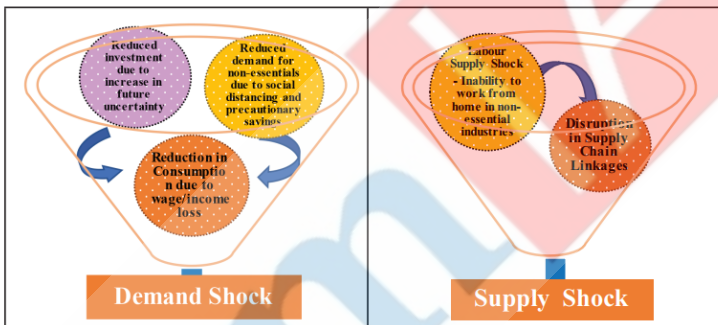


## Chapter 1 – State of the Economy 2020-21: A Macro View

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| State of the Economy 2020-21                 | <ul style="list-style-type: none"> <li>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.</li> <li>Global economic output is estimated to fall by 4.4 per cent in 2020, the sharpest contraction in a century</li> <li>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.</li> </ul>  |
| Policy Dilemmas Underlying Covid-19          | <ul style="list-style-type: none"> <li>Polymakers around the world faced a dilemma of “lives versus livelihoods, i.e., flattening the disease curve would invariably entail steepening of the recession curve</li> <li>Demand Side and Supply Side Shocks</li> </ul> <p style="text-align: center;">Figure 11: Twin Economic Shocks by the Pandemic</p>  <p style="text-align: center;">Source: Adapted from Estupinan, Xavier and Sharma, Mohit and Gupta, Sargam and Birla, Bharti (2020)</p>                |
| Disruption of global economy by the pandemic | <ul style="list-style-type: none"> <li>The pandemic raised unprecedented health challenges</li> <li>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</li> </ul>  |
| V-Shaped recovery                            | <ul style="list-style-type: none"> <li>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</li> <li>Since then, several high frequency indicators have demonstrated a V-shaped recovery</li> </ul>   |
| Sectoral trends                              | <ul style="list-style-type: none"> <li>Agriculture <ul style="list-style-type: none"> <li>It is the only sector that has contributed positively to the overall Gross Value Added (GVA) in both Q1 and Q2 2020-21.</li> <li>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</li> </ul> </li> </ul> |

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|                             | <p>and custom hiring centres, have contributed to nourishing a vibrant agricultural sector</p> <ul style="list-style-type: none"> <li>• Industrial Production <ul style="list-style-type: none"> <li>◦ A palpable V-shaped recovery in industrial production was observed over the year</li> </ul> </li> <li>• 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.</li> <li>• The weak demand led to a sharper contraction in imports than exports, with Forex reserves rising to cover 18 months of imports.</li> </ul>  |
| Policy Response to Covid-19 | <ul style="list-style-type: none"> <li>• Global <ul style="list-style-type: none"> <li>◦ 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</li> <li>◦ Monetary authorities across the world have eased monetary conditions</li> </ul> </li> <li>• India's Strategic Multi-Pronged Policy Response <ul style="list-style-type: none"> <li>◦ India adopted a graded four-pronged pre-emptive, and pro-active strategy consisting of <ul style="list-style-type: none"> <li>▪ containment measures,</li> <li>▪ calibrated fiscal support focussed on essentials during lockdown and demand push during the unlock phase,</li> <li>▪ financial measures</li> <li>▪ structural reforms to combat COVID-19</li> </ul> </li> </ul> </li> <li>• 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.</li> </ul> |