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***NCAER's Quarterly Review of the Economy 2021-22:Q1  
in Coronavirus times***

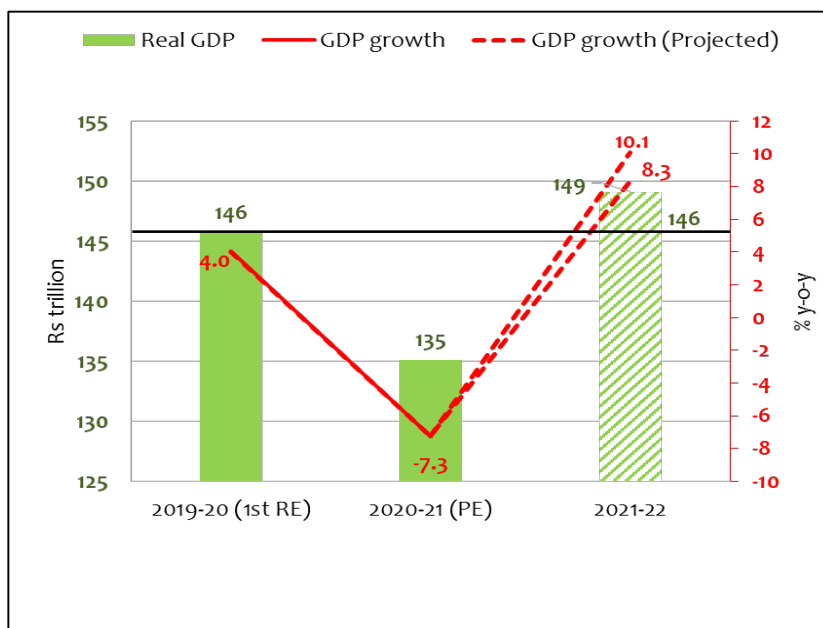
**PRESS RELEASE**

**New Delhi (Friday, June 25, 2021):** The National Council of Applied Economic Research (NCAER) released its ***Quarterly Review of the Economy (QRE)*** for the first quarter of FY2021-22 at a webinar today. NCAER's latest macroeconomic review was presented by NCAER Distinguished Fellow **Sudipto Mundle**, NCAER Senior Fellow **Bornali Bhandari**, and NIPFP Assistant Professor **Rudrani Bhattacharya**. **Indira Rajaraman**, former member of the 13<sup>th</sup> Finance Commission and **Prof. Rakesh Mohan**, President and Distinguished Fellow at the Centre for Social & Economic Progress (CSEP), participated as guest speakers. The webinar was moderated by NCAER Senior Adviser, Research Programmes, **Shashanka Bhide**.

The second Covid-19 wave, four times greater in ferocity compared to the first wave in terms of number of cases and deaths, has further disrupted the growth process which had already been severely damaged by the first wave. High frequency indicators show a sharp decline in economic activity during April, May 2021- the peak of the second Covid-19 wave, though there are some indicators of recovery in June as unlocking proceeds.

**We estimate that Gross Domestic Product (GDP) will grow by 11.5 per cent in Q1 and 8.4 per cent-10.1 per cent for the whole year 2021-22. However, these high growth rates are also a reflection of strong base effect since 2021-22:Q1 follows the very steep decline in 2020-21:Q1. At the end of 2021-22 GDP, in constant prices, would still be about the same as Rs 146 trillion as in 2019-20.**

## GDP will grow between 8.3% & 10.1% in 2021-22 in the optimistic & pessimistic scenarios



The economic growth process which was disrupted by the first Covid-19 wave, and the stringent nation-wide lockdown, may remain disrupted in FY 2021-22 because of the second wave and risks of a potential third wave. To restore the growth process after this situation for two consecutive years, the process now needs a strong positive push. Fortunately, export growth is projected to remain buoyant with recovery in the global economy. This combined with a strong expansionary macroeconomic policy thrust could help revive normal growth. The required fiscal policy stance in this context is public expenditure push. Fiscal deficit may remain high for a second consecutive year with revenues affected by the depressed level of economic activity.

Even after factoring in the post-budget increase in allocations for larger procurement of Covid-19 vaccines, extension of the additional food subsidy program till November 2021, planned expenditure in 2021-22 at 16.3 per cent of GDP is still significantly lower than 17.8 per cent in 2020-21. The fiscal deficit is being reduced sharply from 9.2 per cent of GDP in 2020-21 to 7.2 per cent in 2021-22 (as per NCAER estimates). Strong fiscal support to the economy is needed for its return to normal growth.

Since the beginning of the pandemic in early 2020 the main policy challenge the RBI has had to address is to provide enough liquidity to finance the increased government borrowing without allowing interest rates and bond yields to rise. It continues to face the same challenge in FY 2021-22. To deal with this challenge the RBI has held the policy repo rate and the reverse repo rate steady at 4 per cent and 3.35 per cent since May 2020. It has at the same time conducted complex interventions in the sovereign bond market, including most recently a combination of Twist Operations and Open Market Operations. Transmission of the policy rate to bank lending rates and sovereign bond yields has strengthened significantly. However, going forward rising inflationary pressures and the U.S. Federal Reserve announcement of an earlier than expected increase in the Federal funds rate will make it increasingly difficult for the RBI to continue maintaining its accommodative monetary policy stance. It is also a major concern that despite the reduction in interest rates and adequate liquidity infusion the growth of credit has remained at a low pace.

The ***Quarterly Review of the Economy*** aims to meet the needs of policymakers, corporates, and others interested in tracking the latest developments in the Indian economy. As with this June QRE for Q1, NCAER issues QRE for each quarter to track the Indian macro economy and assess the impact of policies and shocks like the present Coronavirus pandemic. It provides a data-driven, independent analysis of current policies and tracks sector-by-sector developments in India and globally. It contains special sections on external developments, prices, fiscal policy, monetary policy and capital markets. NCAER's quarterly and annual growth forecasts are widely quoted in the Indian and international media. Each QRE is released by NCAER at a quarterly State of the Economy seminar/webinar that brings together policymakers, industry leaders, and researchers.

### **About NCAER | The National Council of Applied Economic Research**

Established in 1956, NCAER is India's oldest and largest independent, non-profit, economic policy research institute. NCAER's work cuts across many sectors, including growth, macro, trade, infrastructure, logistics, labour, urban, agriculture and rural development, human development, poverty, and consumers. The focus of NCAER's work is on generating and analysing empirical evidence to support and inform policy choices. It is also one of a handful of think tanks globally that combine rigorous analytical and modelling capacity with deep data collection capabilities, especially for household surveys. More on NCAER is available on [www.ncaer.org](http://www.ncaer.org).

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