



The path of economic recovery

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(Mains GS 3 : Indian Economy and issues relating to planning, mobilization, of resources, growth, development and employment.)

Context:

- The **covid pandemic** and subsequent restrictions posed serious economic turmoil where most business plans and strategies faced near chaos.
- While the worst is over but economic glitches still remain in the economy.
- Thus India needs to improve its economic path with the right public policies and a zealous private intent.

Key indications:

- The health crisis presented an opportunity for individuals and businesses to pause, reflect and realign their lifestyle, priorities and perspectives.
- Over 800 million covid vaccine doses have been administered which improve active cases burden and coming down of deaths.
- Strict restrictions are being lifted across the nation and the country's workforce is returning to work.
- A good monsoon amid the kharif sowing season along with consumer demand indicates good.

Rural demand is important:

- Demand emanating from rural geographies is important for sustaining recovery.
- Demand for work under MGNREGA suggests continuing stress for which monsoons will be a big contributor.
- However, agriculture, forestry and fishing are already on the path of positive growth.

Back to normalcy:

- Financial and professional services along with the IT sector shows stupendous growth.
- Construction, electricity, gas, water and public-utility services and public administration, defence and other services are getting back to normalcy sooner than other sectors.

Strong global growth:

- The growth momentum has been strong globally witnessing its strongest growth in 80 years.
- This provides a good opportunity for India's external sector, given the strong elasticity we have between global growth and exports.
- Recent data reflects that manufacturing exports are already 20% above pre-pandemic levels.

Investment multiplier:

- In recessionary conditions money needs to be directly pumped into the system to boost immediate consumption.
- This accelerates economic activities by investing public capital which enhances the purchasing power of people.
- The money in public hands is spent on consumption which further boosts demand and enhances production thus creates even more purchasing power in the economy.
- This creates a virtuous cycle that goes into an upward spiral and takes the economy out of recession.

Key role of central bank:

- The Reserve Bank of India (RBI) introduced on-tap targeted long-term repo operations (TLTRO) to give thrust to economic recovery.
- The liquidity available under TLTROs can ensure smooth bank credit operations and extend bank loans to growth-oriented sectors.
- The central bank also decided to increase its special open market operations to ₹20,000 crore.

Fiscal stimulus:

- India's finance ministry announced an economic package of ₹628,993 crore covering three broad areas—pandemic relief, strengthening public health, and growth and employment.
- Although the majority of schemes announced providing economic relief to both people and businesses affected by covid but many of them also have a special focus on health, travel and tourism.
- Increasing credit supply has facilitated credit offtake to be utilized in new economic activities, which results in heightened revival and growth.

Government reforms:

- The initiative of '**One Nation, One Ration Card**' can revive consumer demand and ensure food security for a majority of the population.
- The Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) scheme has its highest-ever utilization since its launch in 2006.
- Expansion of MGNREGA to urban areas is also necessary to help stabilize the economy.
- Strong resolution mechanisms under the Insolvency and Bankruptcy Code enable the companies to secure a viable exit.

Infrastructure is crucial:

- Improvements in domestic infrastructure will not only have a positive influence on future exports, it will also create immediate employment and purchasing power, infusing the system with demand.
- The launch of a ₹100 trillion integrated infrastructure scheme should help make India's economy more competitive.
- This Gati Shakti initiative aims at breaking the silos between road, rail, air and waterways to reduce travel time is expected to improve industrial productivity and raise global competitiveness and generate employment.

Physical and social infrastructure:

- spending on physical and social infrastructure can simultaneously create jobs, attract Public private investment and improve the economy's competitiveness.
- The government has increased spending on capital with the centre and states have budgeted 30% growth in capital expenditure for 2021-22.
- This spending will play a significant role in an economic revival.

Conclusion:

- For recovery in economic growth, India requires policy interventions to create a more level playing field for smaller companies, which is crucial for job creation.
- Thus the continuous policy support will ensure the economy from the "revive" to the "thrive" phase, to place India on a sustained growth path.