The Big Picture: Economic Recovery for India

Why in News

Recently, the **International Monetary Fund (IMF)** upgraded its **FY 2021-22 growth projection for India to 12.5%** from **11.5% estimated in January.**

- It has also cautioned that the forecast hasn't factored in the severe downside risks arising from the country's ongoing second wave of **Covid-19.**

Key Points

- **World Economic Outlook Report:** The IMF releases this report usually **twice a year** and it **analyzes and predicts global economic developments** during the near and medium term.
    - Some high frequency economic indicators in the report are showing robust signs of economic growth of India while the others are bringing out implicit risks to growth from the second wave of the pandemic.
- **India's Economic Growth:** As per the report findings, Indian economy is expected to grow by 12.5% in 2021 and 6.9% in 2022.
    - **Growth rate for India in 2021 is stronger than that of China.**
    - The 1% increase in India's economic growth rate forecast came in the background of encouraging signs from some high-frequency indicators.
- **Global Economic Growth:** The IMF predicted stronger recovery in 2021 and 2022 with growth projected to be 6% in 2021 and 4.4% in 2022.
    - In 2020, the global economy contracted by 3.3%.

Global Scenario

- **Advanced Economies:** The **USA and Spain** are the only two advanced economies that are expected to have an **economic growth projected above 6%** for FY 2021-22.
    - The USA had been able to retain its economy **due to its economy-centered approach amid the pandemic.**
        - The strong fiscal support the government had given to their citizens was also helpful.
- **Emerging Economies:** The developing countries have not been able to perform as good because the pandemic has affected the labour intensive jobs (prevalent in developing countries) more than the capital intensive jobs.
    - No developing country other than India has a growth rate projected in double digit figures.
- **Export-Oriented Economies:** The european countries had a huge demographic crisis therefore the consumption rate was very low.
    - In countries like Germany, which is an export-oriented economy, when the pandemic hit, their economy due to lockdowns and import/export restrictions was affected severely.
    - Export oriented economies which were exporting primary products have also suffered a lot.

India's Economic Growth

- **Factors that Increased the Growth Projection:** For India, a good run in the agriculture sector plus no stagnation in the railways, freight revenue, power sectors have led to an increased 1% projection.
    - Moreover, the **GST collection for FY 2020-21 was record high** at the value of ₹1.24 lac crore (₹1.24 trillion).
    - The **exports figures have also seen a huge jump** standing at 31 billion dollar.
        - It is a huge increment for the exports which have witnessed a decline for 7 months.
    - The **Ozone concentration levels, power consumption or labour participation rates have so far remained resilient** to the decline in growth.
    - **Hindrance in Growth due to Pandemic:** The economic growth rate of India (and other countries) is contingent on the rise in covid infection rate and consequent lockdown.
    - Undoubtedly the growth will be there but the covid is a potential barrier in this growth; the possible challenges posed by Covid 19 cannot be undermined.
- **Sectors Obstructing the Growth:** The report also shows some warning signals that could hinder the economic growth of the country.
    - These indicators include **decline in the retail sector.**
    - Sectors related to **hospitality and transportation are also hit** badly which roughly account for 6% of overall GDP.
    - In vehicle registration, around 60,000 vehicles were registered on a daily basis in the months of feb-march 2021 which has now come down to 55,000 on a daily basis.
    - The growth recovery is obvious to be impacted by the rapidly increasing covid-19 disease due to the consequent partial and complete lockdowns and curfews.

Nomura Index Business Resumption Index

- The **Nomura India Business Assumption Index (NIBRI)** is the Japanese brokerage's weekly tracker of the pace of normalisation of economic activity.
    - It captures and tracks demand indicators such as the demand for power, labour force participation etc.
- The index reached 99 points in February, 2021 but slipped down to 90 in the month of April which indicates a slowdown in the economic recovery.
    - The reason for the slowdown is mainly the second wave of covid-19.

- **Government Policies:** India has handled the covid-19 situation better than many of the countries with its step by step approach of tackling the situation introducing various economic reforms, the vaccination drive etc.

Way Forward

- **Vaccination and Covid-Appropriate Behaviour:** India's vaccination programme is also going on, it is vaccinating nearly 3-4 million people on a daily basis but that is not enough. The need is to build up more capacity and vaccinate more and more people at a faster rate.
    - Even after vaccination, no leniency shall be there in following the basic covid appropriate behaviour of wearing a mask, performing social distancing and following hygiene protocols.
    - Only healthy citizens can utilise up to their full potential and contribute to the overall growth of a country.
- **Investment-Centered Approach:** The NSO has given the investment rate in the economy for FY 2020-21 at only 31% of GDP which is a very low rate of investment for any economy as large as India, therefore investment is the right way forward.
    - The FY 2021-22 should be the year of beefing up, strengthening and stepping up the pace of investment in infrastructure and many other projects where India is in the deficit stage.
- **Reforming the Vaccine Criteria:** The criteria of vaccinating only those people above the age of 45 shall be done away with specially in the covid hotspot areas like Mumbai, Pune and Delhi.
    - The working class people in such cities who commute on a daily basis shall be vaccinated at a faster rate and regardless of age.
- **Managing the Elevated Inflation Levels:** India is at the risk of inflation, it is at an elevated level which is why the RBI has been conservative; it has projected the growth rate at 10.5% only.
    - India has to walk on a very fine line balancing the growth imperatives and inflation

concerns.
    - The RBI has also adopted a policy to support economic growth. It has increased the limit of ways and means advances to the states and has allowed them to borrow more amounts from the RBI.
- **Role of Government Policies:** The growth projection also depends upon policies adopted by the government, specially the fiscal policy and monetary policies.
    - So far India has proved to adopt such policies more wisely as compared to other countries.
        - India implemented massive economic reforms in the year 2020 when the pandemic was at its peak.
    - Also, India has freed up a lot of sectors from the over regulation by the government interference which will be fruitful in better and faster economic growth.

Conclusion

- India as the fifth largest economy in the world has to focus on growth recovery that is more sustainable and by just drawing satisfaction from just the growth numbers would not do much.
- India is slowly but surely on the path to economic recovery and investment is the way to sustain this growth momentum.