

GETTING ECONOMY BACK ON TRACK WILL BE AN UPHILL TASK

The positive movements on the post-Covid economic front need to not just be sustained, but accelerated, if India wishes for a complete turnaround of its economy. However, the fresh surge in cases has complicated the situation again.

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The ongoing Covid-19 pandemic has caused unprecedented upheavals in personal, economic and financial, and political lives. Stringent lockdowns have thrown the global economy off gear. Numerous predictions were floated about the trajectory of the virus and the resultant path of the global economy as the business situation remained volatile and uncertain.

The general sense is that the rate of global economic revival would depend upon the course of the pandemic. The manner in which the global vaccine programme is scaled up will be one of the crucial factors of such recovery. The World Bank's latest projections of January 2021 peg the global output growth at 5.5% in 2021 and 4.2% in 2022.

At home, a prudent mix of fiscal stimuli and monetary policies, announced in 2020, have helped the economy witness a V-shaped recovery, with the GDP in Q3 2020-21 estimated to have grown by 0.4% over Q3 2019-20. The OECD's forecast for India is revised upwards by 4.7 percentage points to 12.6% for 2021, while the IMF's projections indicate a growth of 11.5% in 2021, after a dismal -8% in 2020.

Some economic parameters are ameliorating. From 54.0 in April 2020, monthly IIP rose to 135.9 in December 2020. Agriculture, the only sector not subjected to lockdowns, is also the lone sector to have a projected positive GVA of 3% and a projected positive GDP growth (0.9%) in 2020-21. There are signs of revival in trade too. The decline in exports from 2019-20 to 2020-21 has narrowed down from 36% in Q1 to 5% in Q2 to 4% in Q3 of 2020-21. FDI flows in Q2 2020-21 were 2.4 times the Q2 2019-20 figures and 3.6 times the Q1 2019-20 level. Bank credit to agriculture and service sectors has witnessed some resumption. According to a recent FICCI survey, India Inc's business confidence has reached its peak in the past decade, with FICCI's Overall Business Confidence Index witnessing a decadal high of 74.2 following an improvement in present business conditions. The Index had stood at 70.9 in 2020 and 59 in 2019. The release of pent-up demand built during the lockdown has improved capacity utilisation and key operational parameters, thereby boosting business confidence. A big positive is that stock markets are performing well, reflecting investors' confidence in the strong fundamentals of the economy. The Budget announcements have rightly endeavoured to tackle both demand and supply-side issues for economic resumption.

Despite positive movement on the economic growth front, the challenge remains since it has to not just recuperate, but accelerate as well to more than offset the low base. It needs to be noted that despite the slight improvement in the GDP in Q3 2020-21, estimates for the financial year 2020-21 remain bleak at -8%, compared to 4% in 2019-20. In absolute terms, while Government Final Consumption Expenditure (GFCE) is estimated to record an increase in 2020-21 over 2019-20, Private Final Consumption Expenditure (PFCE) is still low. All sectors other than agriculture and electricity are projected to record negative GVA in 2020-21. The outlook for global FDI flows, rising fuel prices, unemployment, especially in the informal sector, and a slowing tourism, hotels and transport sector are sending out disconcerting economic signals. Direct investment made by India overseas fell by 31% to \$1.85 billion in February 2021. There has been subdued lending by banks to large industries. Inflation reached a 27-month high in February 2021. The combined Index of Eight Core Industries in February 2021 also declined by 4.6%, compared to February 2020.

The evolving situation is further exacerbated by a recurrence of Covid-19 cases, along with new variants being found. After registering a peak of more than 98,000 daily new Covid-19 cases in September 2020, the number of cases dipped to around 9,000 in February 2021. However, as soon as we were celebrating our success with controlling the pandemic, a second wave, riding on our complacency, hit us hard. The number of daily new cases has climbed up to above 80,000 now and another round of localised lockdowns is being resorted to, bringing along the imminent hazard of a debilitating effect on the economy.

The global financial crisis of 2007-08, which stretched till around 2011-12, had witnessed long periods of dampened growth and high unemployment. A full revival of the global economy after the Great Depression of 1929 had taken a decade. The IMF's projections indicate that the global medium-term loss in output growth, due to the pandemic, is expected to be lower than that after the global financial crisis, yet sizeable, at an expected 3.5% lower than the output projected for 2024 before the pandemic.

Thus, while early green shoots are visible, it is too early to let our guards down and become complacent. A sustained economic recovery would require us to be cautious about the potential surge in infections, the resultant compelling lockdowns, and impending threat to employment and incomes due to a potential increase in corporate and individual insolvencies.

With regulatory forbearances slowly lifting across countries, the impact on indebted business and individuals will now be visible. In the Indian context, the Supreme Court has recently decided in favour of lifting of the standstill on the classification of NPAs and granting no further extensions on loan moratoriums. The suspension on filing for corporate insolvencies under the Insolvency and Bankruptcy Code also ended on 25 March 2021.

So, are we out of the woods? Not quite. The road ahead for the economy is precarious and needs to be trekked with great caution. We have some kind of solution on the health front, wherein the proactive contribution of citizens would be of utmost importance to sustain gains from the ongoing vaccination programme. However, getting the economy back on track will be an uphill task. Balancing forbearance with austerity on the fiscal path ahead would be a tightrope walk. This is a once-in-a-lifetime event. There is no known policy prescription available to fall back upon, especially when any economic solution is crucially linked to the highly uncertain path of a virus on which we seem to have little control. However, think tanks and governments are earnestly engaged in addressing economic and health issues in tandem.

The authors belong to the Indian Economic Service. The views expressed are personal.