

AIR Spotlight - Record GDP Growth in First Quarter 2021

AIR Spotlight is an insightful programme featured daily on the All India Radio News on air. In this program, many eminent panellists discuss issues of importance which can be quite helpful in [IAS exam](#) preparation. In this article, the topic of discussion is the record GDP growth shown by India in the first quarter of 2021.

Participants:

- A K Bhattacharya, Economic Analyst
- Shishir Sinha, Journalist

Context:

The government has released the data of Core GDP growth, growth in the core sector, [fiscal deficit](#), Purchasing Managers' Index (PMI), and GST collection. The article will discuss all these one by one and their implications.

GDP Growth rate:

- The [National Statistical Office \(NSO\)](#), Ministry of Statistics and Programme Implementation has released the estimates of the Gross Domestic Product (GDP) for the first quarter (April-June) of 2021-22. This shows a growth in GDP by 20.1 percent.
- The increase in the growth rate is certainly an offshoot of a low base effect in the sense that in April-June 2020, the economy had contracted by 4.4 percent.
- The growth rate for the first quarter of 2021 was predicted by some economists at around 17-18 percent. The growth rate of 20.1 has come as a relief but it is only a statistical recovery. If we compare it with the growth rate of January-March then there is a decline in the size of the GDP by 17 percent.
- The size of the GDP in the January-March period was greater than the first quarter of 2021-22. It means that the size of the economy is not actually growing even on a sequential basis in the first quarter of 2021-22.

Read more on the [Gross Domestic Product \(GDP\)](#) in the linked article.

Pre-Covid Period Vs Q1 of 2021-22:

- The size of the economy in Q1 of 2019-20 was around 35.67 trillion or 35.67 lakh crore rupees. It was calculated in real terms at constant prices. In Q1 or April-June of 2020, the figure was reduced to 27 lakh crore rupees because of the Covid-19 pandemic. Then, in April-June of 2021-22, the figure showed an increase and stood at 32.38 lakh crore rupees.
- It is a matter of relief that the economy is regaining its earlier position but the margin of increase is not well enough to take the economy beyond the size it was two years ago.
- The size of the economy indicates its ability to create employment, sustained demand, sustained investment, and growth in the upcoming quarters.

When will the Indian economy achieve its earlier position?

- If in the current year, the real economic growth rate is 9.5 percent (predicted by the [Reserve Bank of India](#)) then the economy would be able to achieve the pre-pandemic size of the GDP.
- If it happens, from 2022-23, the Indian economy will be able to start the growth process in a fresh manner.

Challenges in achieving this:

- **Consumption:** The private consumption in the economy, which is measured by the private final consumption expenditure, is growing but not at the desired level. Private consumption contributes 55 percent to the total GDP of India and it should grow at a faster rate. For that, there should be an increase in the demand in the economy.
- **Employment:** To achieve the desired level of consumption in the economy, there should be a significant increase in the demand which is not possible until the employment situation in the country gets better.
- **Investment:** There should be an increase in investment to create sustained demand in the economy.

Festival season and demand in the economy:

- Festival season is coming and it brings not only the commodity sale with itself but also contact services. Following are the measures through which the demand can be maintained:
 - **Vaccination process:** The demand in the economy during the festival can only be maintained with the progress of the vaccination process. If the desired level of vaccination happens, the third wave of the pandemic can be prevented and this will impact the festival demand in a positive way.
 - **Boost in consumption:** Consumption should be boosted not only for goods but also for services.
 - **Increase in private capital expenditure:** The private sector capacity utilization is around 70 percent and it is not encouraging the private sector to invest more in the economy. The government should step in and plan for better investment projects for creating more productive assets.

Inflation:

- The Reserve Bank of India has projected retail inflation for the full year at around 5.1 percent. The data for the wholesale prices for the month of July was 11 percent which is lower than the earlier estimates.
- Having double-digit wholesale inflation will adversely affect the retail prices also. Therefore, it is necessary for the monetary policymakers to look into the accommodative stance afresh. The monetary policy should be in a manner that can prevent any negative shock to the economy.

Can we expect a double-digit growth rate in 2021-22?

- If we look at the current scenario, then the base effect is working in a reverse direction, the growth in the size of the economy is lesser than the previous quarter, the pace of the vaccination process, and the fear of the third wave of the Covid-19 pandemic, it can be said that the Indian economy will be able to achieve a growth rate of around 9.5 percent for 2021-22.

Conclusion:

The Indian economy is slowly trying to regain its position and if it achieves a double-digit growth rate in GDP then it will become the fastest-growing economy in the world.

Read more Gist of AIR Spotlight [here](#).

