



Shapes of Economic Recovery

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Why in News

As India is going to come out of the **Covid-19 lockdown**, experts are debating over the shape of recovery of Indian economy.

Key Points

- The economists are unanimous that in the current financial year 2020-21, **India's economy will contract.**

According to the **World Bank's South Asia Economic Focus report, India's growth is likely to remain at 1.5-2.8% in 2020-21** which is the slowest since 1991 economic reforms.

- Many economists are also of the opinion that after hitting the bottom this year, the Indian economy will start its recovery in the next financial year (2021-22).
- However, according to an **analysis by Pronab Sen, former Chief Statistician of India, India's economy will contract not just in the financial year 2020-21 but also in 2021-22.**
 - This means that India **could experience a full-blown depression** – the first in India's history as an independent nation.
 - The Table shows India's absolute Gross Domestic Product (GDP) is likely to struggle to even come back to the 2019-20 level by 2023-24.
 - India is likely to end up with an **"elongated U-shape" recovery** due to the **weakness of the economy going into the Covid crisis** as well as the **inadequate fiscal stimulus measure taken by the government.**
 - The Table also provides a snapshot of the likely trend level of GDP had India grown at 6% and 8% respectively over the same period.

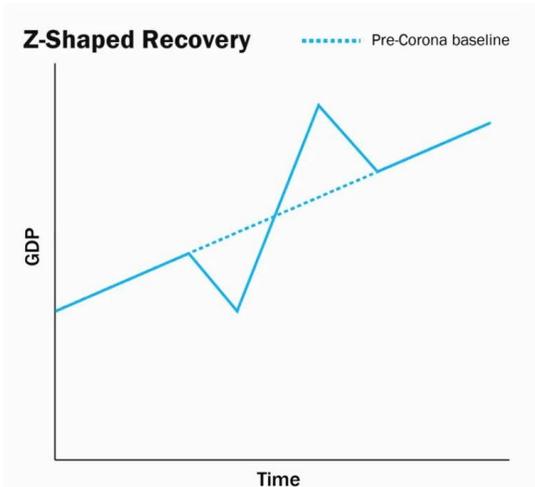
YEAR	Likely growth rate of GDP (in %)	Likely absolute GDP in Rs Trillion ⁺	Absolute GDP at 6% growth (Rs Trillion)	Absolute GDP at 8% growth (Rs Trillion)
2019-20 (pre-Covid)	5	207		
2019-20 (post-Covid)	3	203		
2020-21	—12	178	219	224
2021-22	— 9	163	233	242
2022-23	6	172	247	261
2023-24	6	183	261	282

Other economists are of the view that **it is difficult to predict the shape of economic recovery in India** at this juncture as there are too many unknowns.

If there is no second wave of Covid-19, India can expect swift normalization from negative growth levels to the pre-covid levels of 5% and a gradual recovery to 7% by the second half of the next fiscal (2021-22).

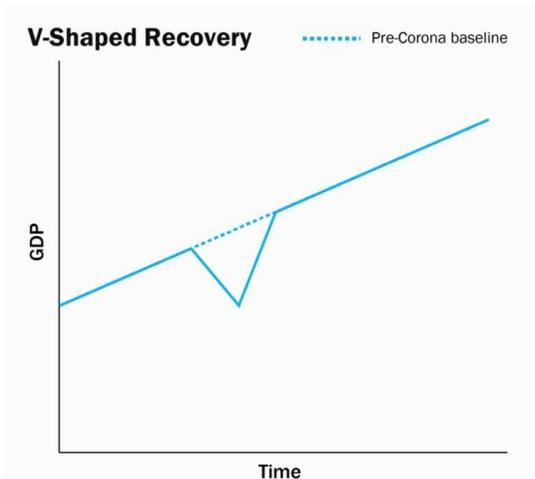
Types of Shape of Economic Recovery

- Economic recovery can take many forms, which is depicted using alphabetic notations. For example, a **Z-shaped recovery**, **V-shaped recovery**, **U-shaped recovery**, **elongated U-shaped recovery**, **W-shaped recovery** and **L-shaped recovery**.
- The **alphabets generally denote the graph of growth rate**, which resembles the shape of the letter.
- The fundamental difference between the different kinds of recovery is the **time taken for economic activity to normalize**.
The **time taken is often a factor of multiple things** such as the depth of the economic crisis. e.g deeper the recession, longer is the time to get back to normal.
- The other aspect of economic recovery includes **the effect of pandemic on jobs and household incomes**, and the **kind of policy response taken by the government** that determines how quickly economic growth will recover.
- **Z-shaped recovery**: It is the most-optimistic scenario in which **the economy quickly rises after an economic crash**.
 - It makes up more than for lost ground before settling back to the normal trend-line, thus forming a Z-shaped chart.
 - In this economic disruption lasts for a small period wherein more than people's incomes, it is their ability to spend is restricted.



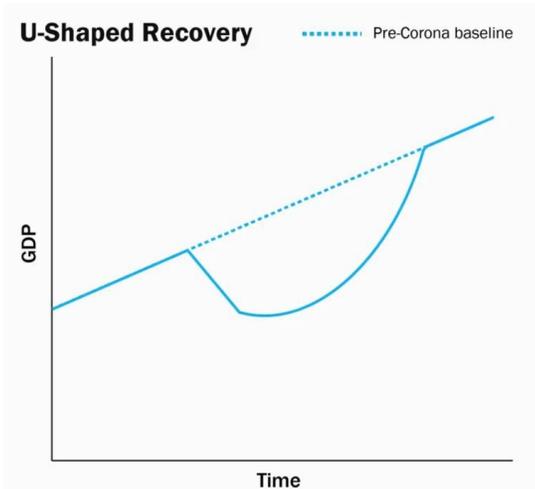
V-shaped recovery: It is the next-best scenario after Z-shaped recovery in which the economy quickly recoups lost ground and gets back to the normal growth trend-line.

In this, incomes and jobs are not permanently lost, and the economic growth recovers sharply and returns to the path it was following before the disruption.

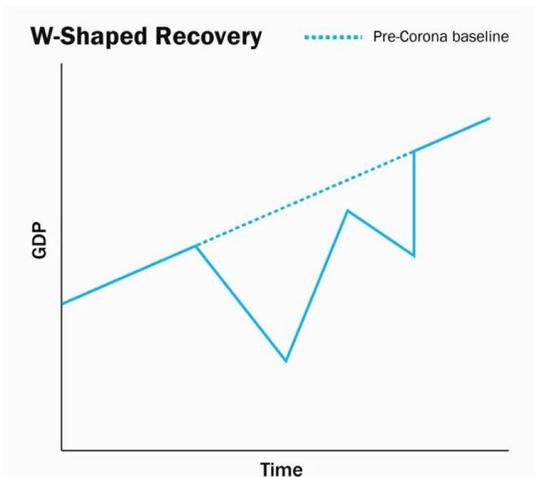


U-shaped recovery: It is a scenario in which the economy, after falling, struggles around a low growth rate for some time, before rising gradually to usual levels.

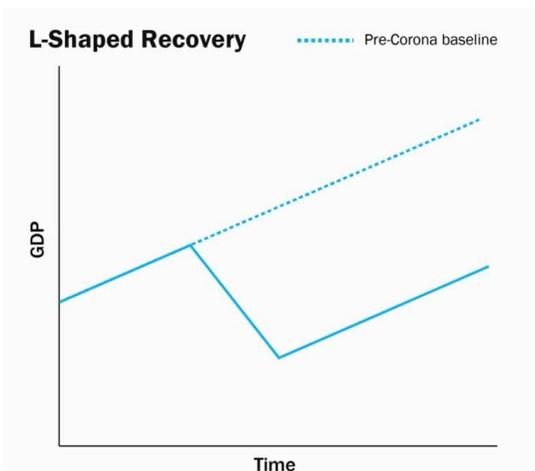
- In this case several jobs are lost and people fall upon their savings.
- If this process is more-long drawn than it throws up the “**elongated U**” shape.



W-shaped recovery: A W-shaped recovery is a dangerous creature. In this, growth falls and rises, but falls again before recovering, thus forming a W-like chart. The double-dip depicted by a W-shaped recovery can be due to the second wave of the pandemic.



L-shaped recovery: In this, the economy fails to regain the level of GDP even after years go by. The shape shows that there is a permanent loss to the economy's ability to produce.



Source: IE