Covid shocked economy, now vaccine, demand push to guide bounce back

With a month left to go for the Budget for 2020-21, economists are of the view that higher government expenditure would be crucial to propel the growth momentum.

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Growth projections for next financial year are ranging over 9 per cent. (File)

An impending vaccination, resumption in economic activity and increased mobility are expected to lead towards a path of economic recovery in the aftermath of the Covid-19 pandemic, but the fragility of industrial recovery and pent-up demand have thrown up questions over the sustainability of the signs of economic recovery.

Data released on Thursday for output for eight core sectors showed contraction of 2.6 per cent in November after posting a rise of 0.7 per cent in the corresponding period previous year, while fiscal deficit widened to 135.1 per cent in April-November, reflecting a widening of the deficit more due to weak revenue receipts than higher government expenditure trend. With a month left to go for the Budget for 2020-21, economists are of the view that higher government expenditure would be crucial to propel the growth momentum. A re-allocation of government expenditure with special focus on healthcare and infrastructure along with a delinking of intricate focus on the fiscal deficit target are being seen as the key factors which would help the Indian economy to gain lost ground in the coming year.

“The government should not get fixated with fiscal deficit and should look at how to revive the economy from the Budget point of view. While subsidies can’t be touched, I think the government needs to focus on capital expenditure and they growing, it is something that is within the realm of the Budget that can be done," Madan Sabnavis, chief economist, CARE Ratings said.

Credit disbursement to industry has not picked up yet, which is a cause of concern and does not bode well for industry when external demand remains weak, Arun Singh, global chief economist, Dun & Bradstreet said.

Growth projections for next financial year are ranging over 9 per cent, primarily due to low base effect from contraction in this fiscal. In real terms, however, the growth story would be bleak. India Ratings in a report said though the economy is projected to grow 9.6 per cent in the next financial year, it may grow just 1 per cent in real terms to Rs 147.17 lakh crore, as against Rs 145.66 lakh crore in 2019-20 (at 2011-12 prices).

"These growth numbers suggest a strong V-shaped recovery, leading to the belief that the economy is out of the woods and on the path of a strong recovery. Even a moderate improvement in Q1 and Q2 of FY22 reflects a decent annualised GDP and IIP growth due to the low base," India Ratings said. This suggests that the economy will be able to just recover the lost ground in 2021-22 and surpass the 2019-20 GDP level in a meaningful way only in 2022-23, it said.

Concerns over the new strain of the virus and associated restrictions are overshadowing the optimism of a faster vaccine fuelled economic recovery. Moreover, the rate at which various sectors can increase their output remains

Though higher government expenditure may support recovery on the growth front, the government will also need to tackle the high inflation rate. Persistent sticky inflation, high borrowing levels, and a rebound in growth are likely to exert upward pressure on yields as well.

The Reserve Bank of India (RBI) in its monetary policy review on December 4 had said the outlook for inflation has turned adverse relative to expectations in the last two months. While cereal prices may continue to soften with the bumper kharif harvest arrivals and vegetable prices may ease with the winter crop, other food prices are likely to persist at elevated levels. "Cost-push pressures continue to impinge on core inflation, which could remain sticky. Taking into consideration all these factors, CPI inflation is projected at 6.8 per cent for Q3:2020-21, 5.8 per cent for Q4:2020-21; and 5.2 to 4.6 per cent in H1:2021-22, with risks broadly balanced," the RBI had said.

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