Unlocking Recovery

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

Context:

> The second wave of infections in India now largely subsided, thus economic activity in many sectors and geographies has recovered to pre-second-wave levels, with some segments doing better than even in February 2020.

Reorientation of India's stimulus strategy:

- Many developed countries, despite risks from festering infections, have been widely vaccinated, and are poised for strong growth.
- This will compel their respective central banks to begin normalising the extremely loose monetary policies earlier than anticipated.
- This will require a reorientation of India's stimulus strategy from the largely broad-based measures to a more targeted approach to certain sectors.
- This reorientation reduces the risk of overheating the economy, with inflationary pressures having remained persistent for many months.

Strong global growth momentum:

- The growth momentum has been strong globally, particularly in the US and China.
- Post the perceived hawkishness of the last US Federal Reserve policy meeting, the traded interest rate of the benchmark US 10-year treasury bond fell to below 1.3 per cent, reflecting disquiet about the durability of the recovery once the fiscal stimulus starts waning.
- China recently announced a 0.5 per cent cut in the required reserves ratio for banks.

- Europe’s recovery had begun to inch up, but members of the European Central Bank have begun to push back on market expectations of early tapering.
- However, some smaller global central banks, considered to be the “canaries in the mine” of global rate change cycles, have started normalising their respective Quantitative Easing programmes.

Growth recovery in India:

- In India, there are signs that the recovery momentum began to strengthen from mid-June, despite lockdowns still in place in economically important states.
- Demand in the economy is accelerating, despite capacity utilisation in many industries below thresholds needed for the next round of private investments.
- In line with the market consensus, 2021-22 growth is likely to be in the 9-10 per cent range.
- The Composite Leading Indicator (CLI) shows that activity in July is likely to have reached well above pre-second-wave levels.
- The CLI readings are based largely on Google mobility signals and electricity consumption, both of which need to be interpreted carefully for exogenous influencers like hot weather, but the trends seem to be reinforced by e-way bill filings for GST payments**.**

Improving tax collection:

- Tax collections, another indicator of activity, even a bit skewed, shows signs of recovery.
- Corporate tax collections in the April-June quarter of 2021-22 have been robust.
- As of mid-June, corporate tax collections, post refunds, are over Rs 1.85 lakh crore, double that of the corresponding quarter of 2020-21.
- Collections reportedly have been from a range of sectors — steel, metal, commodities, cement, pharma, banking, IT.
- Part of this would have been due to high metal prices in the quarter, but the resilience of large corporates is evident across the spectrum, suggesting that B2B (business-to-business) demand is still strong.
- Even GST collections seem to have been quite robust.

Retail consumer demand shows mixed result:

- A revival of retail consumer demand is critical for sustaining the recovery and reports from industry associations suggest a somewhat mixed picture.
- Dealerships’ feedback suggests that demand for consumer durables (ACs, refrigerators, coolers) remains robust.
- The automobiles sector is a bellwether and retail registrations improved in June across segments.

- A sharp recovery in the medium and heavy commercial vehicles (CV) segment is said to be limited due to BS-VI transition production bottlenecks, but light CV sales are good, with the booming e-commerce ecosystem.
- Passenger vehicles growth also remained subdued with continued global semiconductor shortages.
- Two-wheeler sales remained muted (compared to June 2019 levels) due to an uneven recovery in rural areas.
- Demand for residential housing has revived strongly in many metros and tier-I and tier-II cities, due to a combination of discounts, low interest rates and state government incentives of stamp duty cuts.
- This is likely to have growth multiplier effects for many intermediate supply segments.

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.
- Sowing of kharif crops stalled in late June, but is predicted to pick up again in mid-July but renewed government intervention is required.

Inflation should be controlled:

- Worries about inflation remain heightened, arising from the twin impulses of food and crude oil prices, and could force a monetary policy normalisation faster than presently anticipated.
- Effects of potential spillovers from the earlier noted risks of global central banks' policy tightening will only add to the difficulty of balancing a policy-induced increase in interest rates, moderating financial markets volatility and maintaining growth incentives.

Small and micro enterprises:

- Access to credit remains a crucial input in the recovery matrix, particularly for small and micro enterprises.
- The Union government's Emergency Credit Line Guarantee Scheme (ECLGS) has reportedly been very effective in stabilising the solvency (and cash flows) of micro and small businesses.
- The expansion of this subvention is probably the most effective template to incentivise credit flows, leveraging on the government's balance sheet to take on the first loss risks.
- At the same time, capex proposals of the Centre and states should gradually draw in private sector capex.

India's medium-term growth potential:

- Shifting the lens to India's medium-term growth potential, the encouraging aspect of the recovery is the resilience of many mid- and large-turnover companies in the face of the debilitating public health crisis.
- Corporate health has improved, with lower debt on balance sheets.
- Adoption of technology is widespread which will boost productivity and competitiveness.

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 policy support will ensure the economy from the "revive" to the "thrive" phase, to place India on a sustained 7 per cent plus growth path.