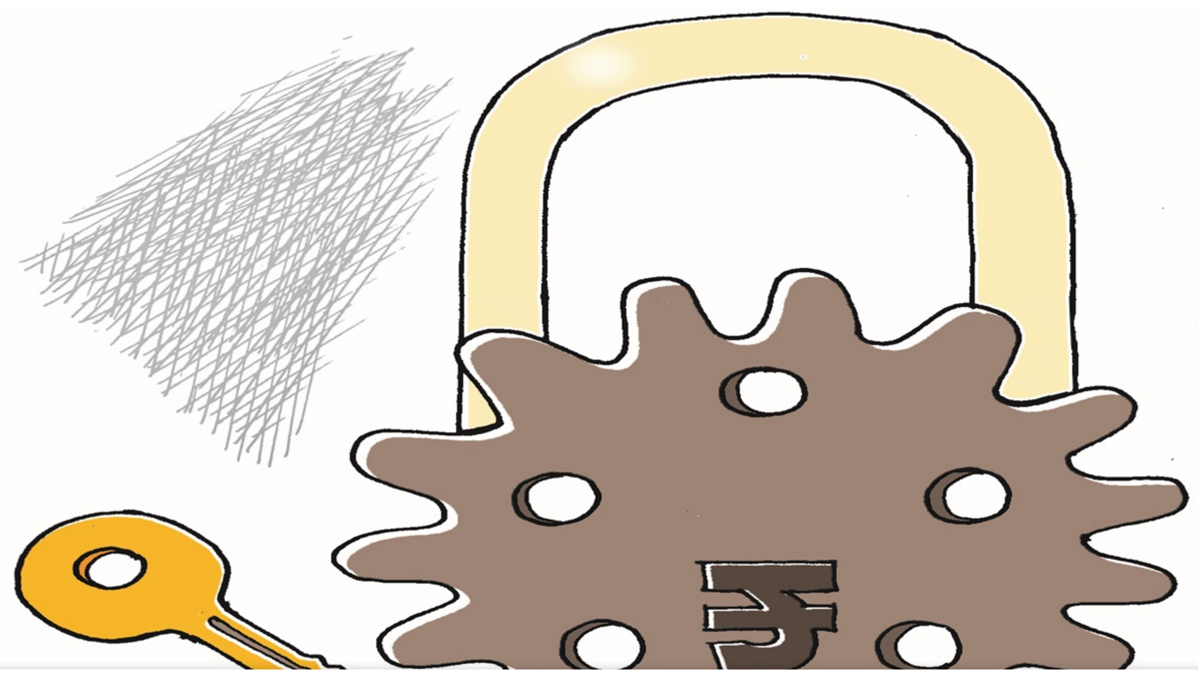
Reviving growth: India’s not well placed in the global context

A fiscal stimulus can be considered as being expedient under present conditions as there is no other way out. Growth is something outside our control today, which also means that employment will be a challenge for the rest of the year

By: Madan Sabnavis September 17, 2020 8:00 AM



Even when looked at in terms of growth on quarter-on-quarter basis, the picture is the same, with Indian growth declining by 69.4% and Peru’s by 72.4%.

RELATED NEWS

Engineering India’s growth! These five opportunities could generate $300 billion in the next 5 years

India must rejig its trade policy, make SMEs integral to export policy

Is rupee’s flirtation with 73 over?

When the Q1 GDP numbers came out, there was a rather unnecessary controversy that showed a data series where the US economy declined by more than India’s 23.9%. The IMF data subsequently clarified this anomaly. More importantly, as almost six months have passed since the lockdown was imposed, it may be time to introspect the concept of closing the economy in the context of the pandemic. The fall in GDP in Q1 may just about be the proverbial tip of the iceberg.

When the lockdown was announced in March, it seemed to be the right thing to do as everyone was doing it. India could take pride in the approach, which was stringent to the extent of being quite draconian on the weaker sections both in terms of putting millions out of work as well as subjecting them to physical hardships in the process of migration. Yet it did not play out according to script.

It was justified on the ground of the larger picture, which had to be seen. The initial response of the government was positive handholding despite the conflicting stance taken at the state level. But after a point, the fiscal numbers hurt, and the support was more through the financial system that could help those who were operative but not units that had closed. And just when it looked

After the initial expectation that the total lockdown would stop the spread of the virus, the realisation was that we must live with these conditions and adapt. In the process, the economic system has been maimed to a large extent, especially when seen in the global context.

The recent GDP numbers released brought home the point that India was affected more than any other country. A good yardstick for comparison is the data put out by the Economist magazine where there is standardisation in the data presented. GDP growth for the first quarter of FY21 or the second quarter of the calendar year was the second lowest in a set of 42 countries, with only Peru doing worse at minus 30.2%. The others that came close to India were Spain at minus 22.1%, the UK at minus 21.7%, and Mexico at minus 18.7%. Interestingly, the degrees of lockdown for these countries were dissimilar, with none of them being as stringent as India.

Even when looked at in terms of growth on quarter-on-quarter basis, the picture is the same, with was one among those growing by positive rates this year. Therefore, this is a comedown from what was projected earlier.

The scenario becomes grim when the inflation picture is juxtaposed as the CPI index shows 6.9% for July and 6.7% for August, which is one of the highest numbers, with only Pakistan and Argentina exceeding it. The first reaction from an economic standpoint is whether these are signs of stagflation that typified the global economy at the times of the oil shock in the 1970s. The answer is that these numbers do resemble the same as growth is more likely to continue to be in the negative terrain in the next quarter for sure, and the course of inflation will be driven largely by the kharif harvest as food inflation has been a problem for us today. While 6.9% is not scary, it looks uncomfortable nevertheless, when placed with such sharp decline in growth. A part of the inflation is due to the government also raising the taxes on fuel products and given that most of it is on the supply side, it does smell of stagflation.

The third indicator where the picture gets messier is unemployment, where the 8.4% number is on the higher side, which is consistent with the sharp decline in GDP. Here, too, the unemployment data does not capture the unorganised segment, which was affected more by the lockdown. Unemployment, however, has been higher in countries such as the US, Spain, Greece, Argentina, Brazil, the Philippines, Turkey, Columbia, Egypt and South Africa. But for most of these countries, this rate has been high even in pre-Covid-19 times. The exceptions were the US, the Philippines and Chile.

The fourth set of data pertains to the fiscal deficit. There are projections made by The Economist based on the developments that have taken place so far on the likely fiscal deficit level for the year. Here, for India, the forecast is 7.9%, which is fairly conservative compared with that of others (see graphic).

This is one area that can be improved upon by India. In such a situation where growth is low and unemployment naturally high, the economy falls in a low equilibrium trap. The only way to get out is through Keynesian push, especially in these rather difficult times where the private sector is still struggling to see growth in demand. In fact, the private sector has been hit by both supply disruptions as well as low demand conditions, which can be overcome only through some affirmative action from the government. Admittedly, the government has so far walked the path of prudence, and with GDP growth slipping has encountered a major shortfall in revenue, which gets manifested in higher deficit.

even more arduous.

The author is chief economist, CARE Ratings. Views are personal

Home / OPINION / Reviving Growth Indias Not Well Placed In The Global Context