Helping Indian economy down the road to recovery

Lekha Chakraborty, Harikrishnan S write: An accommodative stance on public spending in budget holds key to economic revival

Written by Lekha Chakraborty , Harikrishnan S |
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People wear face mask as a precaution in a market in Jammu on January 21, 2022. (AP Photo
Anand)

As per the recent GDP estimates, the Indian economy will grow at 9.2 per cer 2021-22. However, this is lower than the Reserve Bank of India's estimate of cent made in December last year. The nominal GDP is estimated to grow at 1 cent. These GDP estimates published ahead of the Union budget 2022-23 are significant as they will be used for fiscal projections. The economy is expecte recover to its pre-Covid level by the end of this fiscal year. The country's grow trajectory will, however, largely depend on the government's fiscal policy tha account for the limitations of the monetary policy in triggering a recovery.

The central bank has adopted a "whatever it takes" stance to deal with the pandemic. The status quo has been maintained on key policy rates over seve monetary policy committee (MPC) decisions. Though the RBI has not yet "for announced any "normalisation procedure", it is absorbing excess liquidity th raising the cut-off yield rate of VRRR (Variable Rate Reverse Repo) and curtai the G-sec acquisition programme. As Joseph Stiglitz and Hamid Rashid have related policies alone cannot lead a country out of the macroeconomic crisis. However, absorbing the excess liquidity that was injected as part of the pand response to stimulate the economy is necessary as there is the possibility of a increase in non-performing assets (NPAs).

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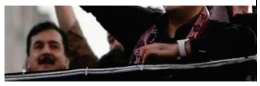
There is mounting pressure on the RBI/MPC to increase the interest rates aga the backdrop of taper tantrum and the possible interest rate hikes by the US prevent a capital flight. Globally, central banks have started increasing intere rates. However, no firm decision has been taken in India as an increase in th can affect the recovery.

Inflationary pressures are also mounting. The Wholesale Price Index (WPI) inflation has risen to a record high of 13.56 per cent in December 2021 as pe Ministry of Commerce and Industry's data. At 5.59 per cent in December 202 Consumer Price Index inflation, though within the comfort zone of the inflat targeting framework of 4 per cent with a band of plus/minus 2 per cent, is cl the framework's upper threshold.



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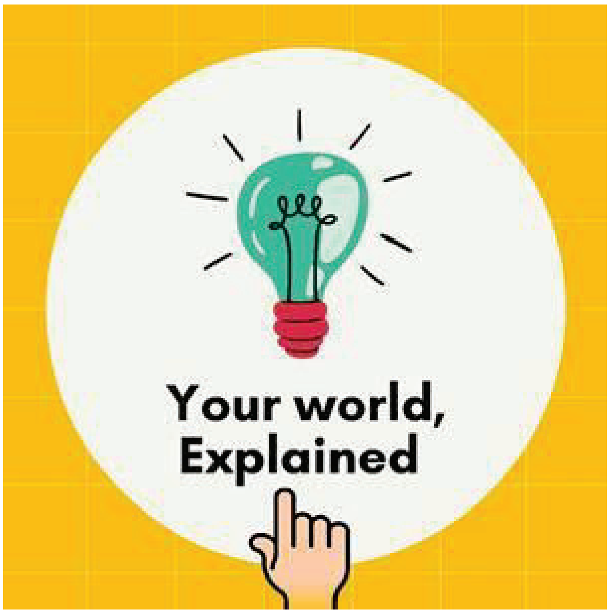

Given these macroeconomic uncertaint maintaining an accommodative fiscal p stance in the upcoming Union budget is crucial for a sustainable recovery. The deficit as a percentage of GDP is expect decline from 9.5 per cent in 2020-21 to cent in 2021-22. The RBI's estimates sug that revenue deficit pre-empted about cent of the gross fiscal deficit during th period 2018-19 to 2019-20, which increased further to 79 per cent in 2020-21 and 76 per cent in 2021-22 (BE). Thus, any attempt at fiscal consolidation at t juncture through compression in capital expenditure can adversely affect ec growth.

Public investment in infrastructure is a major growth driver. Bringing down fiscal deficit to threshold levels can be detrimental to the recovery. The plaus "fiscal risks" arising from mounting public debt and deficits need to be tackl a medium-term roadmap of fiscal consolidation, as an immediate deficit redu can affect the recovery process. Considering that the impact of a credit-linke stimulus on the economy is limited, the significance of fiscal dominance can

This column first appeared in the print edition on January 25, 2022 unde title 'Nurturing the recovery'. Chakraborty is professor at NIPFP and Harikrishnan is an independent analyst.

TAGS: Coronavirus Union Budget

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