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Economic Recovery and Stimulus Policies

What is the issue?

- Economic activity in many sectors and geographies has recovered to the level of pre-second-wave of COVID-19.
- In this context, there is a need for a reorientation of the economic stimulus policiesto place India on a sustained 7% plus growth path.

What is the global scenario?

- Many developed countries have been widely vaccinated, and are poised for strong growth.
- The growth momentum has been strong, particularly in the US and China.
- The central banks of many developed countries are likely to begin normalising the extremely loose monetary policies earlier than anticipated.
- But there are doubts about the durability of the recovery once the fiscal stimulus starts waning.
- However, some smaller global central banks have started normalising their respective Quantitative Easing programmes.

How is the level of recovery in India?

- In India, there are signs that the recovery momentum began to strengthen from mid-June 2021.
- In line with the market consensus, it is expected that 2021-22 growth is likely to be in the 9-10% range.
- Economic activity in July 2021 is likely to have reached well above pre-second-wave levels.
- Tax collections, another indicator of activity, even if a bit skewed, support this view.
- Corporate tax collections in the April-June quarter of 2021-22 have been strong.
- 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.

What should the priority nowbe?

- With developed countries beginning to normalising the loose monetary policies, India will require a reorientation of its stimulus strategy.
- It should shift from the largely broad-based measures to a more targeted approach to certain sectors.
- This will reduce the risk of overburdening the economy.
- This is especially true as inflationary pressures have remained persistent for many months.

What are the measures needed?

- Revival of retail consumer demand is critical for sustaining the current economic recovery.
- Demand emanating from rural geographies is also important for sustaining the recovery.
- Demand for work under MGNREGA suggests continuing stress. Monsoons will be a big contributor too.
- Renewed government intervention is therefore required.
- Inflation worries are heightened, given the twin impulses of food and crude oil prices.
- It could force a monetary policy normalisation faster than presently anticipated.
- 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.
- It helps stabilising the solvency (and cash flows) of micro and small businesses.
- The expansion of the scheme is probably the most effective way to incentivise credit flows.
- Policy interventions are needed to create a more level playing field for smaller companies, especially in the corporate health sector, given the public health crisis.
- This is crucial for job creation too.

Source: The Indian Express



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