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Despite all the green shoots, it is clear that growth will be patchy. Even data appears contradictory, such as the record foreign exchange reserves which are not a sign of a booming economy but the reflection of a crash in imports owing to low industrial activity. Revenue collections are rising gradually, but direct tax inflows fell by nearly 10 per cent till the end of December.

Economy headed for a V-shaped recovery

THE upcoming vaccine rollout has considerably brightened the prospects for economic growth in the New Year. The Covid-19 virus and its impact on the health and well-being of people around the world were the key issues in 2020. If the tide is finally turning on the pandemic front, there can be greater surety that the Indian economy will revive slowly but surely.

The immediate indicators are promising for a V-shaped recovery from the trough experienced over the past 10 months. The biggest roadblock will be the possibility of a second wave of infections in India, as had occurred in Europe and the UK. The villain could be the new more contagious variant of the disease detected in the UK that is now causing havoc there. It has, as of date, spread to another dozen countries. The progress of the virus and the health of the economy are inevitably linked together.

For now, the positive news is that imports are rising, an indication that industrial activity is picking up. Exports are still stagnant, but imports rose in December for the first time since February. The import data comes along with a surge in Goods and Services Tax (GST) collections that have reached levels higher than those in the pre-Covid era. The December collections have risen by 11.6 per cent to Rs 1.15 lakh crore, the highest since the GST regime was rolled out in 2017.

While this is encouraging news, it must be tempered by the recognition that it is based on the November sales, which in turn reflected the pent-up



SURGE: GST collections have gone past pre-Covid levels. TRIBUNE PHOTO

demand of the festival season.

The equity markets continue to show cheer by a bull run that mirrors the same buoyancy in global stock exchanges. After a crash in March and April, the Sensex has risen consistently despite the bad news on the economic front. The rally has been partially fuelled by a new breed of domestic investors who had abandoned other asset classes that have been giving poor returns, like bank deposits and real estate.

More importantly, foreign institutional investors have been pouring funds rapidly into the Indian markets on the back of global liquidity as well as expectations that this emerging economy will surely bounce back in 2021.

The IHS Market Purchasing Managers Index has also been positive for the fifth consecutive month, giving an

indication that factory activity is picking up in December.

Agricultural growth equally continues to progress at an even pace despite the ongoing farmers' agitation in the northern region. Even during the worst April-to-June quarter this year, when GDP growth crashed by 23.9 per cent, farm growth remained positive at 3.4 per cent. The slow spread of the virus to rural areas has contributed to this sustained activity on the farm front.

On the negative side, core sector data continues to be dismal. Growth in the eight core sector industries fell by 2.6 per cent in November, bringing the total decline over the first eight months of the current fiscal to 11.4 per cent. This includes crude oil, natural gas, refinery products, steel and cement, though there has been some increase in coal,

electricity, and fertilisers. This may be offset to some extent by consumer goods output, but will clearly impact the index of industrial production.

Simultaneously, the jobs outlook is discouraging as unemployment rose to 6.5 per cent in November, according to the Centre for Monitoring Indian Economy (CMIE), with high-quality jobs taking the biggest hit. Inflation remains a bugbear, too, having gone up to 7 per cent at the retail level. This is due to the twin factors of food items having become costly and the government's deliberate decision to impose heavy taxes on imported fuels in order to raise resources.

As for the services sector, it remains problematic and will continue to be in the doldrums as long as the pandemic continues to plague the country. Unless the vaccination drive becomes widespread and the fear of travel, tourism, shopping and eating out dissipates, the revival of activity in this large economic segment seems to be ruled out. This is significant as services now account for over 50 per cent of India's GDP.

So, despite all the green shoots, it is clear that growth will be patchy and uneven. Even data appears contradictory, such as the record foreign exchange reserves which are not a sign of a booming economy but the reflection of a crash in imports owing to low industrial activity. Revenue collections are rising gradually, but direct tax inflows fell by nearly 10 per cent till the end of December.

This, is at a time when the government needs to make larger expenditure in many areas, including infra-

structure development, rural employment schemes and even on the bulk purchase of Covid vaccines. While there may not be concerns right now on the widening of the fiscal deficit, it cannot be denied that a big increase this year may lead to more problems in the subsequent ones.

The relatively small size of the stimulus measures announced during the course of the year have been widely criticised for not being enough to support many sectors, especially small and medium enterprises. The need for cash support in the form of direct transfers through digital payments to the poorest of the poor has been advocated by many.

But the government has been firm in resisting pressures to expand expenditure in this manner. As of now, it looks as if the conservative approach seems to be yielding results as economic growth seems to be reviving slowly but surely, even if it is unevenly.

Estimates of degrowth have already been revised for 2020-21 by rating agencies like Moody's which now estimates negative growth at 10.6 per cent as against 11.5 per cent earlier.

For the next fiscal, the growth estimates are now in the region of 9 to 11 per cent which sound ambitious but for the fact that this will be on an extremely low base.

Comparisons are truly odious, given the fact that a more realistic comparison might be with the previous year. Even so, it is abundantly clear that the next fiscal is firmly heading for a V-shaped recovery, unless the Covid virus springs any surprises in the coming months.