25: Growth in IIP**




Source: MoSPI, DPIIT

1.29 Revitalized inter and intra-state movement along with a sustained spurt in industrial and commercial activity heralded the economy's returning to normalcy. E-way bills, electronic toll collection, rail freight and port cargo traffic not just recovered but surpassed previous year levels in Q3: 2020-21, while rail passenger earnings and domestic aviation witnessed a steady recovery (Figures 26 and 27). Indian services sector sustained its recovery from the pandemic driven declines with PMI Services output and new business rising for the third straight month in December.

**Figure 26: Average Daily ETC Count and Collection**

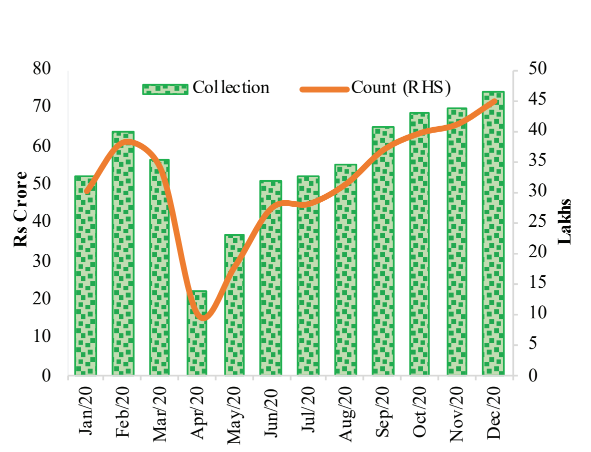
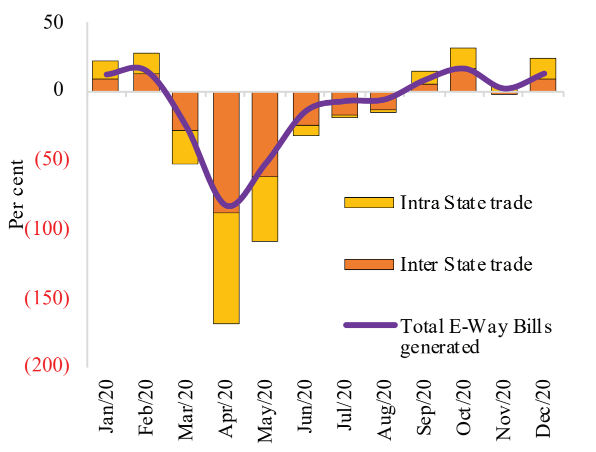



**Figure 27: E-way Bills**




Source: Ministry of Road, Transport and Highways; GSTN

## BOX 2: E-WAY BILLS

E-way bills are a strong leading indicator of revenue collections, supply chain corrections and logistics growth. With industries at a standstill during lockdown in the fight against COVID-19, total e-way bills generated witnessed a sharp contraction of 74 per cent (YoY) in April 2020. Volume of inter State and intra State trade plunged by 89 per cent and 80 per cent respectively in April 2020 compared to previous year levels. While E-way bills for all distance categories contracted sharply in April 2020, E-way bills with distance more than 1000 km saw the maximum fall (Figure B3 ). Value of e-way bills per person saw a similar fall (Figure B4 ).

**Figure B3: Volume of E-Way Bill by Distance Category**

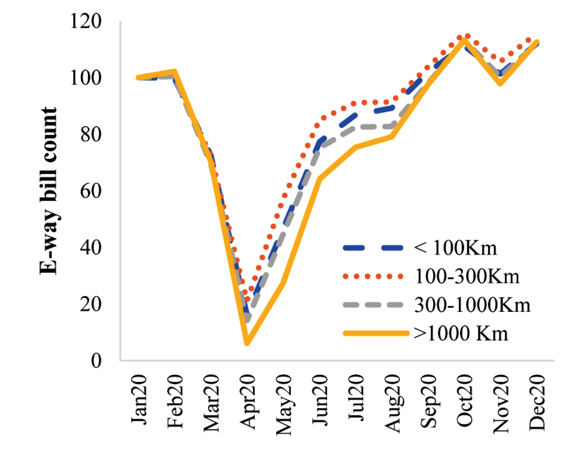


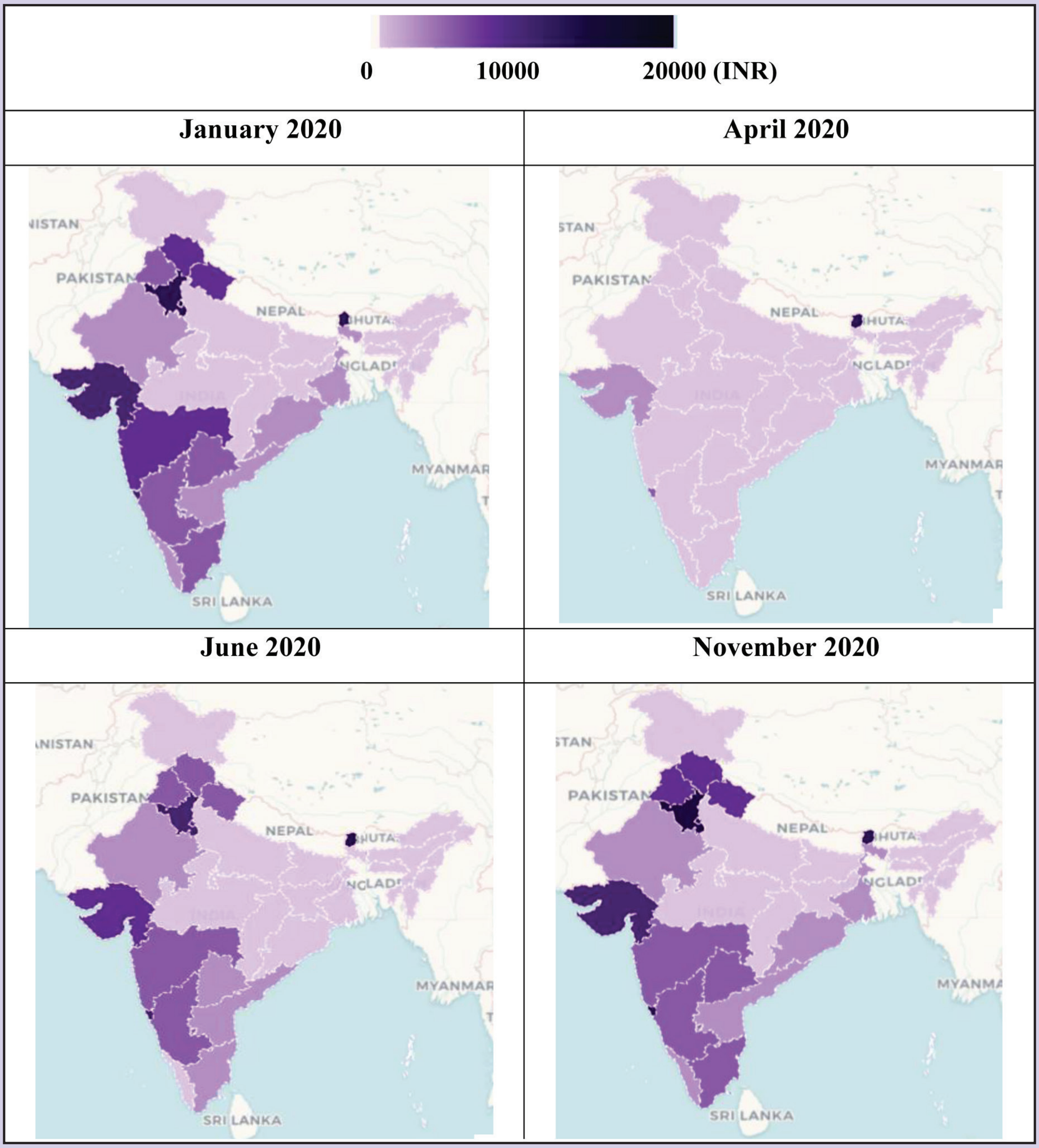

**Figure B4: All India- Value of Goods Traded (INR Per Person)**


Source: GSTN

With gradual relaxation of restrictions, E-way bills in terms of total assessable value generated and value generated per person regained momentum and persistently improved to surpass previous year levels in September 2020 (Figure B5). Volume of trade, both inter and intra also bounced back to previous year levels by September 2020. Both volume and value of total

E-way bills generated have regained stronger momentum in December with a double- digit growth of 12.3 per cent and 17.5 per cent respectively in December 2020.

**Figure B5: All India- Value of Goods Traded Per Person**




Source: Data from GSTN curated from public platform Indiapulse@ISB

Persistent improvement in E-way bills generated bodes well for faster economic recovery. A regression analysis using pair-wise state trade data estimates that inter-state trade had a 36-39 per cent fall on average during the lockdown and fully recovered in September 2020. The analysis shows that inter-state borders had some effect on trade, but not very large. Interstate borders might have been an impediment during the initial phase of lockdown but not in the later period.

$$\log(\text{trade})_{ij,t} = a + b1 * \log(\text{distance}) + b2 * D(\text{Border}) + b3 * D(\text{COVID})_t + e_{ij,t}$$

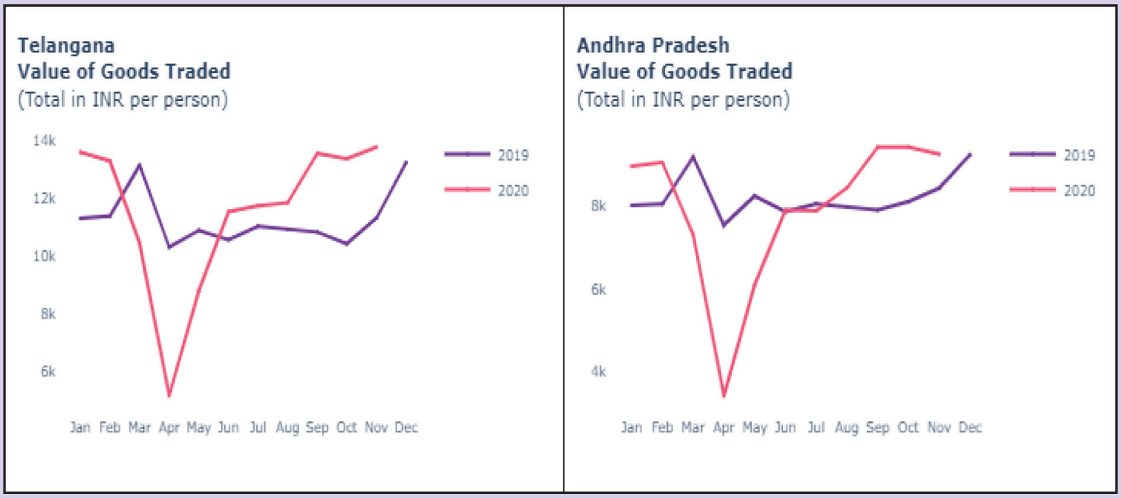
| | Log (Pairwise inter-state trade) | | |
|---|---|---|---|
| | (1) | (2) | (3) |
| Log (distance) | -1.436*** (0.014) | -1.407*** (0.016) | -1.402*** (0.021) |
| D(Border) | 0.333*** (0.026) | 0.352*** (0.029) | 0.361*** (0.038) |
| D(COVID) | | -0.360*** (0.014) | -0.389*** (0.019) |
| Period | Jan 2019-Mar 2020 | Nov 2019-Nov 2020 | Dec 2019- Jun 2020 |
| Observations | 13020 | 12090 | 7440 |
| R-Squared | 0.929 | 0.916 | 0.908 |

D(COVID)=1 for March-August 2020 ***p<0.01

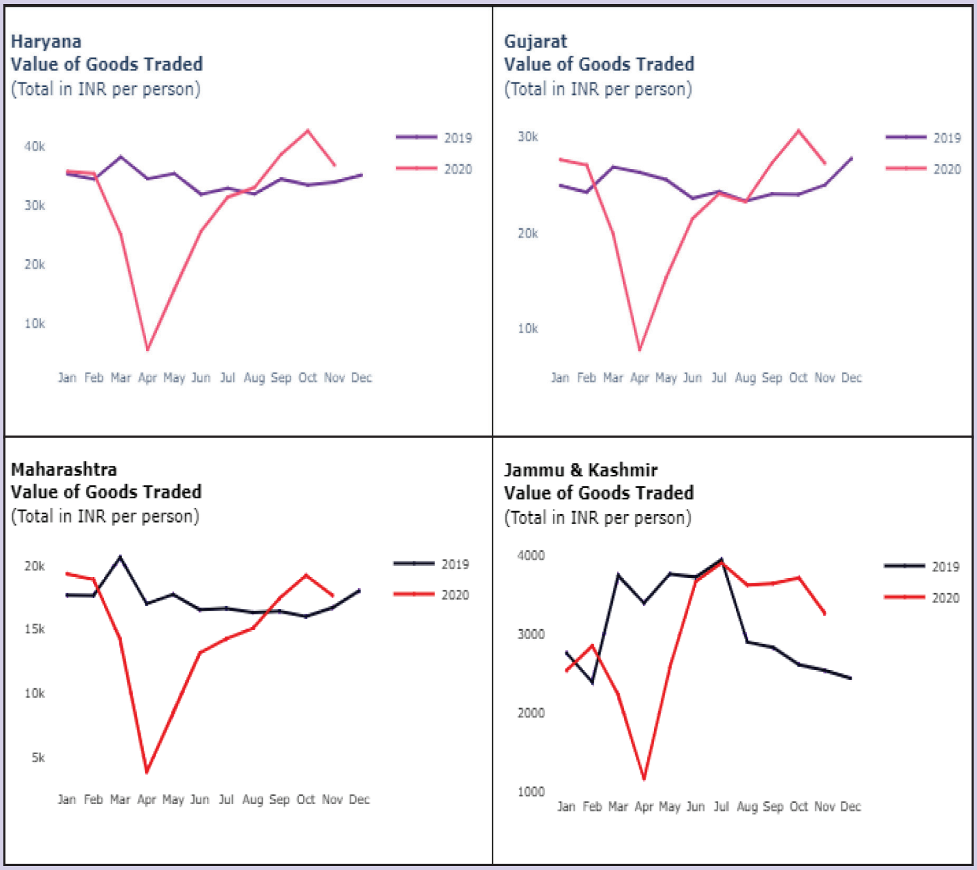
D(Border): Dummy variable which takes the value 1 if the pair of States shares borders

The V-shaped recovery in revenue collections was quite quick in states (Figure B6) such as Telangana and Andhra Pradesh with value of E-way bills per person reaching previous year levels in June. On the other hand, states like Haryana and Gujarat witnessed recovery a month later in July while Maharashtra, a key COVID-19 hotspot and the biggest contributor to India's GDP witnessed a recovery August onwards.

**Figure B6: State-wise Value of Goods Traded Per Person**



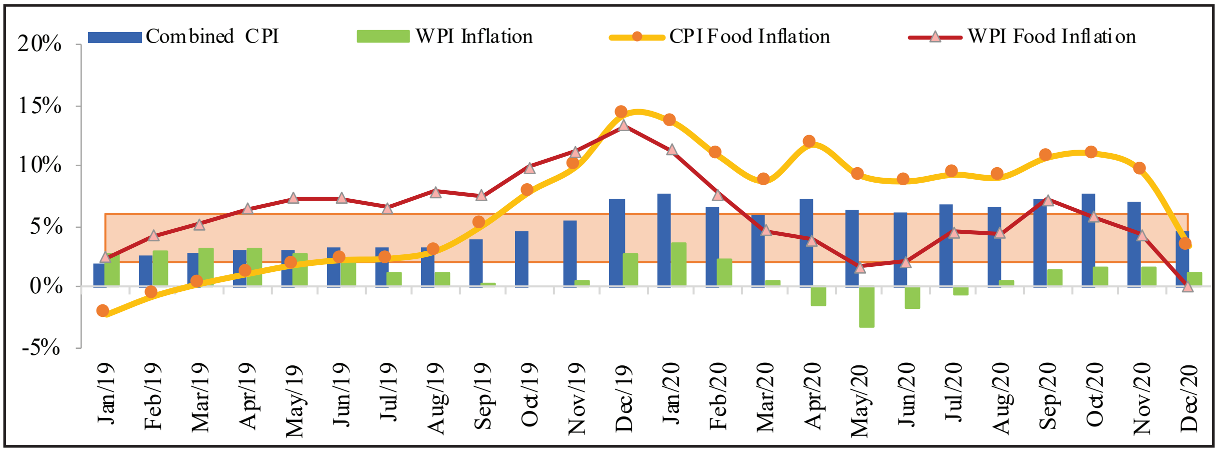

Source: Data from GSTN curated from public platform Indiapulse@ISB




Source: Data from GSTN curated from public platform Indiapulse@ISB

1.30 High food prices remained a major driver of inflation in 2020. However, inflation in December, 2020 fell back into the RBI's target range of 4 +/- 2 per cent to reach 4.6 per cent year-on-year as compared to 6.9 per cent in November (Figure 28). This was driven by a steep fall in food prices, particularly of vegetables, cereals, and protein products and favourable base effects. After consistently rising for six months since Q1:2020-21, headline inflation also eased sequentially in December. However, fuel inflation remained sticky owing to higher crude oil prices. Core inflation remained elevated on a yearly basis but eased as compared to the previous month.

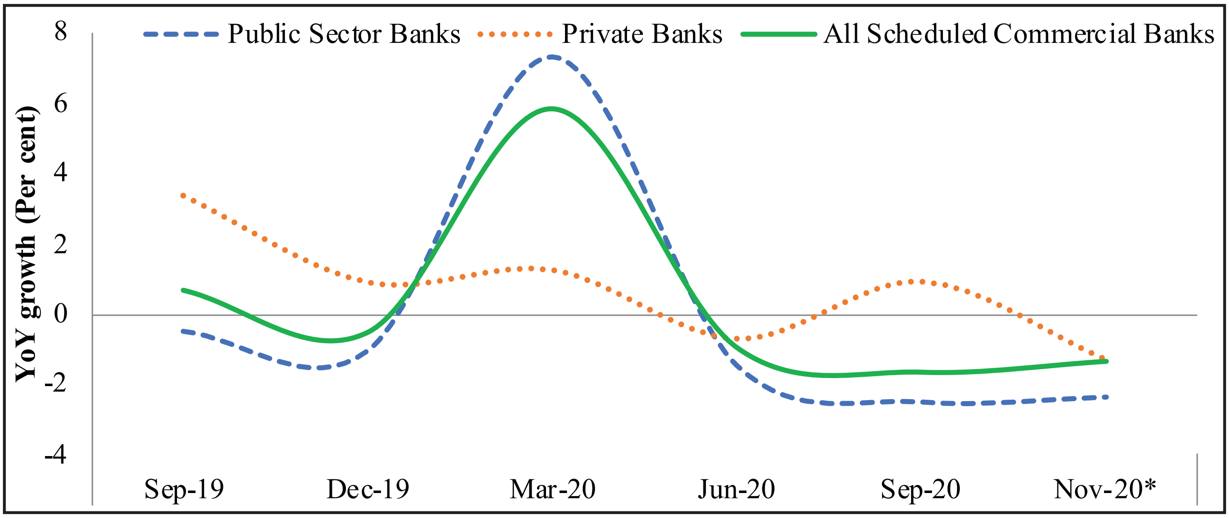
**Figure 28: Inflation**




Source: MOSPI

1.31 Bank credit remained subdued in FY 2020-21 amid risk aversion and muted credit appetite (Figure 29). The profile of wholesale bank credit during April-November 2020 reflected this trend across both public sector and private sector banks. While overall bank credit growth and credit to commercial sector gradually picked up from its April lows to reach 6.7 per cent and 6.2 per cent YoY respectively as on 1st January, it remained sluggish compared to previous year levels. Credit growth to agriculture and allied activities accelerated to 7.4 per cent in October 2020 from 7.1 per cent in October 2019. October 2020 saw resilient credit flows to sectors such as construction, trade and hospitality, while bank credit remained muted to the manufacturing sector. Credit growth to the services sector accelerated to 9.5 per cent in October 2020 from 6.5 per cent in October 2019. While personal loans registered a decelerated growth of 9.3 per cent in October 2020 as compared with 17.2 per cent growth a year ago, vehicle loans continued to perform well, registering accelerated growth of 8.4 per cent in October 2020 vis-a-vis a growth of 5.0 per cent in October 2019.

**Figure 29: Growth in Wholesale Bank Credit**

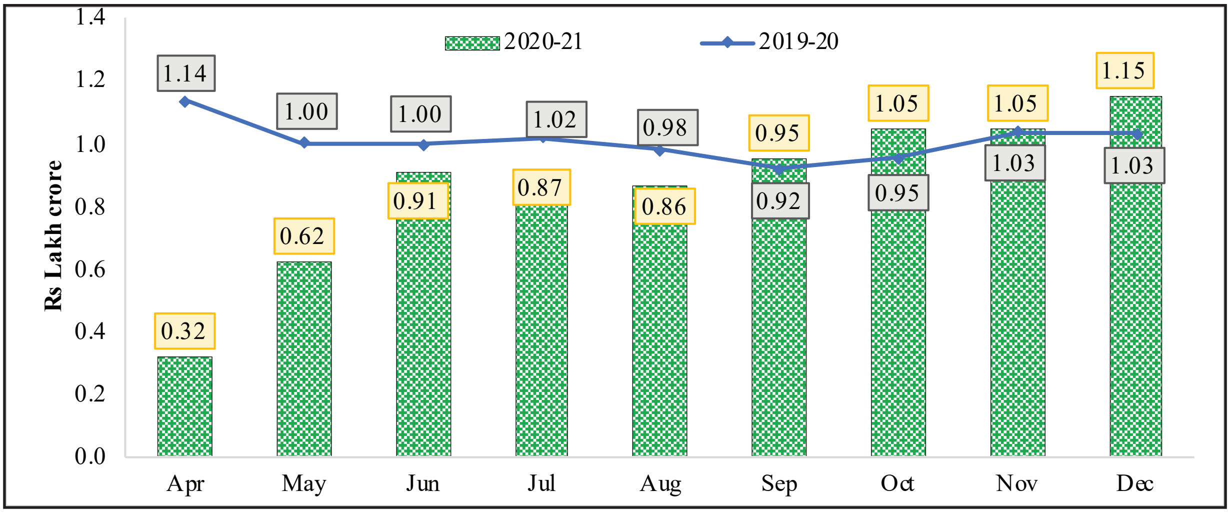



Source: RBI
Note: * Growth over September 2020

1.32 On the non-bank financing side, assets under management (AUM) of mutual funds grew at 17.73 per cent during April to November 2020. These funds faced aggressive redemption pressures during the first quarter of the year amid liquidity crunch in debt markets. However, RBI's special liquidity window for mutual funds helped them to tide over this difficult period. RBI's liquidity enhancing measures also boosted Commercial Paper (CP) issuances and eased spreads. In December 2020, CP issuances rose by 55 per cent to reach ₹1.88 lakh crore as compared to ₹1.21 lakh crore in November 2020. The effective Weighted Average Yield of CPs continued to ease to reach 3.6 per cent in December 2020. The mutual fund holdings of NBFCs, after declining substantially post the IL&FS episode, increased by around 40 per cent in November 2020 from its March 2020 levels.

1.33 The fiscal arithmetic was impacted by the adverse impact on government revenues and elevated expenditures, as the Government enhanced spending during the unlock phase. During April-December 2020 (Flash estimates), total non-debt receipts of Central Government fell by 4.7 per cent YoY. However, gross GST collections (Centre plus states) gained buoyancy October onwards, crossing the ₹1 lakh crore mark consecutively for 3 months, thereby providing much needed succour to the Government's revenue position (Figure 30). However, on the states' front, total receipts of state governments during April-October 2020, contracted by 13.7 per cent. Total expenditure of the Central Government recorded a growth of 11 per cent during April-December 2020 (Flash estimates), with capital expenditure growing by 24.1 per cent and revenue expenditure by 9.2 per cent year-on-year. States, however, witnessed a contraction in total expenditure by 4.1 per cent year-on-year during April-October 2020. While revenue expenditure of states did not see any significant uptick during this period, growth in capital expenditure of state governments emerged out of eight months of consecutive decline to record positive growth in October 2020.

**Figure 30: Trends in GST Collection during 2020-21**




Source: Department of Revenue

1.34 The pandemic led receipts-expenditure wedge witnessed in this year has been bridged mainly through additional market borrowing, as demonstrated in the revised borrowing calendar announced by the Centre and higher market borrowing limits given to states. As on 8th January 2021, the Central Government gross market borrowing for FY2020-21 reached ₹10.72 lakh crore, while State Governments have raised ₹5.71 lakh crore. While Centre's borrowings are 65 per cent higher than the amount raised in the corresponding period of the previous year, state governments have seen a step up of 41 per cent (Figure 31). Since the COVID-19 outbreak depressed growth and revenues, a significant scale up of borrowings amply demonstrates the government's commitment to provide sustained fiscal stimulus by maintaining high public expenditure levels in the economy.

**Figure 31: Gross Market Borrowings by States and Centre**

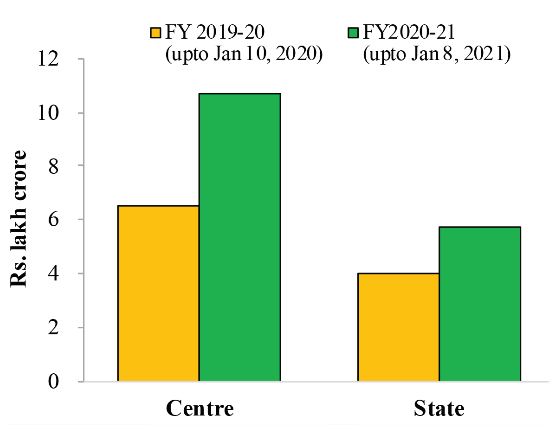
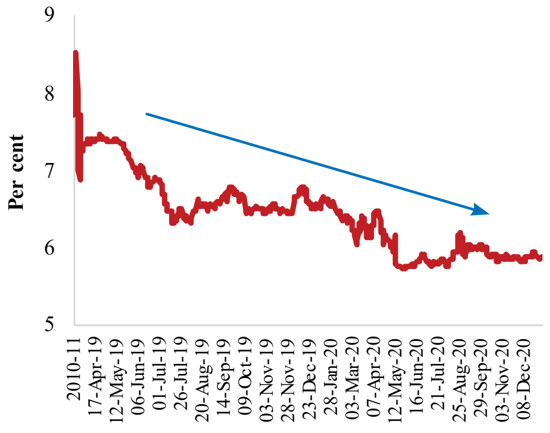



**Figure 32: India 10-Year Benchmark G-sec Yield**

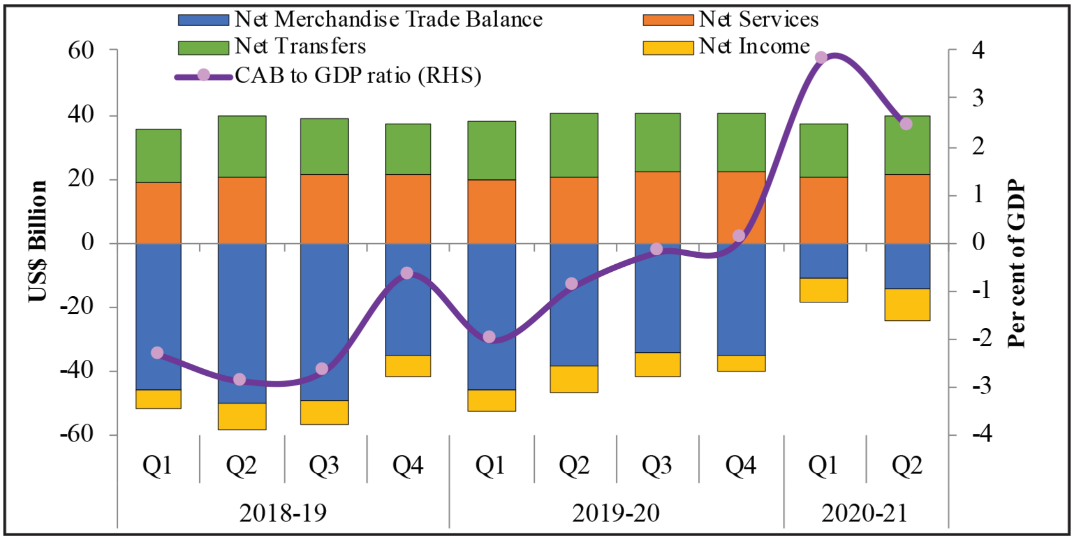



Source: RBI

1.35 Government and RBI led liquidity support measures, increase in limits of ways and means advances, and relaxation of rules governing withdrawals from the Consolidated Sinking Fund (CSF) enabled bond markets to absorb pressures of increased government borrowings and added to their buoyancy. The surplus systemic liquidity continues to ensure softening of 10-year G-sec yield and reduction of spread with AAA corporate bond yields (Figure 32). The average spread of AAA rated 3-year corporate bond fell from 171 bps in May 2020 to 22 bps in December 2020. The spreads on AA rated corporate bonds also moderated significantly during the same period i.e., by 131 bps (from 243 bps to 113 bps) and 60 bps (from 177 bps to 117 bps) each for 3-year and 5-year bonds respectively.

1.36 The external sector provided an effective cushion to India during these uncertain times. Amid domestic and global demand and supply disruptions, India's merchandise exports fell by 21.1 per cent in the first half of 2020-21 with the contraction being more severe for imports at 38.8 per cent. Exports, however, revived gradually as the rate of contraction eased to 5.0 per cent in Q3:2020-21, with non-oil exports increasing by 2.3 per cent during the quarter. With the gradual unlocking of the economy, the decline in imports has also moderated to 8.3 per cent during Q3: 2020-21. While trade deficit narrowed to US$ 26.2 billion in April-September 2020-21 from US$ 88.9 billion a year ago, it stood at US$ 31.2 billion during the third quarter of the year, lower than US$ 37.0 billion in the same quarter last year. India recorded a current account surplus of 3.1 per cent of GDP in the first half of the year largely supported by strong services exports (Figure 33). While prospects of external demand normalization are underway, its pace is contingent on the global COVID-19 outlook and successful rollout of vaccinations across the world.

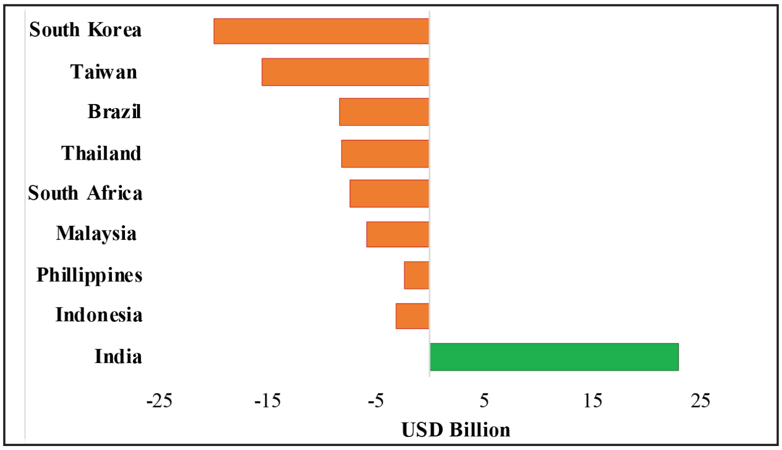
**Figure 33: Composition of India's Current Account Balance**




Source: RBI

1.37 India remained a preferred investment destination in FY 2020-21. FDI poured in amidst global asset shifts towards equities and prospects of quicker recovery in emerging economies. Subsequent to an unrivalled global portfolio investor selloff in March 2020, surges of FPI flows were witnessed June onwards marking a renewed appetite for risky assets and yield, and weakening of US dollar amid global monetary easing and fiscal stimulus packages. Net FPI inflows recorded an all-time monthly high of US$ 9.8 billion in November 2020. During April-December 2020, equities witnessed inflow of at USD 30.0 billion, five times its previous year value - India was the only country among emerging markets to receive equity FII inflows in 2020 (Figure 34). As a result of these inflows, buoyant Sensex and NIFTY resulted in India's market-capitalisation to Gross Domestic Product (GDP) ratio crossing 100 per cent for the first time since October 2010. While stock markets value the potential future growth, these elevated levels still raise concerns on the disconnect between the financial markets and real sector.

**Figure 34: Equity Inflows from FIIs into India in 2020**




Source: Institute of International Finance.

1.38 Robust capital inflows along with a weak dollar lent an appreciating bias to the Indian rupee since end June 2020. However, RBI's prudent interventions in the foreign exchange market limited the appreciation (Figure 35). Combined with a rise in gold reserves and foreign currency assets, India's foreign exchange reserves climbed to a new high of US$ 586.08 billion as on 8th January, 2020, covering more than 18 months of imports. External debt as a ratio to GDP, which is comprised primarily of private sector's external debt, rose marginally to 21.6 per cent as at end-September 2020 from 20.6 per cent at end-March 2020. However, the ratio of foreign exchange reserves to total and short-term debt (original and residual) improved because of the sizable accretion in reserves (Figure 36). Reflecting lower current receipts, debt service ratio (principal repayment plus interest payment), however, increased to 9.7 per cent as at end-September 2020 as compared to 6.5 per cent at end-March 2020.

**Figure 35: Movements in Rupee**

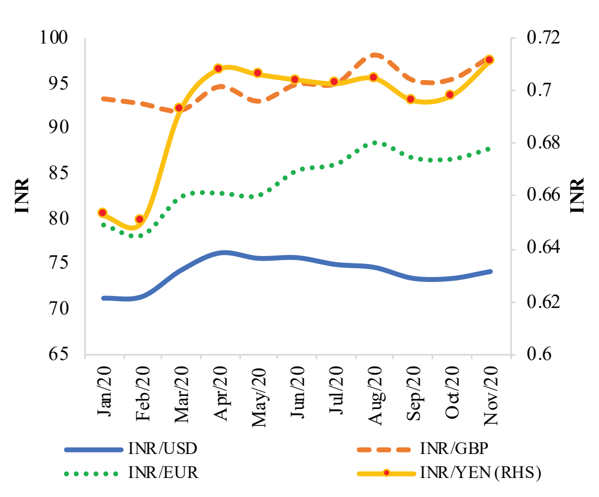
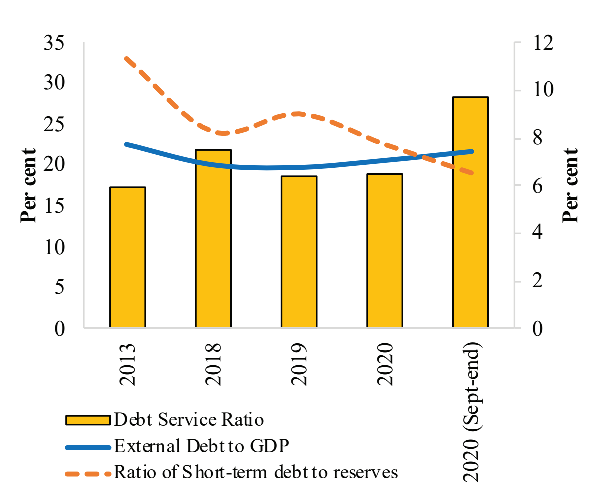



**Figure 36: External Debt Comfortable**




Source: RBI

1.39 Overall, India is well on its path to a V-shaped recovery to pre-pandemic levels and beyond. The economy was well supported by strategically paced macro-economic policies and resilient fundamentals. The coordinated policy response on both health and economic fronts helped India to endure the pandemic-induced shocks this year.

## BOX 3: COVID-19's Impact on GVA, Labour Markets and Fiscal Position: A Geographical Perspective

The geographical spread of the COVID-19 health shock is intertwined with the pre-existing economic fragilities of the states. This fragility can be interpreted on three fronts– relative sectoral shares in GVA, labour market and fiscal position. The highest output contributing state and the COVID-19 epicentre of the country i.e., Maharashtra has grappled with contact-sensitive services sector shock (with 56 per cent of its output coming from that sector) and labour market stresses given its higher percentage share of MSMEs. While Tamil Nadu and Kerala are most fragile to the construction sector shock, a manufacturing slowdown lends risks to Gujarat's and Jammu and Kashmir's economic recovery. Punjab, though sheltered by the relatively resilient agricultural sector, is expected to experience informal labour shocks in the services sector. Services led informal sector shocks also make states like Delhi and

Telangana vulnerable. However, the comfortable fiscal situation of Delhi, one of the key COVID-19 hotspots, offers cushion to battle the health shock. The ubiquity of construction led informal sector shocks impacts Uttar Pradesh, a leading economy and most populous state of the country.

**Table B1: Intensity of Inter-State Variations in Impact of COVID-19**

| | GVA Shock Intensity (Measured as share in GSVA) | | | | | Employment shock Intensity | | Fiscal shock Intensity | COVID-19 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Agriculture | Mining | Manufacturing | Construction | Services | Informal Workers Share in Non-Agricultural Sector* (%) | Share in Total MSMEs | Gross Fiscal Deficit as % of GDP | Confirmed Cases (Lakhs) | Deaths ('000) |
| | FY 2019-20 | | | | | FY 2018-19 | FY 2015-16 | FY 2019-20 (RE) | Jan | Jan |
| Andhra Pradesh | 30.9 | 3.5 | 10.8 | 8.5 | 43.5 | 50.5 | 5.3 | 4.2 | 8.9 | 7.1 |
| Assam | 16.6 | 14.0 | 16.3 | 9.7 | 41.1 | 31.1 | 1.9 | 3.1 | 2.2 | 1.1 |
| Bihar | 18.7 | 0.9 | 8.7 | 10.0 | 60.2 | 17.0 | 5.4 | 9.5 | 2.6 | 1.4 |
| Chhattisgarh | 16.8 | 11.7 | 15.3 | 10.1 | 37.0 | 38.3 | 1.3 | 6.4 | 2.9 | 3.5 |
| Gujarat | 12.6 | 4.5 | 38.0 | 5.6 | 35.9 | 42.4 | 5.2 | 2.1 | 2.5 | 4.4 |
| Haryana | 16.6 | 0.2 | 23.8 | 7.7 | 50.6 | 46.9 | 1.5 | 2.8 | 2.7 | 3.0 |
| Himachal Pradesh | 12.6 | 0.4 | 30.9 | 8.5 | 40.5 | 29.7 | 0.6 | 6.4 | 0.6 | 1.0 |
| Jammu & Kashmir | 15.0 | 0.2 | 9.4 | 8.3 | 57.1 | 35.8 | 1.1 | | 1.2 | 1.9 |
| Jharkhand | 12.6 | 8.9 | 22.5 | 8.8 | 45.8 | 38.7 | 2.5 | 2.4 | 1.2 | 1.0 |
| Karnataka | 8.7 | 0.7 | 18.7 | 6.1 | 64.4 | 28.0 | 6.0 | 2.3 | 9.3 | 12.2 |
| Kerala | 8.8 | 0.5 | 13.2 | 13.7 | 62.6 | 33.4 | 3.8 | 3.0 | 8.4 | 3.4 |
| Madhya Pradesh | 31.8 | 3.1 | 11.7 | 8.6 | 41.0 | 45.2 | 4.2 | 3.6 | 2.5 | 3.7 |
| Maharashtra | 9.4 | 3.7 | 23.0 | 5.7 | 55.9 | 29.7 | 7.5 | 2.1 | 19.8 | 50.3 |
| Odisha | 14.1 | 11.8 | 22.3 | 7.5 | 41.1 | 40.1 | 3.1 | 3.4 | 3.3 | 2.0 |
| Punjab | 24.3 | 0.4 | 14.5 | 6.3 | 50.7 | 61.9 | 2.3 | 3.0 | 1.7 | 5.5 |
| Rajasthan | 25.2 | 9.0 | 12.2 | 7.7 | 44.1 | 53.7 | 4.2 | 3.2 | 3.1 | 2.7 |
| Tamil Nadu | 10.9 | 0.5 | 25.1 | 11.5 | 51.1 | 33.8 | 7.8 | 3.0 | 8.3 | 12.3 |
| Telangana | 12.9 | 3.1 | 13.0 | 4.4 | 65.3 | 49.5 | 4.1 | 2.3 | 2.9 | 1.6 |
| Uttar Pradesh | 20.9 | 1.7 | 16.4 | 10.8 | 48.7 | 44.4 | 14.2 | 2.8 | 6.0 | 8.6 |
| Uttarakhand | 7.9 | 1.9 | 40.3 | 7.9 | 38.4 | 31.1 | 0.7 | 2.2 | 0.9 | 1.6 |
| West Bengal | 19.9 | 1.2 | 14.6 | 8.9 | 53.3 | 39.6 | 14.0 | | 5.6 | 10.0 |
| Arunachal Pradesh | 27.7 | 3.3 | 4.1 | 11.5 | 44.3 | 14.3 | 0.0 | 4.1 | 0.2 | 0.1 |

| | GVA Shock Intensity (Measured as share in GSVA) | | | | | Employment shock Intensity | | Fiscal shock Intensity | COVID-19 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Agriculture | Mining | Manufacturing | Construction | Services | Informal Workers Share in Non-Agricultural Sector* (%) | Share in Total MSMEs | Gross Fiscal Deficit as % of GDP | Confirmed-Cases (Lakhs) | Deaths ('000) |
| | FY 2019-20 | | | | | FY 2018-19 | FY 2015-16 | FY 2019-20 (RE) | Jan | Jan |
| Chandigarh | 0.4 | 0.0 | 3.6 | 4.7 | 87.9 | 36.9 | 0.1 | | 0.2 | 0.3 |
| Delhi | 0.4 | 1.6 | 5.5 | 4.6 | 84.5 | 52.0 | 1.5 | -0.1 | 6.3 | 10.7 |
| Goa | 4.5 | 2.8 | 50.8 | 3.2 | 31.4 | 16.2 | 0.1 | 5.6 | 0.5 | 0.8 |
| Manipur | 21.2 | 0.0 | 2.9 | 9.1 | 63.3 | 7.0 | 0.3 | 11.1 | 0.3 | 0.4 |
| Meghalaya | 15.5 | 3.6 | 11.1 | 7.0 | 60.7 | 27.0 | 0.2 | 3.6 | 0.1 | 0.1 |
| Mizoram | 22.8 | 0.3 | 0.7 | 10.3 | 51.3 | 2.4 | 0.1 | 8.7 | 0.0 | 0.0 |
| Nagaland | 25.8 | 0.2 | 1.7 | 7.8 | 61.7 | 13.9 | 0.1 | 4.9 | 0.1 | 0.1 |
| Puducherry | 4.1 | 2.3 | 28.0 | 16.9 | 47.2 | 27.2 | 0.2 | 0.8 | 0.4 | 0.6 |
| Sikkim | 7.7 | 0.1 | 46.7 | 4.2 | 27.6 | 23.7 | 0.0 | 3.7 | 0.1 | 0.1 |
| Tripura | 22.1 | 11.6 | 4.0 | 7.6 | 50.0 | 14.2 | 0.3 | 6.5 | 0.3 | 0.4 |
| All-India | 14.6 | 2.7 | 17.4 | 7.8 | 55.2 | 39.2 | 100.0 | 3.2 | 105.4 | 152.1 |

Source: MOSPI, Periodic Labour Force Survey 2018-19, State budget documents, National Sample Survey 73rd round 2015-16
Note: *Informal workers in non-agricultural sector defined as Regular wage / salaried employees in usual status (ps+ss) in non-agriculture sector without written job contract, not eligible for paid leave, without any social security benefit for each State/ UT
Wherever data for FY 2019-20 is not available, FY 2018-19 data has been denoted
All figures are in per cent unless specified.

## POLICY RESPONSE TO COVID-19

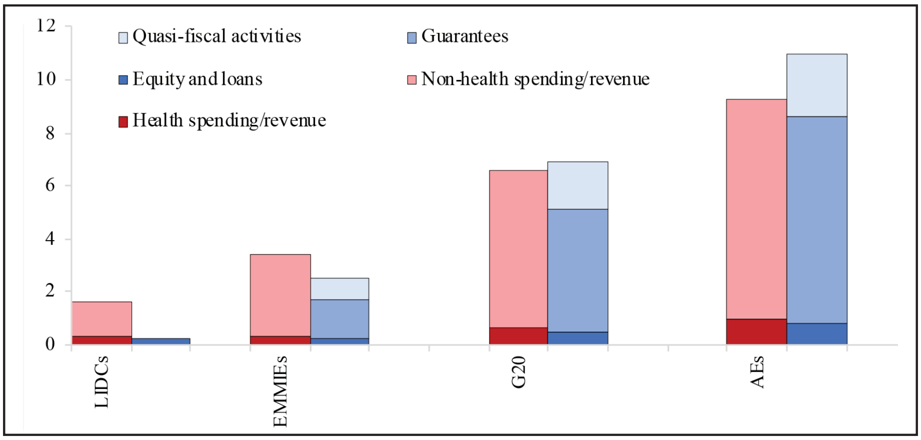
### Global

1.40 To help mitigate the spread of the virus, many countries implemented necessary measures. These have included school closures, restrictions on nonessential business activities, prohibitions of public gatherings, suspension of public transport, restrictions on movement, border closures, and travel bans. These social distancing measures with public information campaigns, broad-based testing, and contact tracing of individuals who were potentially exposed to known cases. Lockdowns and travel restrictions imposed significant supply-side constraints on national economies, drastically reducing output and employment in sectors that are usually resistant to business cycle fluctuations, particularly non-traded services.

1.41 The unrivalled impact of the pandemic on almost every sector of the global economy and every aspect of society invoked a similar unparalleled policy response. Governments and Central

Banks, the world over, have deployed various measures to stimulate the economy through liquidity support and regulatory changes. An unprecedented fiscal response at $11.7 trillion globally, or close to 12 per cent of global GDP (as of September 11, 2020), has provided lifelines to vulnerable households and firms. These measures include additional spending or forgone revenue, temporary tax cuts, cash and in-kind transfers, unemployment benefits, wage subsidies, and liquidity support, including loans, guarantees, and equity injections by the public sector (Figure 37).

**Figure 37: Types of Fiscal Support across the Globe**

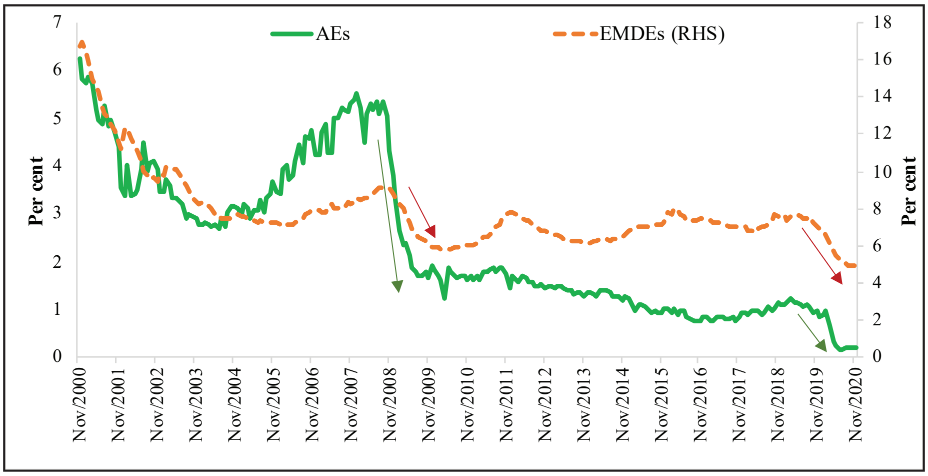



Source: IMF

EMMIEs = Emerging Market and Middle-Income Economies; G20 = Group of Twenty; LIDCs = Low-Income Developing Countries

1.42 Monetary authorities across the world have eased monetary conditions with broad-based cuts in short-term policy rates and reserve requirements to support activity and provided emergency liquidity support to stabilize financial markets (Figure 38). Several central banks around the world engaged in unconventional monetary policy interventions in the form of long-term asset purchase programs (for the first time in many EMDEs), relending facilities, relaxation in asset provisioning requirements and supporting credit provision to a wide range of borrowers. The corresponding injections of reserve money into the banking system have been effective in stabilizing bond markets, reducing bond yields, boost equity prices without putting pressure on exchange rates.

**Figure 38: Trend in Global Policy Rates**




Source: World Bank

1.43 The deep economic contractions across many countries and heightened uncertainties about the post pandemic global economic landscape, however, may set back long-term growth prospects.

## India's Strategic Multi-Pronged Policy Response

1.44 India recognised the disruptive impact of the pandemic and charted its own unique path amidst dismal projections of the spread in the country given its huge population. It was estimated that India would have 30 crore cases and several thousand deaths by the end of May, 2020 (Klein et al., 2020). At a time of rapid change and mounting uncertainty, the clear objective of 'Jaan Hai to Jahan hai' and to 'break the chain of spread' helped the government face the dilemma of 'lives vs livelihood', pace the sequence of policy interventions and adapt its response as per the evolving situation. India adopted a graded four-pronged pre-emptive, and pro-active strategy consisting of (i) containment measures, (ii) calibrated fiscal support focussed on essentials during lockdown and demand push during the unlock phase, (iii) financial measures and (iv) structural reforms to combat COVID-19 (also refer to Chapter 1, Volume I, Economic Survey, 2020-21). The policy response was tailored to different phases of the epidemic, adapting to evolving requirements to provide succour to people, support demand, facilitate the recovery to pre-pandemic levels and ensure fiscal and debt sustainability. A gradual, smooth transition was paved from 'Jaan Hai to Jahan hai' to 'Jaan bhi aur Jahan bhi'.

1.45 A nationwide 'stringent' lockdown for 21 days was declared on March 24, 2020 and subsequently extended till May 31, 2020. As per the Oxford Government Response Tracker, India was among the first ones to impose a stringent lockdown (with index at 100) despite having a few cases at the time of imposing a lockdown. The lockdown provided the much-needed time to strengthen the health system response, ramp up testing and ensure public engagement/awareness towards practice of social distancing. At the beginning of the pandemic, India was almost totally dependent on imported Ventilators, PPE Kits and N-95 Masks. The Central Government recognised the challenges posed by the pandemic in the very initial stages and successfully ensured more than adequate availability and supplies of essential medical items across the country. A three-tier arrangement of health facilities was created for appropriate management of COVID-19 cases, (i) COVID Care Center with isolation beds for mild or pre-symptomatic cases; (ii) Dedicated COVID Health Centre (DCHC) with oxygen supported isolation beds for moderate cases and (iii) Dedicated COVID Hospital (DCH) with ICU beds for severe cases has been implemented. As on 29th December 2020 a total of 2,70,710 oxygen supported isolation beds, 81,113 ICU beds (including 40,627 ventilator beds) and 12,669 quarantine centres with 5,91,496 beds had been created. The textile industry rose to the challenge of the pandemic by up-scaling the production of PPE kits and N95 masks from scratch to emerge as the second largest producer of PPE kits and reach a daily production of 32 lakh pieces of N95 masks.

1.46 Government of India and the RBI have undertaken multidimensional efforts to maintain financial stability and provide necessary regulatory support to ease both demand and supply constraints posed by the pandemic. The policy support provided helped in cushioning the expected fall in demand due to the lockdown-induced distress on both individuals and firms. The fiscal policy response of the Government of India to the pandemic was distinct from other countries in that the demand stimulus was introduced in a phased manner with prior focus on measures to provide a cushion for the poor and vulnerable sections of society and to the business sector (especially the MSMEs). This included one of the world's largest foodgrains distribution programme, direct cash transfers to 42 crore individuals, more than 20 crore Women Jan Dhan accounts, cash support to building and construction workers, ₹30,000 crore additional emergency working capital funding for farmers through NABARD, additional pension payments, provision for free gas cylinders, additional allocation under MGNREGS, as well as government guarantees for credit, postponement of financial deadlines etc. The pace at which India could intervene on technology related transfers of financial assistance to the poor and vulnerable during the pandemic derives its success from the meticulously built social institution of J-A-M (JanDhan, Aadhar and Mobile). Through the Direct Benefit Transfer system, the country could transfer money in crores of accounts through a click of button during the pandemic time. Further, Garib Kalyan Rojgar Abhiyaan (GKRA) was launched on 20th June, 2020 for a period of 125 days in 116 districts of 6 States to boost employment and livelihood opportunities for migrant workers who had returned to their villages and similarly affected citizens in rural areas due to COVID-19 pandemic. Government of India also launched Emergency Credit Line Guarantee Scheme (ECLGS 1.0) to provide much needed relief to stressed sectors by helping entities sustain employment and meet liabilities. A second version of the Scheme (ECLGS 2.0) was also launched to offer necessary credit guarantee for loans by banks and NBFCs to identified stressed sectors.

1.47 RBI undertook several conventional and unconventional liquidity enhancing measures to manage liquidity situation in the economy. These measures, inter alia, included injection of durable liquidity of more than ₹2.7 lakh crore through Open Market Operation (OMO) purchases between February 6-December 4, 2020, ₹20,000 crore through two purchase auction OMOs in State Development Loans (SDLs), ₹1 lakh crore via Targeted Long Term Repo Operations (TLTROs) of up to three years' tenor, ₹1.25 lakh crore through Long Term Repo Operations (LTROs) conducted in February-March 2020, reduction in the Cash Reserve Ratio (CRR) requirement of banks from 4 per cent of net demand and time liabilities (NDTL) to 3 per cent with effect from March 28, 2020 augmenting primary liquidity in the banking system by about ₹1.37 lakh crore, raising banks' limit for borrowing overnight under the Marginal Standing Facility (MSF), ₹50,000 crore Special Liquidity Facility for mutual funds and refinance facility worth ₹75,000 crore for all India financial institutions i.e., NABARD, NHB, SIDBI and EXIM Bank. A key measure taken by RBI and Government of India during H1:2020-21 to ameliorate the liquidity constraints faced by NBFCs, was to set up a Special Purpose Vehicle (SPV) to purchase short-term papers from eligible NBFCs/HFCs, which could then utilise the proceeds to extinguish their existing liabilities.

1.48 To ameliorate corporate stress, Government suspended the initiation of fresh insolvency proceedings under Section 7, 9 and 10 of Insolvency & Bankruptcy Code 2016 for defaults arising on or after 25th March 2020 till 25th March 2021. RBI, too, announced loan moratorium from 1st March 2020 to 31st August 2020 along with an asset classification dispensation and special resolution framework for COVID-19 related stressed assets. Under the resolution plans that could be invoked under the above window, lenders were permitted to grant additional moratorium of up to two years. Also, MSME accounts classified as Standard where the aggregate exposure of banks and NBFCs was ₹25 crore or below as on March 1, 2020, were permitted to be restructured without a downgrade in the asset classification, subject to certain conditions.

1.49 India's response has been unique in recognising that the pandemic would have long-term disruptive effects on the productive capacity. The Atmanirbhar Bharat Mission was, accordingly, a composite package announced with welfare measures to address the short-term distress of individuals and firms; and structural reforms to alleviate the long-term distress on the economy. With gradual unlocking of the economy, the focus of the stimulus measures shifted towards investment boosting and consumption revival measures like Production Linked Incentives, enhancing capital expenditure and investments in infrastructure sector. The nuanced adaptations in policy as per the requirements of the pandemic was based on continuous dialogue and coordination between the Centre, States and Local Governments. The overall policy response, therefore, is aimed at making the Indian economy more resilient and flexible to deal with the opportunities and problems of the post-COVID world (Table 1).

**Table 1: Policy Package in India to Combat COVID-19**

| Measures | Nature | Policy Tools |
|---|---|---|
| Containment measures | • Containment and Closure Policy<br>• Transmission prevention | • School closure<br>• Complete Nation-wide lock-down for 21 days<br>• Travel bans/restrictions<br>• Closure of public places/cancellation of public events<br>• Curtailment of non-essential economic activities<br>• Risk profiling of districts into Red Zones (hot spots), Orange and Green Zones<br>• Social distancing norms<br>• Mandatory use of masks |
| Fiscal Policy Measures | • Health<br>• Welfare<br>• Tax Measures<br>• Demand push<br>• Investment push | • Emergency health fund (INR 150 billion)<br>• Pradhan Mantri Garib Kalyan Yojana - Financial assistance and food security<br>• Increment in daily wage under MGNREGS<br>• Garib Kalyan Rojgar Abhiyaan – livelihood creation in rural areas<br>• Tax & contribution policy changes<br>• Support to States, linking borrowings to Reforms<br>**Aatma Nirbhar Bharat Package 1**<br>• Emergency Credit Line Guarantee Scheme (ECLGS) for MSMEs<br>• Subordinate Debt for Stressed MSMEs and Equity Infusion through Fund of Funds for MSME |

| Measures | Nature | Policy Tools |
|---|---|---|
| Fiscal Policy Measures | • Health<br>• Welfare<br>• Tax Measures<br>• Demand push<br>• Investment push | • Extension of Partial Guarantee Scheme to help NBFCs & MFIs<br>• Special Credit Facility to Street Vendors<br>• Liquidity Injection for DISCOMs<br>• Special liquidity Scheme for NBFC/HFC/MFIs<br>• Interest Subvention for MUDRA Shishu Loans<br>• Housing Credit Linked subsidy Scheme - MIG<br>• Additional Emergency Working Capital through NABARD<br>• Additional credit through KCC<br>• Creation of Agri Infrastructure Fund, Animal Husbandry Infrastructure Development Fund<br>• Promotion of Herbal Cultivation<br>• Beekeeping Initiative<br>• Viability Gap Funding Scheme for Social Infrastructure projects<br>**Aatma Nirbhar Bharat Package 2**<br>• Boost Capital Expenditure<br>• LTC voucher Scheme<br>• Festival Advance<br>**Aatma Nirbhar Bharat Package 3**<br>• Boost for Atma Nirbhar Manufacturing - Production Linked Incentives<br>• Boost for Rural Employment<br>• R&D Grant for COVID Suraksha – Indian vaccine development<br>• Atma Nirbhar Bharat Rozgar Yojana<br>• Industrial Infrastructure, Industrial Incentives and Domestic Defence Equipment<br>• Support for Agriculture – Fertiliser Subsidy<br>• Housing for All - PMAY-U<br>• Boost for Infrastructure-equity infusion in NIIF Debt PF<br>• Boost for Project Exports – Support for EXIM Bank |

| Measures | Nature | Policy Tools |
|---|---|---|
| Monetary measures | • Policy Rates<br>• Liquidity<br>• Asset Purchases<br>• Loan moratorium | • Lowering of Repo and reverse repo rate by 115 and 155 bps respectively.<br>• Injection of durable liquidity through Open Market Operation (OMO)<br>• Targeted Long Term Repo Operations (TLTROs) of up to three years'<br>• Reduction in the CRR requirement of banks<br>• Raised bank's borrowing limit<br>• Working capital support- term loan moratorium, deferment of interest and easing of financing requirements<br>• Enhanced WMA borrowing limits and relaxation of CSF withdrawal rules<br>• Easing of compliance to stressed asset classify<br>• Deferment, easing of capital buffer & liquidity coverage requirements<br>• Deferring compliance requirements for FPIs under Voluntary Retention Route (VRR) |
| Structural reforms | • Agriculture<br>• MSMEs<br>• Labour<br>• Business Process Outsourcing (BPO)<br>• Power<br>• Privatization of PSUs<br>• Mineral Sector<br>• Industry<br>• Space<br>• Defence | **Agriculture**<br>• Farmers' Produce Trade and Commerce (Promotion and Facilitation) Act, 2020<br>• Farmers (Empowerment and Protection) Agreement of Price Assurance and Farm Services Act, 2020<br>• Essential Commodities (Amendment) Act, 2020<br>**MSMEs**<br>• New MSME definition covering almost 99 per cent of all firms enabling MSMEs to grow in size and create jobs<br>• Removal of artificial separation between manufacturing and service MSMEs<br>**Labour**<br>• Enactment of four labour codes namely, Wage Code, Industrial Relations Code, 2020, Code on Occupational Safety, Health & Working Conditions Code, 2020 & Social Security Code, 2020<br>• 'One labour return, one licence and one registration' |

| Measures | Nature | Policy Tools |
|---|---|---|
| Structural reforms | • Agriculture<br>• MSMEs<br>• Labour<br>• Business Process Outsourcing (BPO)<br>• Power<br>• Privatization of PSUs<br>• Mineral Sector<br>• Industry<br>• Space<br>• Defence | **Business Process Outsourcing (BPO)**<br>• Simplification of the Other Service Provider (OSP) guidelines of the Department of Telecom. Several requirements, which prevented companies from adopting 'Work from Home' and 'Work from Anywhere' policies have been removed.<br>**Power**<br>• Tariff Policy Reform: DISCOM inefficiencies not to burden consumers, Progressive reduction in cross subsidies, Time bound grant of open access, etc.<br>• Privatization of Distribution in UTs<br>**Privatization of PSUs**<br>• PSUs in only strategic sectors<br>• Privatization of PSUs in non-strategic sectors<br>**Mineral Sector**<br>• Commercial Mining in Coal Sector<br>• Introduction of a seamless composite exploration-cum-mining-cum-production regime.<br>**Industry**<br>• Production Linked Incentive (PLI) Scheme<br>**Space**<br>• Level-playing field provided to private companies in satellites, launches and space-based services<br>• Liberal geo-spatial data policy for providing remote-sensing data to tech-entrepreneurs<br>**Defence**<br>• Corporatization of Ordnance Factory Board<br>• FDI limit in the Defence manufacturing under automatic route will be raised from 49 per cent to 74 per cent. |

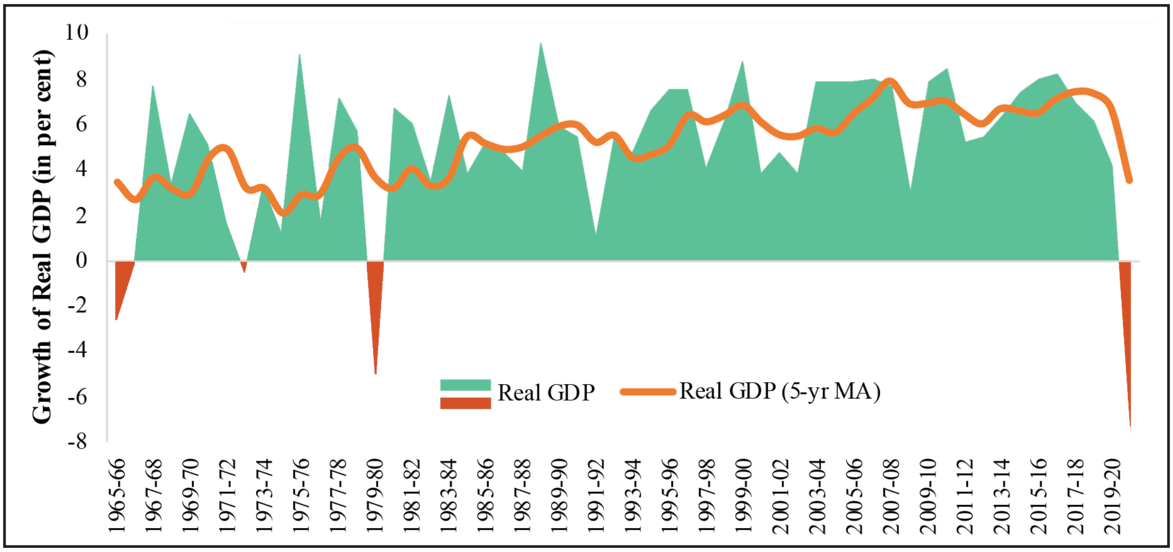
Source: Compiled from various sources and covers major policy measures

## V-SHAPED ECONOMIC RECOVERY

1.50 India's GDP contraction of 23.9 per cent in Q1: FY 2020-21 and 7.5 per cent in Q2: FY 2020-21 quarter reflect the unparalleled effect of the Covid-19 pandemic and the containment measures that were taken to control the pandemic. The contraction was consistent with the India's enforcement of one of the most stringent lockdowns as reflected in the Government Response Stringency Index measured by Oxford University. The fundamentals of the economy remained strong as gradual scaling back of lockdowns, along with the astute support of Atmanirbhar Bharat Mission has placed the economy firmly on the path of recovery.

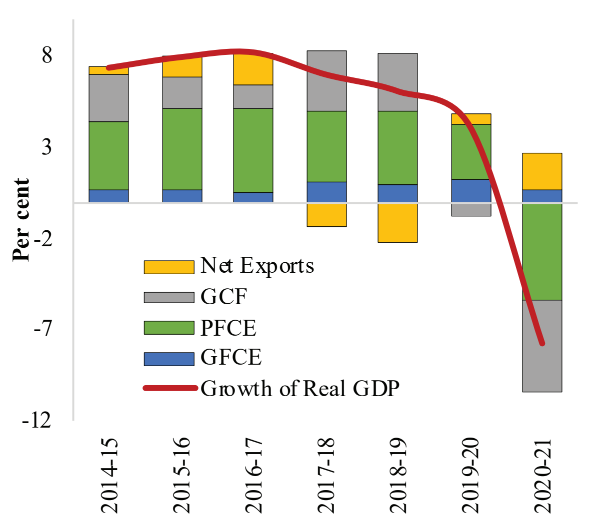
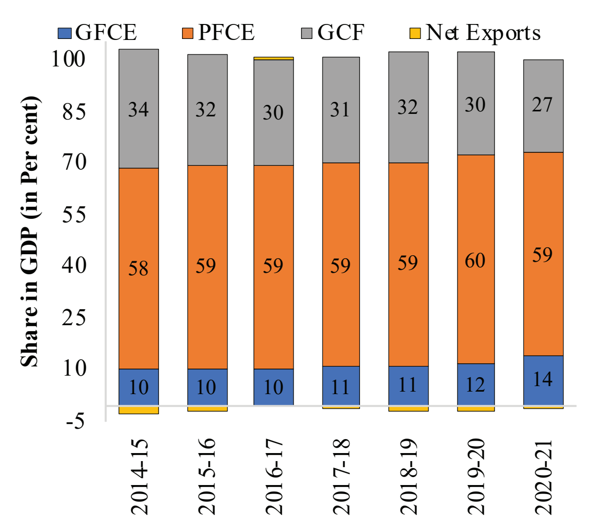
1.51 NSO has estimated a contraction of real GDP by 7.7 per cent in 2020-21 as compared to a growth of 4.2 per cent in 2019-20. This is the fourth contraction in India's GDP since 1960-61 (Figure 39). The contraction in 1965-66 and 1971-72 coincided with wars and droughts while the year 1979-80 was associated with a severe drought and political instability. A common factor in all these years was a steep fall in agricultural output. The year 2020-21, on the contrary, has been bestowed with abundant monsoons leading to the agricultural sector emerging as the silver lining of the economy. **The contraction this year reflects the 'once in a century crisis' unleashed by the pandemic and associated public health measures.**

**Figure 39: Trend in India's Real GDP Growth**




Source: NSO

1.52 Government Consumption and Net Exports have cushioned the contraction in GDP while Gross Capital Formation (GCF) and Private Consumption have contributed to the contraction in GDP in 2020-21 (Figure 40). Government final consumption expenditure has sustained the growth of GDP in 2020-21 with its share increasing to 14.0 per cent from 12.0 per cent in 2019-20 (Figure 41). The share of private consumption has almost remained the same indicating the adverse impact of the pandemic and restrained personal consumption in contact-sensitive sectors. Gross Investment has contributed most to the contraction in GDP in 2020-21 with its share in GDP pegged at 26.7 per cent, lowest in the 2000s. Net Exports have cushioned the fall in GDP in 2020-21 largely due to a sharper contraction in imports than in exports.

| Figure 40: Sectoral Contribution to Overall GDP Growth | Figure 41: Share of Components of GDP |
| --- | --- |
|  |  |



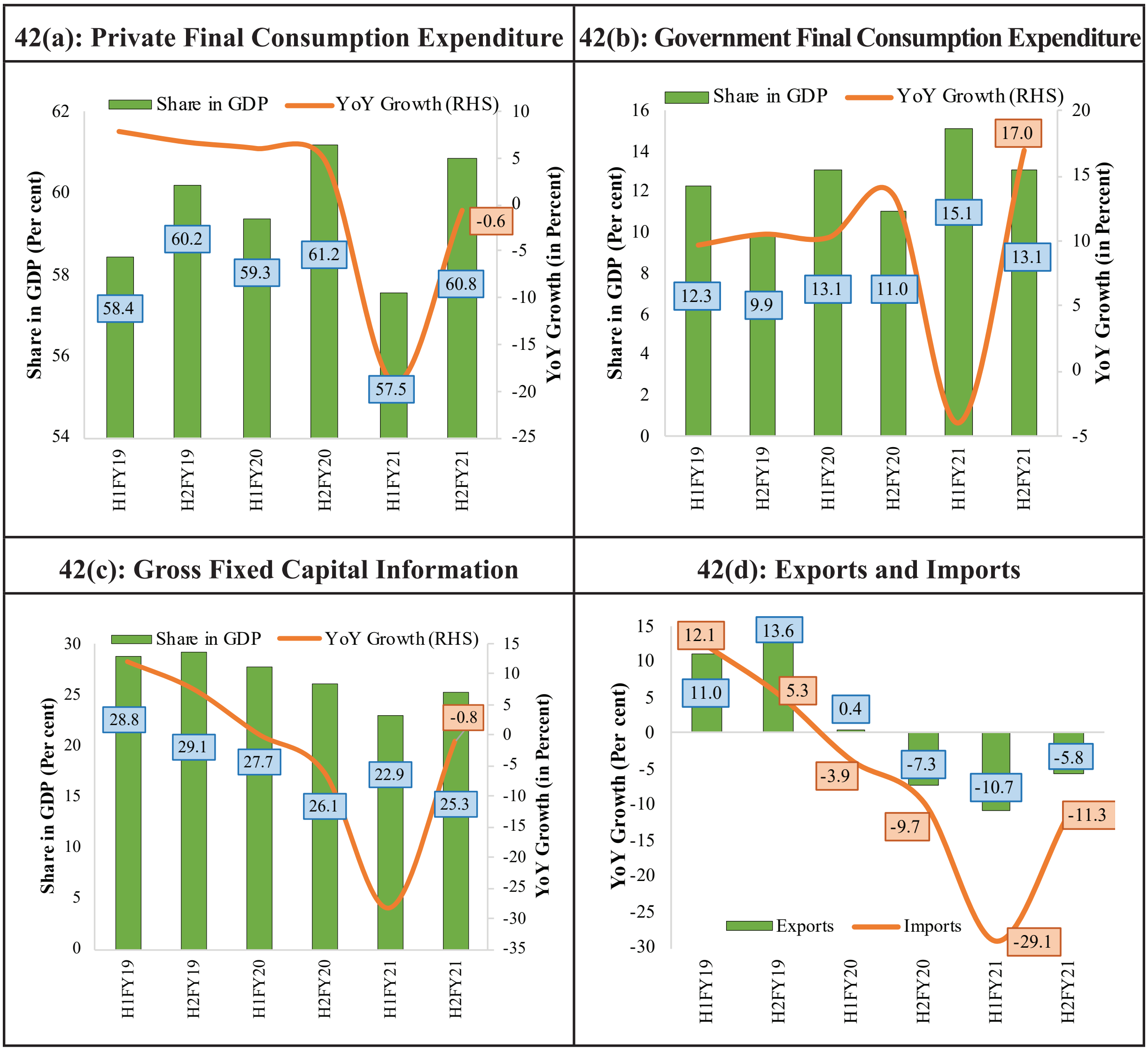


Source: NSO

1.53 The advance estimates for FY:2020-21 released by NSO manifest that the economy is expected to stage a resilient V-shaped recovery in H2:2020-21. As per quarterly estimates released by NSO, the economy has shown a decline of 15.7 per cent by H1: FY 2020-21. A decline of real GDP by 7.7 per cent for the whole FY:2020-21 indicates a modest decline of 0.1 per cent in GDP growth in second half of the year. It also indicates a 23.9 per cent growth in H2: FY2020-21 over H1: FY2020-21. Faster normalisation of business activities amid gradual lifting of restrictions, higher festive and pent-up demand and policy support is expected to translate into a faster-than-anticipated economic recovery over the second half. This is supported by a strong rebound seen in several high frequency indicators in Q3: FY 2020-21.

1.54 On the demand side, the recovery is expected to be broad-based in the second half (Figure 42). The biggest growth driver is likely to be government consumption that is expected to grow at a strong 17 per cent YoY in second half as against a 3.9 per cent contraction the first half. Private consumption is also expected to improve significantly with a mild contraction of 0.6 per cent as against a contraction of 18.9 per cent in the first half. Investment, as measured by Gross Fixed Capital Formation (GFCF), is also expected to recover significantly with a mild contraction of 0.8 per cent in the second half against a sharp 29 per cent drop in H1FY21. Net Exports (Exports – Imports) turned positive in the first half of the year with a larger contraction in imports of 29.1 per cent as compared to contraction in exports of 10.7 per cent. With gradual recovery of economic activity, both imports and exports have picked up and net exports is expected to re-enter the negative territory in the second half. Exports are expected to decline by 5.8 per cent and imports by 11.3 per cent in the second half of the year.

**Figure 42: Half-Yearly Trends in Growth of Components of GDP**




Source: NSO

1.55 On the supply side, Gross Value Added (GVA) growth is pegged at -7.2 per cent in 2020-21 as against 3.9 per cent in 2019-20. Only Agriculture contributed to positive growth while Service and Industry contributed to the contraction in GDP (Figure 43). Agriculture is set to cushion the shock of the COVID-19 pandemic on the Indian economy in 2020-21 with a growth of 3.4 per cent – resulting in an increase in its share in GDP to 19.9 per cent in 2020-21 from 17.8 per cent in 2019-20 (Figure 44). This indicates that agricultural activities for rabi harvesting and kharif sowing were largely unaffected by the COVID-induced lockdown. Industry and Services are estimated to contract by 9.6 per cent and 8.8 per cent during the year. Within Industry, Mining is estimated to contract by 12.4 per cent, Manufacturing by 9.4 per cent and construction by 12.6 per cent. The utilities sector has shown a sharp recovery and is set to register a positive growth of 2.7 per cent in 2020-21. Within Services Sector, trade, hotels, transport & communication are estimated to contract by 21.4 per cent.

**Figure 43: Sectoral Contribution to Overall GVA Growth**

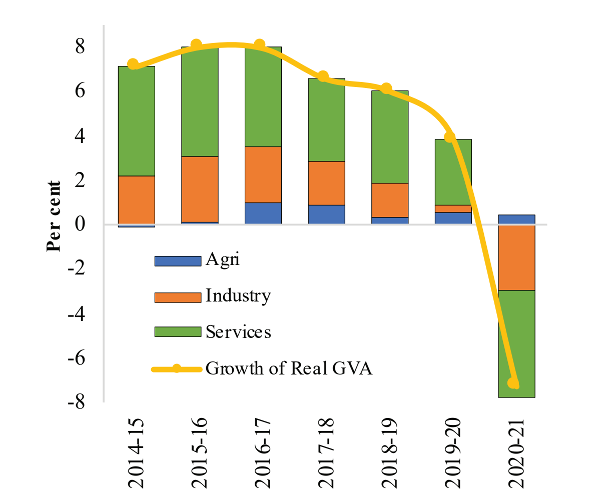
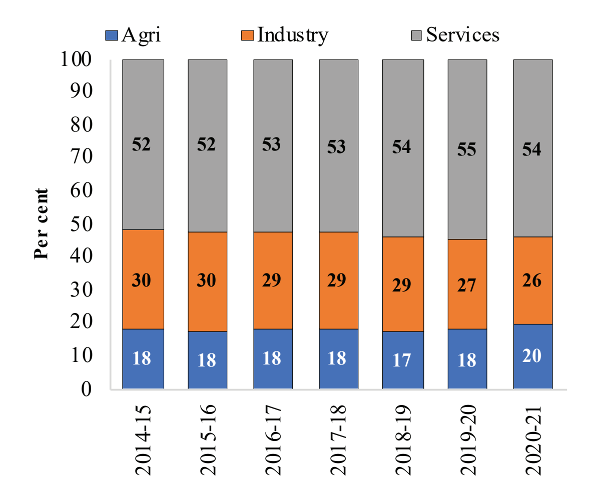


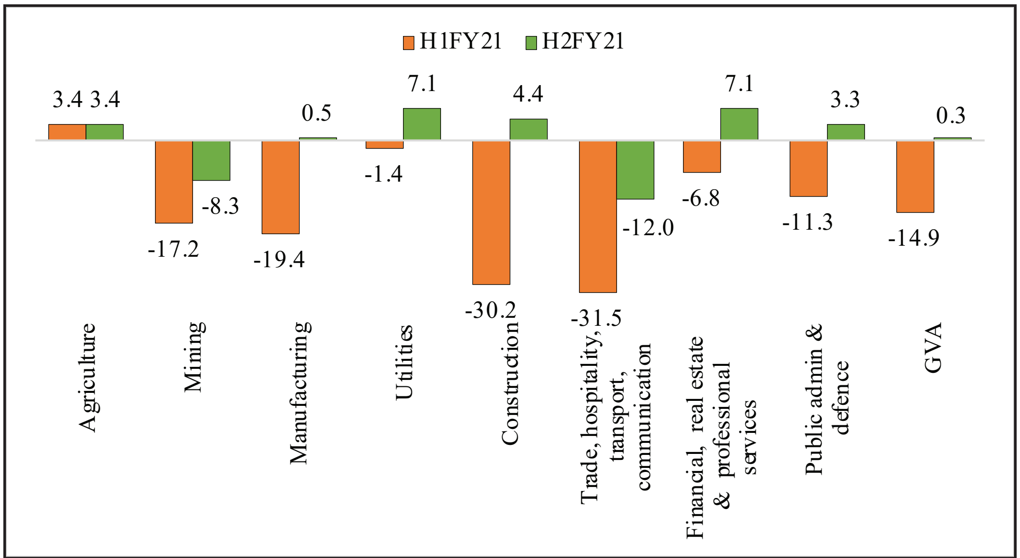

**Figure 44: Share of Components of GVA**




Source: NSO

1.56 A positive growth in value addition of most of the sectors in second half is an encouraging sign for the economy (Figure 45). This translates into a modest 0.3 per cent growth in the second half as against a 14.9 per cent contraction in first half of 2020-21. Agriculture sector growth is pegged at a steady 3.4 per cent in both the halves of 2020-21. Industry sector has staged a robust recovery in second half with a positive growth of 1.1 per cent as against a sharp 20.5 per cent drop in the first half with a sharp pick up in manufacturing sector to 0.5 per cent in second half against a contraction of 19.4 per cent in first half. Electricity and Construction sectors are also estimated to register V-shaped recovery with growth of 7.1 per cent and 4.4 per cent respectively in the second half. The major brunt of the pandemic has been borne by the contact-sensitive services sector, which contracted by 15.5 per cent in first half and are estimated to contract by 1.1 per cent in second half. Trade, Hotels, Transport & Communication, constituting one-third of overall services, contracted by 31.5 per cent in first half and are estimated to contract by 12.0 per cent in second half.

**Figure 45: V-shaped Recovery in H2: FY 2020-21 in Most Sectors Constituting GVA**



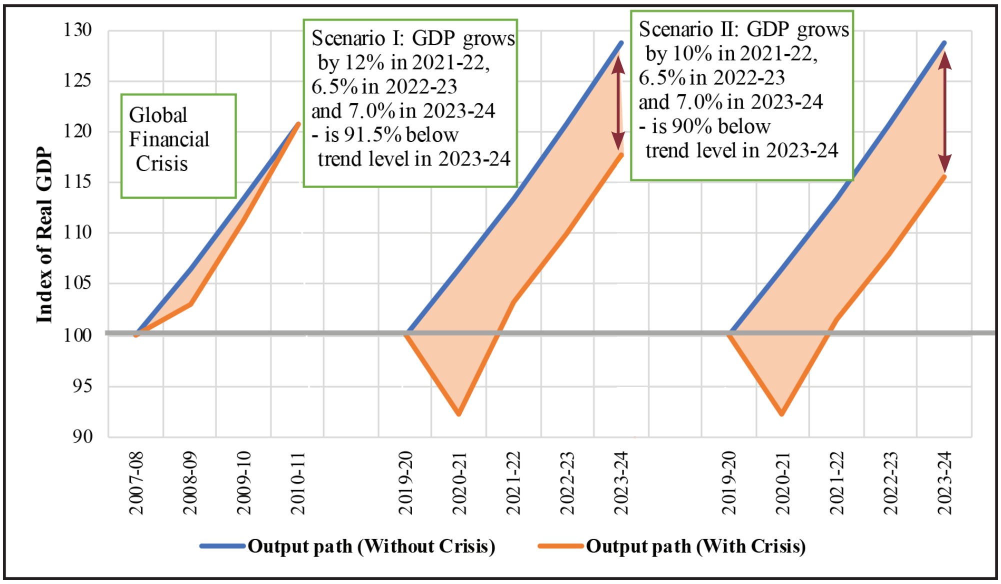

Source: NSO

1.57 It is evident from the above analysis that the economy was, as expected, adversely impacted by the unprecedented crisis caused by the pandemic in the first quarter of FY 2020-21. With gradual unlocking and able support of macro-economic policies, the economy has steadily rebounded to pre-pandemic levels. Data on high-frequency indicators suggest growing convergence with previous year's activity levels. The sharp contraction of the economy in first half of the year is expected to be covered by broad-based resurgent growth in second half of the year.

1.58 Lockdowns and other restrictions needed to address the public health crisis, together with spontaneous reductions in economic activity by many consumers and producers, have constituted an unprecedented combination of adverse shocks to global economic activity. Beyond its short-term impact, deep recessions triggered by the pandemic have a risk of leading to hysteresis. While the several seminal reforms will help in reducing the possibility of hysteresis, the recovery would be regarded as having avoided hysteresis when the economy regains the pre-COVID output path and is back on its trajectory of potential growth (assuming no COVID).

1.59 The global economy, including India, has been set back in time by the pandemic induced crisis. In the five years before 2020-21, Indian economy grew at an average growth of 6.7 per cent. In the year 2021-22, a sharp recovery of real GDP growth of 10-12 per cent is expected based on a low base effect and inherent strengths of the economy. It is assumed that the economy grows at its trend growth rate of 6.5 per cent in 2022-23 and 7.0 per cent in 2023-24 aided by the structural reforms. If two scenarios of 12 per cent growth and 10 per cent growth in 2021-22 are envisaged, India would be 91.5 per cent and 90 per cent below the trend level of output respectively by 2023-24 (Figure 46).

**Figure 46: Scenarios for India's GDP Return to its Trend Path**



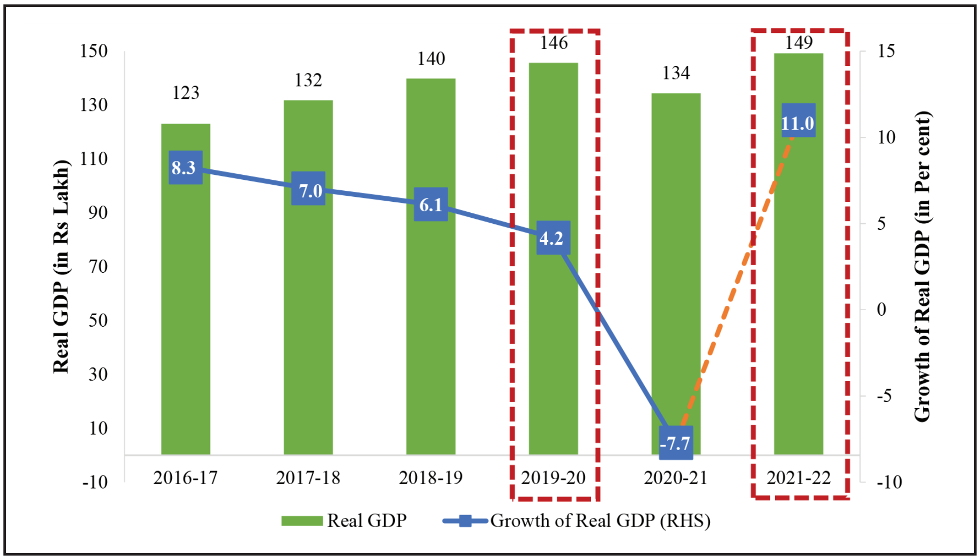

Source: Survey Calculations using data from NSO
Note: Real GDP in 2007-08 and 2019-20 have been indexed to 100

1.60 Government recognised this potential 'hysteresis' effect of the pandemic on Indian economy and has, therefore, undertaken a comprehensive reform programme. The structural reforms and the policy push under the Atmanirbhar Bharat Mission are aimed at strengthening the fundamentals of the economy - which should put the economy on a strong growth path once the economy recovers from the pandemic shock. These need to be sustained to bolster the Indian economy to reach its potential growth. The policy emphasis has also been on expansion of public investment which would crowd in private investment. Attempts on deregulation and liberalisation of sectors are aimed at improving the business environment to unlock entrepreneurial energies and increase the risk appetite of private investors. The private sector needs to partner the Government in minimising the disruptive impact of the pandemic on the Indian economy.

## OUTLOOK

1.61 After an estimated 7.7 per cent pandemic-driven contraction in 2020-21, India's real GDP is projected to record a growth of 11.0 percent in 2021-22 and nominal GDP by 15.4 per cent. These conservative estimates reflect upside potential that can manifest due to the continued normalisation in economic activities as the rollout of Covid-19 vaccines gathers traction. This will further be supported by supply-side push from reforms and easing of regulations, push to infrastructural investments, boost to manufacturing sector through the Productivity Linked Incentive Schemes, recovery of pent-up demand for services sector, increase in discretionary consumption subsequent to roll-out of the vaccine and pick up in credit given adequate liquidity and low interest rates. This path would entail a growth in real GDP by 2.4 percent over the absolute level of 2019-20 – implying that the economy would take two years to reach and go past the pre-pandemic level (Figure 47). These projections are in line with IMF estimate of real GDP growth of 11.5 per cent in 2021-22 for India and 6.8 per cent in 2022-23. India is expected to emerge as the fastest growing economy in the next two years as per IMF.

**Figure 47: Projections of Real GDP for 2021-22**




Source: NSO and Survey Calculations

1.62 The new year has dawned with the approval of long-awaited Covid-19 vaccine and initiation of vaccination drives in various countries. With the approval of two indigenously manufactured vaccines for emergency use, India initiated the mega vaccination drive on 16th January, 2020. The COVID Vaccine Intelligence Network (Co-WIN) system – a digitalised platform - provides real-time information of vaccine stocks, their storage temperature and individualised tracking of beneficiaries of the vaccine on a real-time basis.

1.63 India became the fastest country to roll-out 10 lakh vaccines in a matter of six days. India has also emerged as a leading supplier of the vaccine to various countries with initiation of exports to Brazil and Morocco on 22nd January, 2021. The swift roll-out of the vaccine gives strength to the optimism on both health and economic fronts – igniting hopes of a robust recovery in services sector, private consumption and investment.

## CHAPTER AT A GLANCE

- The year 2020 was predominated by the COVID-19 pandemic, posing the most formidable economic challenge to India and to the world, since the Global Financial Crisis.
- Global economic output is estimated to fall by 4.4 per cent in 2020, the sharpest contraction in a century. Advanced economies were hit harder, in terms of lives and economic output, compared to Emerging Market Developing Economies.
- Without a cure or vaccine, tackling this all-pervasive crisis made public health policy crucial. While policymakers faced a dilemma of "lives versus livelihoods, i.e., flattening the disease curve would invariably entail steepening of the recession curve.
- Around the globe, governments and central banks deployed a range of policy tools such as lowering key policy rates, quantitative easing measures, loan guarantees, and fiscal stimuli.
- India enforced an intense lockdown at the onset of the pandemic, characterizing a unique response in several ways driven by the findings from both epidemiological and economic research. India's humane policy response focused on saving human lives, recognising that the short-term pain of an initial, stringent lockdown would lead to long-term gains both in the lives saved and in the pace of the economic recovery.
- Resultantly, India has managed to avoid the second wave despite continual unlocking. It has ably managed to flatten the epidemiological curve, with the caseload peaking in mid-September followed by a steady drop in daily cases and fatalities.
- COVID-19 put emergency brake on an economy that was gaining momentum at the start of the year 2020. India's GDP is estimated to grow by (-)7.7 per cent in FY2021, composed of a sharp 15.7 per cent decline in H1 and a modest (-)0.1 per cent fall in the second half.
- Agriculture sector has remained the silver lining while contact-based services, manufacturing, construction were hit the hardest. Starting July, a resilient V-shaped recovery is well underway, as demonstrated by the recovery in GDP growth and the sustained resurgence in high frequency indicators such as power demand, E-way bills, GST collection, steel consumption, etc.

- Inflation, mainly driven by food prices, remained above 6 per cent for much of the year, given supply disruptions. The softening of CPI inflation recently reflects easing of supply side constraints that affected food inflation.
- The weak demand led to a sharper contraction in imports than exports, with Forex reserves rising to cover 18 months of imports.
- Sharp rise in commercial paper issuances, easing yields, and sturdy credit growth to MSMEs, portend a revamped credit flow mechanism for enterprises to survive and grow.
- As part of India's four-pillar strategy, calibrated fiscal and monetary support was provided attuned to the evolving economic situation, cushioning the vulnerable in the lockdown and boosting consumption and investment while unlocking. Long-pending structural reforms in agriculture, mining, labour, etc. were concurrently undertaken for the economy to return to the potential growth path, keeping super-hysteresis at bay. The estimated real GDP growth for FY 2022 at 11 per cent is the highest since independence.
- India became the fastest country to roll-out 10 lakh vaccines in a matter of six days and has also emerged as a leading supplier of the vaccine to Brazil and neighbouring countries.
- With the economy's returning to normalcy brought closer by the initiation of a mega vaccination drive, hopes of a robust recovery in services sector, consumption, and investment have been rekindled.
- India's mature policy response to this "once-in-a-century" crisis thus provides important lessons for democracies to avoid myopic policy-making and demonstrates the significant benefits of focusing on long-term gains.

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**Table 0.1 : Key Indicators**

| Data categories | Unit | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
|---|---|---|---|---|---|
| **GDP and Related Indicators** | | | | | |
| GDP at current market prices | ₹ lakh Crore | 171.0 | 189.7 | 203.4[a] | 194.8[b] |
| GDP at constant market prices | ₹ lakh Crore | 131.8 | 139.8 | 145.7[a] | 134.4[b] |
| Growth Rate | (per cent) | 7.0 | 6.1 | 4.2[a] | -7.7[b] |
| GVA at current basic prices | ₹ lakh Crore | 155.1 | 171.4 | 183.4[a] | 175.8[b] |
| GVA at constant basic prices | ₹ lakh Crore | 120.7 | 128.0 | 133.0[a] | 123.4[b] |
| Growth Rate | (per cent) | 6.6 | 6.0 | 3.9[a] | -7.2[b] |
| Gross Savings | % of GDP | 32.4 | 30.1 | na | na |
| Gross Capital Formation | % of GDP | 34.2 | 32.2 | na | na |
| Per Capita Net National Income (at current prices) | ₹ | 1,15,293 | 1,26,521 | 1,34,226[a] | 1,26,968[b] |
| **Production** | | | | | |
| Food grains | Million tonnes | 285.0 | 285.2 | 296.7[c] | 144.5[c] |
| Index of Industrial Production (growth) | (per cent) | 4.4 | 3.8 | -0.8 | -15.5[d] |
| Electricity Generation (growth) | (percent) | 5.4 | 5.2 | 1.0 | -4.6[d] |
| **Prices** | | | | | |
| WPI inflation (average) | (per cent) | 3.0 | 4.3 | 1.7 | -0.1[e] |
| CPI (Combined) inflation (average) | (per cent) | 3.6 | 3.4 | 4.8 | 6.6[e] |
| **External Sector** | | | | | |
| Merchandise export growth (in US$ term) | (per cent) | 10.0 | 8.8 | -5.1 | -15.7[e] |
| Merchandise import growth (in US$ term) | (per cent) | 21.1 | 10.4 | -7.7 | -29.1[e] |
| Current Account Balance | % of GDP | -1.8 | -2.1 | -0.9 | 3.1[f] |
| Foreign Exchange Reserves (end of year) | US$ Billion | 424.4 | 411.9 | 475.6 | 586.1[k] |
| Average Exchange Rate | ₹ /US$ | 64.45 | 69.92 | 70.90 | 74.64[j] |
| **Money and Credit** | | | | | |
| Broad Money (M3) growth (annual) | (per cent) | 7.8 | 10.2 | 10.1 | 12.4[g] |
| Scheduled Commercial Bank Credit (growth) | (per cent) | 10 | 13.3 | 6.1 | 6.1[g] |
| **Fiscal Indicators (Centre)** | | | | | |
| Gross Fiscal Deficit | % of GDP | 3.5 | 3.4 | 4.6[h] | 3.5[i] |
| Revenue Deficit | % of GDP | 2.6 | 2.4 | 3.3[h] | 2.7[i] |
| Primary Deficit | % of GDP | 0.4 | 0.4 | 1.6[h] | 0.4[i] |

Notes: na: not available
a: Provisional estimates, b: First advance estimate, c: Fourth AE for 2019-20 and first AE for 2020-21,
d: (April-November) 2020, e: (April-December) 2020, f: (April-September) 2020, g: as on December 18, 2020,
h: Provisional Actuals, i. Budget Estimates, j. End of December 2020, k: As on 8th January 2021.