

The Duality in India's Economic Recovery

What is the issue?

In the process of recovery of pandemic-induced economic crisis, there's a gap between rich and poor States due to vaccination levels and between the unemployed and the well-heeled.

What is the status of economic recovery in India?

- The RBI projected real GDP growth of 9.5 % for the FY 2021-22.
- Similar projections have been made by multilateral agencies like IMF and World Bank, projecting GDP growth rate in the range of 8.5-9.5 % indicating a V-shape recovery.
- The optimism is the result of increased consumer confidence and vaccination coverage.
- Google data indicates that the mobility trend across retail, transit, residential, and workplaces is back to its pre-pandemic level.
- Real-time Indicators such as PMI, e-way bills, GST collection, electricity demand, etc. recovered to their pre-pandemic level.
- Industrial output recovered during the quarter ending September 2021 and recorded a growth of 8 % compared with 2020.
- The GST collections grew more than 25% in July, August, September and, October and reached an all-time high of Rs 1.3 lakh crore in October 2021.
- Exports grew 38% in the quarter ending September 2021.
- The stock market is soaring up with a record number of IPOs debuting.



What are the reasons for India's economic recovery?

- Positive consumer confidence
- Higher vaccination coverage
- Decline in the number of infections
- Fading threat of the new Covid wave
- Increased consumption expenditure
- Festivals boosting the demand

What factors are attributed to the uneven economic recovery?

- **Level of vaccination** - The higher income States have vaccinated 45-50% of its eligible population but the fully vaccinated population in poorer States remains under 30%.
- **Saving glut** - A global saving glut (cash hoarding, dead cash, dead money) is a situation in which desired saving exceeds desired investment.
- The pandemic created a saving glut with the top income quintiles leading to reduced consumption and economic uncertainties.
- It is this section of the population that is leading the present recovery.
- **Unemployment** - The bottom 50 % income quintile suffered permanent loss of jobs and incomes.
- As per CMIE's consumer pyramid survey, the labour force participation rate has declined from 43% to 39% between March 2020 to September 2021.
- In absolute terms, 1.4 million people have been forced out of the labour force.
- **Increased poverty** - Around 3.5 million people are unemployed and have stopped looking for jobs coming under the category of discouraged workforce.
- As a result, the absolute number of poor in the country has increased by 76 million between 2011 and 2020.
- **Income disparity** - The saving glut forces the interest rate to fall and people search for alternative asset classes for a higher return.
- In India, these excess savings are getting channelised into the stock markets and real estate, fuelling asset prices.
- Asset price bubbles make the rich feel even wealthier widening the inequality.

How can the issue be addressed?

- For an even recovery, the economic duality needs to be rectified and the people in the bottom 50% income quintile who are still in doldrums, require income and consumption support.
- The focus must be on addressing the equity concern and speeding up vaccination rates in low-income States.
- Fiscal policy needs to be prioritised over monetary policy.
- Targeted demand push in the form of extension of the free ration scheme, financial support to struggling SMEs and increased outlay for MGNREGA may help sustain the economic recovery.

Reference

1. <https://www.thehindubusinessline.com/opinion/the-duality-in-indias-economic-recovery/article37649864.ece>

